

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: August 10, 2018

TO: Honorable Members of the City Council

FROM: Ron Galperin, 
Los Angeles City Controller

SUBJECT: Incentive Agreements (Tax Abatements/Subvention Agreements, CF# 15-0850-S2)

SUMMARY

Motion (Blumenfield – Price, CF #15-0850-S2) was previously introduced to request the City Controller to report to the Ad Hoc Committee on Comprehensive Job Creation Plan on the efficacy of the Incentive Agreements entered into by the City of Los Angeles, and to provide recommendations for the development of standards consistent with recently approved Governmental Accounting Standards Board (GASB) Statement 77 reporting requirements. The requested report is consistent with a review for which this Office was previously preparing.

In order to examine the process for which Incentive Agreements are identified, evaluated, and approved, the Office of the City Controller reviewed five Incentive Agreements approved between 2005 and 2015. The agreements provide financial assistance to project developers totaling up to \$654 million (\$202 million Net Present Value (NPV)). The five projects include: the Headquarters Hotel (now a J.W. Marriott and Ritz Carlton); the Wilshire Grand Hotel (now an InterContinental); the Olympic North Hotel (now a Courtyard Marriott and Residence Inn); the Metropolis Hotel (now a Hotel Indigo); and the Village at Westfield Topanga.

The City has committed a total of up to \$654 million in assistance for the aforementioned projects. Within the last 2 years, the City has further approved up to \$345 million in tax Incentive Agreements, including financial support for: the Grand Avenue project (\$198.4 million - CF# 13-1694); Cambria (\$43.2 million - CF# 16-1128) and Pico-Figueroa Hotels (\$103.3 million - CF# 16-0073). Incentives for all eight projects total up to \$999 million.

Further, the City has requested evaluation of additional proposed hotel projects for consideration of Incentive Agreements, as follows: 3900 Figueroa Street (CF# 18-0367); 3240 Wilshire Boulevard (CF# 18-0238); Olive Street Hotel (CF# 18-0399); and the proposed expansion of the JW Marriott Hotel (CF# 18-0532).

Using the Block Grant Investment Fund Policy (BGIF) as a framework to evaluate the first of the five projects, the City Council approved financial assistance due to the stated existence of a “feasibility gap.” A feasibility gap, per the practice of the City, is defined as the difference between the estimated development costs of a project vs. what investors would theoretically be willing to pay for the business investment, based on the project’s expected value. The assurance of the City’s financial assistance is intended to offer an incentive for developers and investors to provide the capital needed for the projects to be developed. It has been argued that absent this incentive, certain projects would not be viable, thus the City would not otherwise realize net new revenues projected

as a result of said new project(s). There has not in all cases been adequate evidence to necessarily support these arguments.

As outlined in each Incentive Agreement, the City is to provide financial assistance payments to developers after the project is completed and in operation over a set period of time. During the term of an Incentive Agreement, the City's payments represent the amount the project owner/operator actually remits to a specified taxing authority (e.g., Transient Occupancy Taxes to the City's Office of Finance or the City's share of property taxes paid to the County). However, the total financial assistance paid is capped at 50 percent of the anticipated cumulative net new tax revenue the City is expected to receive from all sources attributed to the project, or until a specified number of years have been reached. In addition, the City anticipates that the projects will each generate additional jobs and broader economic and other public benefits. For the Downtown hotel projects this Office reviewed, the City's expectation was that they would also support the attraction of additional and larger scale conventions to the Los Angeles Convention Center (LACC) while increasing the number of hotel rooms within walking distance to the LACC.

Given the significant financial assistance already committed by the City for the five reviewed, and three subsequently approved projects, this report offers recommendations that are intended to provide perspective for possible future agreements. The background and analysis section provides an overview of the five Incentive Agreements reviewed, an analysis of processes used for approving and implementing the Incentive Agreements, and an update on the City's implementation of new reporting requirements mandated by GASB 77.

