REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: November 21, 2018

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Council File No. 15-0850-S2
Assignment No: 18-11-1036

ECONOMIC DEVELOPMENT INCENTIVES PROGRAM

SUMMARY

This is an informational report concerning the Block Grant Investment Fund (BGIF) policy and its application to recent economic development incentive projects, as well as data concerning hotel development in the City.

The BGIF policy was adopted by Council in 1996 and amended in 2001, to invest public financial resources in real estate transactions that provide a substantial public impact through redevelopment of underperforming property, the creation of jobs, and the generation of new public revenues. The policy has been used to support 13 retail and hotel projects since its inception. The BGIF policy was created to provide site-specific tax revenue (SSTR) revenues to support projects located across the City. With the elimination of redevelopment under State law, the City's BGIF policy remains the City's only SSTR tool to provide support for major economic development projects.

Of the projects approved by the Council and Mayor under the BGIF policy, five were retail centers and eight were hotels located in Downtown, principally serving the Los Angeles Convention Center. Projects have been located throughout the City, including Council Districts 1, 3, 6, 8, 10, and 14. Council has authorized staff to evaluate an additional six projects under the BGIF policy, all hotels, located in Council Districts 9, 10, and 14.

The focus on hotel developments in the Downtown area is due to a City economic development goal of providing at least 8,000 hotel rooms within walking distance of the Los Angeles Convention Center (LACC), as recommended by several consultants specializing in hospitality industry research. The City has a long history of supporting the tourism and hospitality industry, most recently though initiatives such as the Airport Worker Living Wage law, the Hotel Living Wage law, establishment of the Tourism Marketing District, and the Los Angeles Tourism and Convention Board (LATCB) goal of attracting 50 million visitors a year.

When a project is proposed for incentive consideration by the Council, staff are instructed to evaluate the proposal, negotiate terms for an incentive, and provide an analysis and supporting information to Council for consideration and approval. Staff are authorized by Council to hire independent experts to advise the City throughout the evaluation and negotiations for the project. Council considers each incentive proposal at least three times: consideration of the initial

proposal, consideration of a Memorandum of Understanding that outlines the terms of an incentive, including the incentive amount, and consideration of the final negotiated documents. From time to time, staff will raise additional issues for Council as may be warranted during the project negotiations. Currently, Council has instructed the Chief Legislative Analyst (CLA) to lead negotiations on these incentive proposals. Assistance is provided by the City Attorney, City Administrative Officer (CAO), Economic and Workforce Department (EWDD), and Convention and Tourism Department (CTD) as needed.

The BGIF policy outlines a process to evaluate each proposed development. The policy outlines the range of issues that are to be addressed, including:

- Substantial public benefit
- Financial need
- Project readiness
- Conformance with requirements of and compliance with City laws and policies, such as living wage, first source hiring, and worker retention

The process includes retaining an independent expert to evaluate the project costs, revenues, and financing, as well as the public revenues to be generated by the project. The expert is retained by the City, at the Developer's expense, and works exclusively on behalf of the City. Although each project is evaluated on a case-by-case basis and on its individual merits, the underlying methodology for all studies, evaluations, and negotiations is consistent as outlined in the BGIF policy.

The experts retained by the City have typically evaluated a project by the return on cost approach. This determines the developer's Warranted Investment, the amount that a developer would be willing to invest at a project's inception. This is different from a Profit Margin Analysis approach, which determines the developer's income on stabilization of a project. The return on cost approach is a more appropriate methodology for new developments as it takes into account the risk associated with constructing a new project and bringing it to stabilization, which typically takes two to three years. During this period, the developer is entirely at risk for all construction cost increases, including materials and labor, and costs associated with marketing, fitting, leasing, and opening a new property.

Historically, hotel development in the City since 1988 has significantly lagged other areas of the nation, resulting in a deficit of hotel rooms as shown in a 2014 study by PKF Consulting. In addition, the LATCB has reported that the City has a deficit of 5,400 hotel rooms, beyond the current forecast pipeline, that are needed to support the objective of attracting 50 million visitors to the City by 2020. The 2019 Southern California Lodging Forecast prepared by CBRE Hotels reports that the Los Angeles County hotel market occupancy rate has exceeded 80% each year for the last five years, despite a 2.3 percent increase in annual supply. The economic viability of short-term rentals suggests strong demand as well.

