

# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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DATE: January 24, 2014

TO: Honorable Members of the Economic Development Committee

FROM: Gerry F. Miller  
Chief Legislative Analyst

Assignment No: 14-01-0048

SUBJECT: Economic Development Incentives for the Metropolis Hotel Project

## SUMMARY

Motion (Huizar-Englander, CF# 14-0029), introduced on January 8, 2014, currently pending in your committee, recognizes the importance of hotels to the City's economy. Analysis has shown that at least 4,000 more hotel rooms are needed in the vicinity of the Los Angeles Convention Center (LACC) to ensure that the LACC can remain competitive for national conventions.

The Metropolis development is on a 6.3 acre site near the LACC and LA Live. The project site has been entitled for many years, but economic constraints have prevented initiation of construction. The site was recently sold to the Greenland Group (Developer), a Shanghai-based real estate developer. They intend to initiate shoring and grading construction on February 14, 2014 for phase one of the project. This will include a 350 room hotel and a residential tower.

The Developer has indicated that they have a financial gap on the hotel component of the project. They now seek financial assistance from the City in the form of a transient occupancy tax subvention, similar to other such hotel agreements approved by the City. In order to evaluate this request, the Developer must provide funds for an independent analyses of the fiscal and economic elements of the project. Further, your Chief Legislative Analyst (CLA) would require instructions to conduct such analyses and develop recommendations related to the potential for City assistance.

It must be noted, again, that the Developer intends to initiate shoring and grading construction on February 14, 2014. Such an action has no bearing on the outcome of the independent fiscal and economic analyses to be conducted by the City, nor will it have any effect on the final recommendations provided to the Council.

## **RECOMMENDATION**

That the City Council adopt Motion (Huizar-Englander) to authorize and instruct the Chief Legislative Analyst (CLA) to hire consultants necessary to evaluate the first phase of the project known as "Metropolis" and make recommendations on economic development incentives that could help the project move forward, including, but not limited to, a potential site specific revenue/subvention agreement consistent with City policies; accept \$200,000 for consultant services from the developer to analyze the economics and financing associated with this instruction; authorize the City Controller to deposit/appropriate/expend all funds received as a result of this action pursuant to CLA instructions, said funds to be deposited and expended from Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action.

## **BACKGROUND**

Metropolis is entitled for a mixed-use urban in-fill development consisting of hotel, residential, office and amenity retail use. This 6.3 acre site is bound by the 110 Freeway, Francisco Street, Eighth Street and Ninth Street.

The property was recently acquired by Greenland Group (Developer), a Shanghai-based developer of residential, hotel, and other urban projects, specializing in high-rise developments. The Developer has proposed to construct a mixed-use project in two phases. The first phase would include a stand-alone full-service hotel and one residential tower. Phase two would have a mix of residential and commercial uses in three towers. Ground floor retail space and a plaza are included in the first phase amenities. The parcel of land is currently used as a parking lot and has City-approved plans for the construction of 1.65 million square feet of hotels, multifamily housing, offices and stores within five separate buildings.

The hotel proposed for this site would include 350 rooms, comprised of 324 standard rooms and 26 suites. Three food and beverage outlets would be provided, as well as meeting and pre-function space, recreational facilities, and ground-floor, street-level retail amenities. The Hotel Indigo has been identified as the brand for this property.

The Developer has informed the City that the preliminary fiscal analysis of the project has a finance gap of approximately \$82-92 million. They have requested financial assistance from the City to close this gap.

In the past, the City has supported the development of hotels by providing financial assistance from net new tax revenues generated by the project. In accordance with City policy, no more than 50% of net new revenue created as a result of project development is available to assist in project financing.

The City needs to conduct an independent analysis of the proposed project to ensure an understanding of financing and construction costs of the project. The analysis will also determine whether a subsidy from the City is required for the project and that such a subsidy is limited to

funds needed to ensure completion of the new hotel. All studies associated with this effort would be funded by the Developer, with the City coordinating and reviewing the contractor(s) analyses.

In order to evaluate this project, Council approval would be needed to receive funds to pay for the fiscal and economic analyses referenced above. In addition, the CLA would need instruction to conduct such analyses, to review the Developer's project proposal, and to develop recommendations for further Council consideration.