RECOMMENDATIONS

That the City Council, subject to the concurrence of the Mayor:

- 1) **Framework for Incentive Agreements** - Adopt a policy to:
 - a) Require that any tax Incentive Agreements align with a comprehensive City plan for economic development. Such plan should establish clear goals for industry specific growth, job creation, maximization of tax revenue, etc. The strategy should also include goals for specific neighborhoods where development may not otherwise be occurring;
 - b) Identify the types of businesses and industries that merit consideration for an Incentive Agreement, pursuant to the identified goals described above;
 - c) Consider an overall limitation on tax incentives that the City might want to establish over a 1- to 5-year period;
 - d) Evaluate and negotiate any tax Incentive Agreements, as detailed herein; and
 - e) Include follow-up, enforcement and incentive adjustment provisions in any Incentive Agreements, as further detailed below.
- 2) **Proposal Evaluations and Negotiations Expertise** - Ensure the City has the benefit of individuals with the requisite practical and legal experience in proposal evaluations and negotiations with developers and their counselors. Said expertise should either be identified within the City or might appropriately be retained by the City in the form of contracted advisors/consultants/counsel -- so as to better ensure the City receives the most favorable terms and conditions under any Incentive Agreement(s).

- 3) **Scope of Evaluations and Consultant Studies** - Require City-hired consultants, when engaged to conduct a study of a project's potential eligibility for an Incentive Agreement, to include in such study:
- a) **Alternative project analyses** – including possible modifications to a developer's proposed project, which could mitigate or possibly eliminate an identified financial feasibility gap;
 - b) **Broader evaluation of "feasibility gaps"** – currently, the City has accepted a definition of feasibility gap as the difference between the cost of a project (including developer fees) and the warranted value (what an investor would likely pay for the project upon completion). Alternative methods (including formulas based on lower assumed rate of return, or a comparison to other similar projects built without assistance) could very well mitigate, lower, or even eliminate the "feasibility gap" - thus reducing need for City assistance; and
 - c) **More rigorous analysis of future economic and fiscal benefits** – including tax revenues, construction-related jobs, ongoing project-related employment, public improvements and other benefits. Notably, the City currently considers net new on-site tax revenues (anticipated new revenues, less revenues currently being realized at a site). The analysis does not, however, consider potential "cannibalization" – that is the loss of tax revenues that could occur, for example, from an older hotel when a new one goes up nearby.
- 4) **Upon and Post-Completion**
- a) **Post-completion "true-up" and incentive adjustment provisions** -- Require a post-construction cost reconciliation or true-up to compare actual costs to those projected. Also, an appraisal and updated analysis of a project's current and actual value should be required to determine whether to adjust the total incentive amount. While a project may have been deemed to have a feasibility gap based on the anticipated value upon completion, the value of the project may have increased by the time it is completed – thus reducing or eliminating the projected vs. actual gap;
 - b) **Annual project-specific reporting and "clawback" terms** – Require submission by the project developer, or successor in interest, of an annual performance report over the term of any Incentive Agreement, (and that would be subject to audit) identifying actual outcomes cited as goals of such Incentive Agreement (e.g., results regarding economic activity, actual number of jobs, and increased tax revenue to the City). Further, provide that the City may recover ("clawback"), monies already provided and/or disbursed by the City, or withhold incentive payments, if a project has not met anticipated outcomes as defined in the Incentive Agreement; and
 - c) **Annual reporting on performance of all project Incentive Agreements** – Based on the project-specific reports submitted by developers/owners (as detailed above), the Chief Legislative Analyst (CLA), or some other designated entity, should prepare an annual public report identifying actual outcomes cited as goals of the Incentive Agreement overall, including results regarding economic activity, actual number of jobs, and increased tax revenue to the City.
- 5) **Room Block Agreements** - Instruct the CLA and City Administrative Officer (CAO) to work with the Los Angeles Tourism and Convention Board to address concerns related to strengthening the efficacy of room block agreements (*for hotel projects subject to new Incentive Agreements*).