The form of the incentive agreement has evolved as each individual project has presented unique development or economic terms that required consideration. For example, the Wilshire Grand Hotel required a means to guarantee that the City would continue to earn the substantial existing site specific revenues generated by the property prior to construction, as well as a means to ensure that the actual project construction costs for the hotel component of the project were consistent with those projected by the expert study. As a result, all incentive agreements now include a cost reconciliation process with the expectation that the incentive will be reduced if construction costs are lower than projected.

Once the study is done, a recommendation to provide incentive support is presented to Council only if it has been determined that, but for City participation, the project would not be built, that the project provides substantial benefits to the City , and that the fiscal analysis supports these conclusions. In the end, the Council considers proposals that provide incentives to major developments that provide support for uses that are complementary to the community in which they are located, such as new community-serving retail or hotels to support the LACC or high-impact tourist destinations.

After approval, City staff manage the incentive payment and monitor project performance. Financial incentives are tracked and analyzed on an on-going basis by the CAO and reported annually in the City Budget. In recognition of the detail required in annual reporting, City departments determined in May 2018 that expanded reporting was needed to ensure that all elements of an incentive agreement are fully evaluated and documented. To that end, the CTD, EWDD, Bureau of Contract Administration (BCA), Office of Finance, and CLA will each provide a report to the CAO in January of each year with any data necessary to support a full analysis of each incentive agreement. In addition, Council considers and adopts the economic development incentive reports required under State Government Code 53083. These reports are posted on the EWDD website for public consideration, as well as on the Council File Management System. Further, this state law requires local agencies to report on revenues, jobs created and other information within five years after the granting of an economic development incentive.

It should be noted that the developer is obligated to complete the project and operate the project as indicated in the incentive agreement in order to receive any incentive payment. Failure to perform would result in withholding payment. Further, the City does not provide any payment in advance. The incentive is paid in arrears, and is based on proven operation of the facility via the net new revenues it generates.

In recognition of the City's contribution to the project, the developer is obligated to implement a community benefits program to enhance the area in which the project is constructed. Projects typically include labor and wage programs, street improvements, planning studies to improve the community, and a Room Block Agreement. Performance on the community benefits program is a contractual obligation of the developer. Failure to provide the community benefits would result in termination of the incentive.

Beginning with the JW Marriott/Ritz Carlton hotels project, the first hotel project evaluated under the BGIF policy, all incentive agreements for hotels within walking distance of the LACC include a Room Block Agreement to ensure that hotel rooms are reserved for the use of national and international conventions. The form of the Room Block Agreement was initially prepared by the CTD and LATCB and subsequent amendments to the form of the agreement have been developed with the assistance of the CTD and LATCB.

BACKGROUND

History of Tax Incentives for Convention-Serving Hotels

Prior to the federal Tax Reform Act of 1986 (Act), developers were able to obtain significant tax benefits from the federal government for constructing hotels. The Act, however, removed those tax incentives, resulting in an increase in construction costs, a focus on the development of limited service hotels, and stagnation in room rates. In a 2015 report prepared for the City by JLL, Inc., the effect of the change in federal tax law was that most convention-serving hotels have been and remain financially infeasible and the cost to build exceeds the economic value of the property. In order to encourage hotel development, local and state governments began offering a range of incentives for the construction of large hotels. According to this analysis, virtually every convention-serving hotel across the nation has been built under public ownership or under private ownership with public incentives.

The effect of this change in federal tax law can be seen in the development of hotels in the City between 1988 and 2013. According to data from Smith Travel Research and PKF Hospitality Research provided to the City in 2014, since 1988 the annual increase in new hotel rooms has averaged only 0.7% in Los Angeles compared to a national average of 1.8%. Between 2003 and 2012 the number of hotels within Los Angeles County actually declined, as older properties were razed or converted to other uses. Table 1 provides a comparison of hotel room growth in several cities across the nation between 1988 and 2013.

Table 1
Hotel Room Growth in U.S. and U.S. Convention Cities

	Total Room Increase, 1988-2013	% Increase, 1988-2013
Anaheim	14,276	1.2%
Chicago	37,944	1.7%
Los Angeles	15,711	0.7%
New Orleans	10,143	1.3%
New York	37,396	1.8%
Orlando	55,889	2.6%
San Diego	20,538	1.7%
San Francisco	7,692	0.7%
All U.S.	1,768,439	1.8%

Source: PKF Consulting (now CBRE Hotels)

Even prior to 1986, though, the City has provided incentives to support hotel development in Downtown. As reported to the Council in February 2005 (CF# 04-2566), hotels in Downtown have historically received financial assistance from the City (Table 2). Assistance included subsidies, land, permit waivers, parking funds, and public improvements. Funding and other assistance had been provided through the Community Redevelopment Agency.