### **Memorandum of Understanding**

If the City is to consider development assistance for the Metropolis hotel project, City staff will require terms that will serve as the base on which to negotiate a set of definitive agreements. A draft Memorandum of Understanding (MOU) would need to be developed by staff that outlines such terms between the City and the Developer.

Typical terms for such a draft MOU would include the following:

- All pro-formas and other applicable data and documents necessary to evaluate the financing of the project will be provided for analysis;
- Funds will be provided by the Developer to pay for a full independent analysis of the construction costs and financing of the project to determine the funding gap and the actual assistance needed by the project;
- Establish an assistance cap in an amount of transient occupancy tax (TOT) not to exceed 50% of the net new revenues expected to be generated by the project;
- Payment of all project-related City revenues currently generated at the site will be guaranteed by the Developer;
- Following completion of construction, the City will have access to all records necessary to determine actual construction costs and financing needs and to adjust the assistance provided, though assistance may not exceed the assistance cap;
- The hotel will be operated at a Four-Star Lodging Establishment grade, as defined and determined by the Mobile Travel Guide;
- A room block agreement will be developed to ensure that hotel rooms will be available for large events at the Los Angeles Convention Center;
- Actions will be taken to ensure that the City receives its share of sales taxes for all construction related purchases, including purchases by subcontractors; and
- A community benefits package will be developed and approved by Council.

These terms would ensure that the City continues to receive an amount of City tax revenue equal to that currently generated by the property through construction and the entire subsidy period. Further, the subsidy amount would be calculated on net new revenue which is an amount equal to all revenues generated by the new project less an amount equal to revenues generated by the existing project. Such terms would ensure that the City continues to receive an amount equal to the current revenues generated by the site, and generate additional revenues as a result of the new project.


**Construction Ground-Breaking**

It should be noted that the Developer has informed the City that they will begin shoring and grading activities on the project site on February 14, 2014. The Developer should be advised that initiation of these activities has no bearing on the outcome of the fiscal analysis to be conducted by the City, nor does it have any bearing on the amount of subsidy that could potentially be available or whether such a subsidy will ultimately be provided.

There is no obligation on the part of the City to provide any financial assistance to this project or the hotel.

**FISCAL IMPACT**

There is no impact to the General Fund associated with this action.

  
John Wickham  
Analyst

Attachment A: Motion (Huizar-Englander, CF# 14-0029)

JAN 08 2014

ECONOMIC DEVELOPMENT

14-0029  
CD 14

PROV CF 05-2165

MOTION

Downtown Los Angeles has fewer than 2,000 hotel rooms within walking distance to the Los Angeles Convention Center. A review of competing convention markets in California shows that the City's supply of hotel rooms near the Convention Center is well below that of our competition. This significantly compromises the success of our convention center in attracting large conventions and out-of-town visitors that create considerable economic benefits for the City. In order to become a competitive west coast convention center city, the City needs at least 5,000 additional hotel rooms to serve the L.A. Convention Center, which is the City Council's goal.

The Metropolis project, located between 8th and 9th Streets and Francisco Street and the Harbor Freeway, is a proposed multi-phase, multi-tower development within one-half mile of the Convention Center. The developer of the Metropolis project plans the development of an approximately 300-room hotel as part of the first phase of the project, however the developer has indicated they require financial assistance to construct the hotel proposed. If fully realized, this large-scale world-class project could deliver significant job creation opportunities, infrastructure improvements, and considerable support for the City's hotel creation goals, in addition to economic development benefits to Downtown and the City at large.

I THEREFORE MOVE that the City Council authorize and instruct the Chief Legislative Analyst to hire consultants necessary to evaluate the first phase of the project known as "Metropolis" and make recommendations on economic development incentives that could help the project move forward, including, but not limited to, a potential site specific revenue / subvention agreement consistent with City policies; accept \$200,000 for consultant services from the developer to analyse the economics and financing associated with this instruction; request / authorize / instruct the City Controller to deposit / appropriate / expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action; and

I FURTHER MOVE that the developer pay the full cost for any financial and economic analysis, consultants and any other reviews associated with the economic evaluation of this project.

PRESENTED BY:

*[Signature]*

José Hujzar  
Councilmember, 14<sup>th</sup> District

SECONDED BY:

*[Signature]*

JAN 8 2014  
*[Signature]*  
jwm

ORIGINAL