BACKGROUND

Until 2012, the City primarily relied on the Community Redevelopment Agency (CRA-LA) to “...revitalize, refurbish, and renew economically underserved areas of Los Angeles. The CRA-LA was the City’s partner in housing, commercial, neighborhood, and economic development in communities that suffered from blight and catastrophic events.¹” The CRA-LA and its funding mechanisms were dissolved pursuant to State law (AB1x26) in 2012.

Between 2005 and 2015, the City approved five Incentive Agreements that provided financial assistance to the developers of four Downtown hotels and a shopping mall: the Headquarters Hotel (now a J.W. Marriott and Ritz Carlton); the Wilshire Grand Hotel (now an InterContinental); the Olympic North Hotel (now a Courtyard Marriott and Residence Inn); the Metropolis Hotel (now a Hotel Indigo); and the Village at Westfield Topanga. Our Office reviewed the evaluation process and details of the Incentive Agreements and identified areas which could ensure maximum returns on investment of City tax revenue.

The City approved these Incentive Agreements with the intent to stimulate economic growth and increase tax revenues coming to the General Fund. The Incentive Agreements subsidized project development by providing financial assistance not to exceed half of the total net new City tax revenues from all sources that the projects were expected to generate for up to 25 years. Overall, for the five projects reviewed, the City committed up to \$654 million (\$202 Net Present Value² (NPV)) in net new City tax revenues to the developers.

The total amount of actual financial assistance is contingent upon the amount of actual tax revenues paid as a consequence of each project to the City. Therefore, the agreements provide a maximum cap of what may be paid out; the assistance could be lower given a project’s actual performance. Financial assistance is paid by the City at varying periods, depending on the negotiated terms of each agreement.

Overview of Five Projects

When developers and investors consider a prospective project, they weigh the total costs of development against the anticipated total value of that project. The project’s value is generally based on the estimated future net income stream over time. When a project’s value is lower than its cost, it may be determined that a “feasibility gap” exists. Typically, developers indicate that when a feasibility gap exists, the project is not pursued. In the cases reviewed by this Office, developers requested, and the City granted, the financial assistance to incentivize development.

The five Incentive Agreements reviewed:

1. **The Convention Center Headquarters Hotel (J.W. Marriott and Ritz Carlton)** had a reported feasibility gap of \$181.7 million based on an estimated value of \$230.8 million and estimated development costs of \$412.5 million. The City approved financial assistance of up to \$270 million (\$62 million Net Present Value (NPV)) over 25 years. The hotel was

¹ Community Redevelopment Agency of the City of Los Angeles, “Who We Are”; http://www.crala.org/internet-site/About/who_we_are.cfm

² Net Present Value is the value in present form of the future financial assistance amount, in contrast to the future value it will have upon payout.

initially sponsored by the Community Redevelopment Agency (CRA-LA), but was transferred to the City upon the State mandated dissolution of all redevelopment agencies in 2012. This hotel is a combination of an 878-room J.W. Marriott and a 123-room Ritz Carlton hotel complex at 900 W. Olympic Blvd., within L.A. Live. It was developed by the Anschutz Entertainment Group (AEG), which also developed Staples Center and L.A. Live. The City and AEG signed an Incentive Agreement for the hotel complex in 2005 and the hotel opened in 2010. Subsequent to the development of the hotel complex, the City approved an operations agreement with AEG to manage the City's Convention Center.