Table 2
Historical Financial Assistance to Downtown Hotels

Hotel	Year	Assistance	Present Value*
Bonaventure	1974, 1977	$ 10,190,536	$ 42,009,087
Omni	1992	$ 574,000	$ 770,327
Miyaki	1990	$ 3,540,000	$ 5,123,822
New Otani (now Doubletree)	1973-77	$ 13,892,100	$ 63,128,287
Sheraton	1977	$ 2,000,000	$ 6,568,067
Biltmore	1985	$ 1,260,000	$ 2,267,072
Wilshire Grand (former)	1984	$ 735,000	$ 1,383,613

* Present Value in 2005

Block Grant Investment Fund (BGIF) Policy
The BGIF Policy was developed in the mid-1990s and approved by Council in 1998 to provide assistance to projects located across the City. Funding provided through the program was intended to close the finance gap in these projects, using financing resources available through federal grant programs, such as Section 108 loans, and local tax increment (TI). Amendments to the BGIF Policy in 2001 allowed a wider range or projects, across the City, to participate in the program.

The BGIF Policy sets the maximum site-specific assistance available to a project at no more than 50% of net new SSTR estimated to be generated by the project. This ensures that funding is available to support the project and to support the City's General Fund.

The BGIF Fund was initially established to provide a source of funds to repay Section 108 loans. The 50% funding level ensures that adequate funds were available to service those loans regardless of future economic conditions. This provides a project with a source of funds to fill any finance gap.

Additionally, the funding limit of up to 50% ensures that the City's General Fund receives funds to support City services. New projects have the potential to increase demands on City services, such as police and fire, and this approach provides new funds to support these services. The BGIF Policy allows the Council and Mayor to waive this requirement, though no waiver has been approved to date. In fact, several the projects require less than 50% of the SSTR.

Analysis is required to show that, but for assistance through the BGIF Policy, the project would not be feasible, would be limited in scope, would not be constructed in the target location, and the probability of success would be substantially decreased. Such projects must also demonstrate that they have maximized private funding sources and have exhausted all other finance resources. Finally, the developer may not receive an undue financial return from the project.

Projects receiving assistance through the BGIF Policy must demonstrate a substantial City Public Benefit to the City, such as the creation of jobs, providing goods and services to under-served areas, reinforcing City economic development strategies, and creating a multiplier-effect for further economic development. The project is also required to include community benefits, such as street improvements.

On-going monitoring is a requirement of the BGIF Policy. The Office of Finance, EWDD, and the CAO are required to ensure that anticipated revenues are generated by the project and report on an annual basis concerning the status of the project and the incentives provided.

Section 108 Loan Guarantee Program

The BGIF policy was initially created to provide a source of funds to repay Section 108 loans. The Section 108 Loan Guarantee Program (Section 108) is a federal Department of Housing and Urban Development (HUD) program that provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and other physical development projects. Section 108 offers state and local governments the ability to transform a small portion of their Community Development Block Grant (CDBG) funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects. The City's annual CDBG allocation typically serves as collateral and source of payment for the Section 108 Loan.

The BGIF policy was developed to provide an alternate source of funds to serve as the source of payment for Section 108 loans. Rather than use the annual CDBG allocation, the BGIF policy identified net new General Fund revenues that result from the project, SSTR generated at the site of the project, as the source of funds to repay the Section 108 loan. This allowed the City to access Section 108 loan funds to support the development without diverting CDBG funds for important social service programs and projects.

When Section 108 is allocated to a project, HUD requires repayment of the loan. In all cases, the source of funds to repay the loan are either the CDBG allocation received by the City, SSTR earned by the City, or developer payments. The incentive agreement with the developer may require the developer to make full or partial payment of the loan, or it may place the full repayment obligation on the City. If the City bears full repayment obligation, the developer is only obligated to repay the Section 108 loan if they fail to construct their project or meet the other contractual obligations of their project, which may result in drawing down any guarantee put in place by the developer.

If there is no Section 108 loan funding in a project, there is nothing to repay.

Tax Increment Financing
The BGIF Policy established a new approach to the allocation of SSTR to support economic development across the City, not just within CRA areas, which traditionally used incremental growth in property tax as their primary source of funds. With the dissolution of Community Redevelopment by the State legislature, this tool is no longer available as an economic development resource. The State legislature recently created the Enhance Infrastructure Financing Districts (EIFD), Community Revitalization and Investment Authorities (CRIA), and Neighborhood Infill Finance and Transit Improvements (NIFTI) that also use incremental growth in property and sales taxes as their source of funds.

In all of these cases, incremental growth in the City's property tax and sales tax, which would be General Fund revenues, are set aside and transferred to an outside agency for allocation. All designated tax revenues are transferred, regardless of the types of projects funded, administrative costs, financing costs, or availability of community benefits, and the outside agency governing the district makes all spending decisions, not the City Council.

The BGIF Policy is different in two respects. First, it provides a means for the Council and Mayor to evaluate, consider, and approve projects to be supported, which provides greater control and accountability for the use of funds. As originally envisioned, it provided a means to fund projects anywhere in the City while ensuring repayment of Section 108 loans. This provides Council and the Mayor the ability to evaluate the merits of a wider range of projects that can be located anywhere in the City.

Second, with the application of the BGIF Policy for hotel projects, Westfield, and the Convention and Event Center, the developer is required to complete construction of their project before any allocation incentive funds is made. Further, incentive payments are made only after the project generates new General Fund revenues. This ensures that the project is built, that it is operational, and that it actually generates new General Fund revenues. In addition, since incentive payments are made as funds are earned, there are no finance costs. This approach transfers risk to the Developer and away from the City.

Risk is born by the City or agency when SSTR is used to support project development through land acquisition or construction costs as such funds are typically provided to developers before the project is completed. To manage risk associated with providing funds up front, the City requires additional financial instruments, such as a letter of credit, which provides a financial guarantee but also increases project costs. This may also obligate the City or agency to repay any loan (such as a Section 108 loan) or bond on which the developer assistance is based. The application of the BGIF Policy in a manner that requires project construction and operation prior to the provision of an incentive payment transfers this risk to the developer and eliminates financing costs and costs associated with financial guarantees since no City loans or bonds are involved.

Another benefit of this incentive structure is that the City's nominal payment could be lower than projected due to project success, whereas projects where SSTR is used to repay bonds or loans are locked into a fixed payment independent of project success. By designating the net present value payment amount and using a source of General Fund revenue as a measure of the annual payment, a successful project could receive its full incentive prior to the expiration of the contract term. Alternately, an unsuccessful project may not receive its full incentive payment if it does not generate revenues over the term of the incentive agreement. In this case, the City is protected from downside risk.

Projects
The BGIF Policy was the basis for the Council's approval of incentive support for the following projects:

- Lawry's Center/LA River Center
- Midtown Crossing
- Pacoima Plaza
- Chesterfield Square
- JW Marriott/Ritz Carlton Hotels
- Grand Avenue Hotel
- Wilshire Grand Hotel
- Village at Westfield Topanga
- Courtyard/Residence Inn Hotels
- Convention and Event Center aka Farmers Field (not built)
- Hotel Indigo
- Cambria Hotel
- Lightstone Hotels

Most of the above projects have been completed. The Cambria and Lightstone hotel projects will begin construction soon and the Farmers Field project is defunct. Council has further instructed City staff, led by the CLA, to evaluate the following six projects:

- Angels Landing Hotel
- JW Marriott Expansion
- Figueroa St. Hotel at Exposition Park
- The Magnin Hotel on Wilshire Blvd in Koreatown
- An AECOM hotel project in Downtown
- The Venice Hope Hotel

The predominance of hotel projects currently is a function of the types of commercial projects being constructed in the City, the communities in which those projects are located, and the type of construction associated with these projects. Since the City currently has a surplus of office space, such projects are not in high demand. Likewise, manufacturing and industrial projects are not appropriate for these communities.

Process for Evaluating Incentive Requests

The City Council currently evaluates each request for an incentive under the BGIF policy on a case-by-case basis. This ensures that each project is thoroughly evaluated and reviewed in a public process, rather than by-right through a departmental action. However, each project is evaluated under a policy that provides a consistent set of parameters for study. Although each project is evaluated case-by-case to allow flexibility for economic conditions, they are evaluated within a process that is consistent, level, and methodological.

The process to evaluate an incentive request is for a Councilmember to introduce a Motion, which describes the proposed project and its intended benefits. The Motion instructs City staff with expertise to work on the project and to hire the specialized financial consultants necessary to complete any elements of the analysis needed to comply with the BGIF policy. The Motion also obligates the Developer to deposit funds with the City to pay for any costs incurred by the City, such as hiring experts to evaluate the project. Once introduced, the Motion is considered by the Economic Development Committee and, if approved by Committee, then by the entire Council. Once approved by Council, City staff begin work to analyze the proposed project. The following describes the process whereby the CLA conducts the review as instructed by Council.

An initial meeting with the Developer and City staff is held to describe the process to evaluate the proposal and arrive at a conclusion concerning the request for incentive support. City staff explain

- the components of the BGIF policy,
- the requirement for funds,
- the need for a competitive bid process to select the needed consultants,
- the process for collecting data to support the consultant work,
- the preparation of a Memorandum of Understanding (MOU) should the project be eligible for an incentive,
- the elements of the MOU related to the structure of financial assistance, the conditional obligation requirements, the continued obligation requirements, audit requirements, labor compliance, Community Benefits requirements, compliance with CASp reporting, etc.

Once the Developer has provided funds, the CLA initiates a process to select a consultant to provide the fiscal and economic analysis of the project. The CLA is now able to access the CAO's "List of Pre-Qualified Consultant Panel of Real Estate and Economic Development Professionals Performing Asset Management and Economic Development Services." This is an extensive list of qualified professionals who have been thoroughly vetted for their expertise in the areas of real estate services; project feasibility and underwriting; economic development analysis; community outreach and engagement; master planning; and project management. The CAO conducts a Request for Qualifications, which is reviewed by staff from multiple City departments, as well as outside agencies, to develop a list of firms qualified to provide services. The proposed list of qualified bidders is reviewed and approved by the Municipal Facilities Committee, the Economic Development Committee, and the Council. City departments are then able to conduct expedited Requests for Bids (RFB) from this list.

The RFB is tailored to the type of project being evaluated. A hotel development requires a different type of analysis and expertise compared to a retail or industrial development, therefore the RFB necessarily describes the specific project being proposed. Once bids are submitted, a team reviews and scores the bids and a consultant is selected.

The next series of meetings concern the sharing of data. The consultant requests a range of data from the Developer concerning their project to understand the economics of the project. This typically includes a pro forma of the project, land cost data, architectural designs, revenue projects, labor and wage programs, anticipated hotel brand, retail and restaurant plans, and any other information that provides information concerning the cost of the project, revenues generated by the project, and other factors related to the project.

It is during this process of evaluation that the City's financial consultant is able to identify specific issues that affect the economics of the project, often resulting in recommendations for the Developer's attention. For example, the City's financial consultant on the Grand Avenue and Wilshire Grand projects identified inefficiencies in the room layouts of the proposed hotels which increased project costs and decreased revenues. Such review allowed the City to advise and direct the Developer, resulting in cost savings in the projects that potentially reduced the finance gap. In other projects, the consultant identified revenues from other components of the project that resulted in significant profits to the Developer that were required to be incorporated into the incentive assessment, resulting in a decrease in the amount of incentive provided.

Once the consultant has completed their review, they provide a report that describes the costs of the project, revenues that would be generated by the project, and any potential finance gap. The report also evaluates any net new revenues that would accrue to the City as a result of the project's completion. This is the analysis that results in the determination of an incentive, if one is warranted.

Financial Models

The experts hired by the City evaluate the full financial and economic condition of the proposed project. To conduct these analyses, the three main methodologies used to evaluate whether a project has a financial gap are:

- Return on Cost
- Profit Margin Analysis
- Internal Rate of Return (IRR)

A Return on Cost approach determines the developer's Warranted Investment, which is the amount of debt and equity a project can support based on its stabilized net operating income. The rate of return used for a Return on Cost analysis reflects underlying capitalization rates (based on published data sources) and the risk associated with new construction, including potential increases in construction costs, including materials and labor, and risks associated with marketing, finishes and fixtures, leasing, and opening a new property.

Similar to a Return on Cost approach, a Profit Margin Analysis determines the developer's income at project stabilization of a project. This approach utilizes the underlying capitalization rate (based on published data sources) for a project and assumes a developer profit margin that reflects the risk associated with its development (entitlement, construction and operations). The greater the risk for a Project, the greater the required profit margin. The Profit Margin Analysis demonstrates the level of profit a new project is creating for a developer.

An IRR approach a dynamic measure of project return. As such, the analysis projects the revenue stream generated by a project over time. The revenue stream begins at the start of construction (negative revenues) and continues through annual operations up until sale of the project. The internal rate of return over the construction, hold and sell period is then compared to industry standard rates to evaluate project feasibility and/or the financial gap.

The City experts have used the Return on Cost approach for all of the incentive studies prepared since 2005, except for the JW Marriott/Ritz Carlton which used an IRR approach. Recent studies for the Lightstone and JW Marriott Expansion have used all three methods in an effort to determine whether there are any significant deviations in results. For these two studies, all three methods indicated that the projects have financial gaps.

Site Specific Tax Revenue (SSTR)
The BGIF requires an analysis of net new SSTR that would be generated by the proposed project. This involves estimating the total General Fund revenues from the following sources over the term of the incentive agreement:

- Property Tax
- Sales Tax
- Parking Occupancy Tax
- Transient Occupancy Tax (TOT)
- Documentary Transfer Tax
- Business Tax
- Utility Users' Tax

Permits, fees, and other special fund revenues are excluded from the analysis. In addition, existing site specific tax revenues are calculated. Once these two calculations are completed, existing site revenues are subtracted from the total estimated revenues to determine the "net new" SSTR that would result from the project being built.

Projects are eligible to receive up to 50% of net new revenue, with the City receiving at least 50% of the net new revenues. Hotel projects, however, are evaluated in a slightly different manner, in that they are eligible for either 50% of net new revenue or an amount equal to the total TOT generated by the project, whichever is lower. This provides a limit on the total amount of incentive provided to a project.

Alternatives Analysis
The City evaluates the project as presented by the developer in the case of projects originated by the private sector, or as formulated by Council in the case of public projects. By the time a Motion has been introduced, the project has received significant vetting for market impact, viability, and conformance with City zoning and planning and policy objectives. Projects have typically begun California Environmental Quality Act (CEQA) review by this point. The developer has made a significant investment in a project and an alternatives analysis independent of the CEQA process could result in significant costs and time delays for the project, possibly affecting project feasibility.

Of the projects proposed for incentive assistance, two included publicly-owned parcels. The Lightstone project included one City-owned parcel and the Grand Avenue project included County-owned parcels. The remaining projects were located on privately-owned property. In addition, the Lightstone project included two additional privately-owned parcels.

All of these projects are obligated to conduct an analysis of environmental impacts as required under the CEQA. If a project is required to complete an environmental impact report (EIR) under CEQA, that analysis will include a review of project alternatives. The City is required to consider the project alternatives before making findings on the project as a whole.

Three of the projects approved for incentive funding were required by governmental agencies to include a hotel project:

-- JW Marriott/Ritz Carlton Hotels. The Los Angeles Sports and Entertainment District (LASED) and various agreements between Anshultz Entertainment Group (AEG), the Community Redevelopment Agency/Los Angeles (CRA), and the City obligated AEG to construct a 1,000 room hotel within the LASED. AEG had no alternative, they were obligated to construct a hotel. Since the obligation for such a use was imposed by the City and CRA, any other alternative would have been inconsistent with Council, Mayoral, and CRA Commission policy.

-- Grand Avenue Hotel. The Grand Avenue project was developed under a competitive bidding process managed by the Grand Avenue Authority, a joint powers authority (JPA) comprised of the County of Los Angeles, the City, and the CRA. The bidding process required that developers submitting proposals include a hotel in the project to serve the cultural and business uses emerging in the district. As a result, any selected Developer would be obligated by the JPA (and by extension the County, the City, and the CRA) to include a hotel in the project. No alternative development option was available.

-- Lightstone Hotels. The Council instructed the CLA to seek a developer for the Pico-Figueroa parcel who would build a hotel on the site. As a policy option, no other alternative was available to the selected developer.

In 2010, the City Council initiated consideration of a proposal to replace the West Hall of the Los Angeles Convention Center (LACC) with an event center that would host a professional National Football League team. That project required replacement of the West Hall of the LACC. During the analysis of the project, City staff obtained third-party studies that evaluated the needs of the LACC to ensure its highest and best use. Among those studies was a determination that the City needed at least 8,000 hotel rooms within walking distance of the LACC to attract large national and international conventions. The Council and Mayor established a policy of working to achieve the goal of 8,000 hotel rooms within walking distance of the LACC to ensure success of the facility. Of the eight projects approved for incentive funding, six are located within walking distance of the LACC.

An alternatives analysis of the hotels proposed since 2008 would not have been consistent with City policy. Each of these projects was consistent with City policy. In fact, City leaders encouraged the developers of these projects to increase the number of rooms included in each hotel in order to achieve the City's objective of 8,000 hotel rooms within walking distance of the LACC.

The Village at Westfield Topanga is a major development in the Warner Center Region of the City of Los Angeles that consisted of constructing nearly 550,000 square feet into a lifestyle development center that includes a Costco as its anchor retail tenant. Prior to development of the project, the site's location consisted of only a few neighboring retail and office establishments, including an REI store, that were poorly performing due to insufficient support from other establishments. The project site was vacant and generating only $116,141 annually in property taxes to the City of Los Angeles. In an effort to turn the site into a thriving commercial retail center, the developer proposed to relocate a Costco previously located at 21300 Roscoe Boulevard in Canoga Park, to serve as the anchor tenant accompanied by a vast array of commercial, retail, and restaurant establishments that would make the center a major shopping destination point. The project as proposed and developed, would have been infeasible if it were not for the City's financial participation in helping to close a $35.6 million gap verified by the City's third-party financial consultant. The alternative to the City not participating in the project would have resulted in development of a smaller scale project that would not have provided anywhere near the $95.4 million in gross net new public revenues ($41.9 NPV) projected over 25 years from the project's initial operation. Initially, a hotel was also contemplated as part of the tenant mix but market conditions at the time did not support its development. Utilizing the City's BGIF Policy to invest in the project allowed for successful completion of the Village at Westfield Topanga and after two years of operation, the center is generating much higher revenues to the City than had originally been projected.

In each of the projects noted above, City staff considered the alternatives analysis required by CEQA, consistency with City policy (such as hotel room objectives or parking needs), services offered by the project, and community benefits that would be provided by the project. The entirety of the project is evaluated.

The current process for evaluating project alternatives adequately captures the full range of potential property uses. Staff should continue to evaluate the entirety of the project as it relates to City objectives. Staff evaluate the size of the project, its constituent parts, its compliance with City policy, its relationship to other regional policies, and the intentions and interests of the developer. City action on these projects is entirely based on the facts of the project, including consistency with City economic development goals approved by Council. Ultimately, the private developer will determine whether they will proceed with a project.

Hotels within Walking Distance of the LACC

Table 3 below shows the progress over time in developing hotel room capacity within walking distance of the LACC. Prior to the opening of the JW Marriott/Ritz Carlton hotels, there were only 1,578 hotel rooms within walking distance of the LACC. With so few hotel rooms in close proximity to the LACC, the LATCB is obligated to place convention-goers in hotels across southern California and then provide bus transportation between participating hotels for the duration of the event. This is a cost borne by the LATCB, not borne by the convention organizer. Please note that the LATCB is supported by the City's TOT.

Table 3 indicates that the City provided support to the largest hotel developments, while the market responded with the development of smaller hotels. It should be noted that after the City began providing incentive support for the development of hotels in this district, the Figueroa Hotel and Ritz Milner hotels have undergone significant renovations, improving the quality of their properties. In addition, the Luxe City Center Hotel will be demolished and replaced with a W Hotel containing more rooms.

Council has been operating under a policy to support the development of 8,000 hotel rooms within walking distance of the LACC. Table 3 shows that 7,239 hotel rooms are available, under construction, or have approved entitlements in that area. An additional 1,866 rooms have been proposed, which could result in 9,105 hotel rooms within walking distance of LACC.

At this time, it would be appropriate for Council to further reevaluate the policy to support hotel development in support of the LACC, as recommended in the CLA report concerning incentive support for the JW Expansion project (CF# 15-1207-S1). The goal of 8,000 rooms within walking distance of the LACC may be met soon. Council should determine whether the goal should be revised or the context under which newly proposed hotel projects would be evaluated.

Table 3
Convention Center Hotel Support

Existing as of January 1, 2010		
Sheraton Los Angeles (The Bloc)	484	
Figueroa Hotel	268	
Stillwell Hotel	232	
Mayfair Hotel	215	
Luxe City Center Hotel	175	
Ritz Milner	137	
O Hotel	67	
Total		1,578
Opened after January 1, 2010		
JW Marriott Los Angeles LA Live*	878	
Ritz-Carlton Los Angeles LA Live*	123	
InterContinental Los Angeles Downtown*	889	
Hotel Indigo*	350	
Freehand Hotel and Hostel	226	
Residence Inn Los Angeles LA Live*	219	
Ace Hotel	182	
Courtyard Los Angeles LA Live*	174	
Total		3,041
Approved/Under Construction		
Broadway Trade Center	200	
Trinity Hotel	183	
Park Hyatt	183	
Hoxton Hotel	164	
The Downtown LA Proper	148	
Lightstone Hotels*	1,162	
Cambria Hotel and Suites*	247	
The Reef	208	
W Hotel	125	
		2,620
TOTAL		**7,239**
Proposed		
JW Marriott Expansion*	850	
Morrison Hotel	473	
AECOM*	243	
Venice Hope*	300	
Total proposed		1,866
GRAND TOTAL		9,105

* Projects assisted by the City

Effect of Incentives

Table 4 provides a summary of the incentives to be provided to six hotel projects approved by Council, by both net present value calculations and nominal estimates. As the table shows, it is expected that the City General Fund will receive over two dollars for every dollar of incentive provided to the developer.

Table 4
Incentive Agreements Approved by City Since 2010

	Developer Incentive (NPV)	City Revenue (NPV)	Total	Developer Incentive (Nominal)	City Revenue (Nominal)	Total
Olympic North	$ 21,900,000	$ 22,100,000	$ 44,000,000	$ 67,300,000	$ 71,100,000	$ 138,400,000
Grand Avenue	$ 55,100,000	$ 78,200,000	$ 133,300,000	$ 149,600,000	$ 247,300,000	$ 396,900,000
Wilshire Grand*	$ 54,000,000	$ 54,000,000	$ 108,000,000	$ 171,168,000	$ 171,154,000	$ 342,322,000
Metropolis	$ 13,100,000	$ 39,400,000	$ 52,500,000	$ 18,700,000	$ 117,500,000	$ 156,700,000
Cambria	$ 15,700,000	$ 15,700,000	$ 31,400,000	$ 43,200,000	$ 53,600,000	$ 96,800,000
Lightstone	$ 67,400,000	$ 90,600,000	$ 158,000,000	$ 103,400,000	$ 384,800,000	$ 488,200,000
Total	***$ 227,200,000***	***$300,000,000***	***$ 527,200,000***	***$ 553,368,000***	***$ 1,065,954,000***	***$ 1,619,322,000***
% of Total	43%	57%		34%	66%	

Note: JW Marriott has a two tier payment. Lowest is $246M nominal, highest is $270M nominal. NPV was not calculated for this project. Analysis for Westfield did not include an allocation of the nominal value between the Developer and the City, precluding inclusion of those values into this table.
* Values for Wilshire Grand represent project as approved by Council; subsequent changes to the project anticipated in the incentive agreement have resulted in revisions to the expected NPV value, precluding a nominal value calculation.

Another measure of the impact of hotel development on the local economy is the amount of TOT generated by local hotels for the General Fund. Table 5 shows the amount of TOT earned by the City since Fiscal Year 2005-2006, with a 154% increase in TOT over 12 years. TOT growth over the last ten years is significant compared to other City General Fund revenues (Table 6).

Monitoring

The CAO confirms TOT payments before approving any incentive payment. The CAO reports payments annually in the City budget

A working group comprised of EWDD, CAO, CLA, City Attorney, CTD, Finance, and BCA meets periodically to consider implementation issues and refine reporting. The group recently determined that each department will submit written status reports annually to the CAO in advance of the budget.

Table 5
Transient Occupancy Tax Revenues History
Source: City Budget

Fiscal Year		Amount (Thousand Dollars)	Percent Growth
2005-2006	$	126,991	
2006-2007	$	134,557	6%
2007-2008	$	148,525	10%
2008-2009*	$	136,323	-8%
2009-2010*	$	118,500	-13%
2010-2011	$	134,798	14%
2011-2012	$	149,258	11%
2012-2013	$	167,824	12%
2013-2014	$	184,382	10%
2014-2015	$	202,897	10%
2015-2016	$	230,818	14%
2016-2017	$	265,653	15%
2017-2018	$	299,205	13%
2018-2019 est	$	322,160	8%

* The Great Recession

Table 6
Change in Selected General Fund Revenues, 2005-2006 to 2018-2019

		Actual 2005-2006		Est. 2018-2019	% Change
Property Tax	$	1,121,848	$	1,957,809	75%
Utility Users Tax	$	604,947	$	641,570	6%
Business Tax	$	434,529	$	575,700	32%
Transient Occupancy Tax	$	126,991	$	322,160	154%
Sales Tax	$	323,555	$	557,990	72%
Parking Users Tax	$	74,099	$	118,400	60%
Documentary Transfer Tax	$	217,320	$	214,548	-1%