2. **Wilshire Grand Hotel (InterContinental Hotel)** had a reported feasibility gap of \$97 million. The feasibility gap determination deviated from the typical formula to arrive at a feasibility gap, as a result of attorney negotiations. The City initially approved financial assistance of up to \$171 million (\$54 million NPV) over 25 years. In December 2016, the City increased the financial assistance to \$250 million (\$60.8 million NPV) for the remaining 20 years because the developer added a commercial building to the project (C-118744). The hotel is now operating under the InterContinental brand and is part of a 73-story tower with 900 hotel rooms at Wilshire Boulevard and Figueroa Street, Downtown. Developed by Hanjin Group, with which Korean Airlines is affiliated, the project opened in the summer of 2017.
3. **The Olympic North Hotel (Courtyard Marriott and Residence Inn)** had a reported feasibility gap of \$35.8 million based on an estimated value of \$126.9 million and estimated development costs of \$162.7 million. The City approved financial assistance of up to \$67.3 million (\$21.9 million NPV) over 25 years. The hotel is located at 901 W. Olympic Boulevard, directly across the street from the Headquarters Hotel. It debuted in 2014 as a combination of two Marriott brands: a Courtyard with 174 rooms; and a long-term stay Residence Inn with 219 rooms. The developer was a limited partnership put together by Portland-based Williams and Dames and Seattle-based American Life Inc., which solicited foreign investments under the federal government's EB-5 Immigrant Investor Program.
4. **The Village at Westfield Topanga** had a reported feasibility gap of \$35.7 million based on an estimated value of \$300 million and estimated development costs of \$335.7 million. The City approved financial assistance of up to \$47.7 million (\$25 million NPV) over 25 years. The mall was developed by Westfield, one of the world's largest shopping center owner/operators. Initially, a hotel was planned as part of the development project, although that idea was later abandoned. The new Village at Westfield Topanga opened in September 2015.
5. **Metropolis Hotel (Hotel Indigo)** had a reported net feasibility gap of \$13.5 million, which is an amount that represented what the developer would accept to build a hotel instead of a residential tower. The City approved financial assistance of up to \$18.7 million (\$13.5 million NPV) over six years. The hotel is a 350-room project developed by Greenland USA as part of a four-tower mixed use project. Located at 9th and Francisco Streets in Downtown, the hotel opened April 1, 2017 and is now operating as the Hotel Indigo.

The four hotel Incentive Agreements were intended to facilitate the development of Downtown Los Angeles and to make the City's Convention Center more competitive. The City's sole mall Incentive Agreement was intended to stimulate more retail activity in the West San Fernando Valley.

Further, within the last 2 years, the City approved up to \$345 million (\$150 million NPV) in tax Incentive Agreements. Those additional projects are as follows:

- Grand Avenue (CF# 13-1694) – \$198.4 million or \$66.6 million NPV
- Cambria (CF# 16-1128) – \$43.2 million or \$15.7 million NPV
- Pico-Figueroa Hotels (CF# 16-0073) - \$103.3 million or \$67.4 million NPV

ANALYSIS

Economic Development Policies

Since 2005, the City has continued to approve Incentive Agreements without having a broader, comprehensive Citywide economic development strategy. In lieu of an adopted economic development strategy, the City used the BGIF policy to evaluate and approve financial incentives on an individual basis.

Block Grant Investment Fund Policy (BGIF)

Established in the 1990s and amended in 2001, the BGIF policy was used as a guide to evaluate projects applying for Housing and Urban Development Section 108 loans. Since the dissolution of the CRA-LA, the BGIF policy has also served as the City's framework to evaluate projects that requested assistance through an Incentive Agreement.

Although BGIF is not specific to hotels or shopping malls, the City determined that the developers of all five Incentive Agreements qualified for financial assistance for varying lengths of time, but not more than 25 years and not more than 50% of estimated net new tax revenues to the City from all sources. The BGIF was not originally intended to be the policy document to determine eligibility of Incentive Agreements.

In 2015, the City considered a report that recommended a specific Hotel Incentive Policy (HIP) that would have provided the relevant criteria to evaluate hotel projects. On July 25, 2017, that report and its related council file expired (CF# 13-0991). In June 2017, the Mayor and City Council authorized the Economic and Workforce Development Department (EWDD) to enter into a contract with HR and A Advisors, Inc. to develop a Citywide Economic Development Strategy and implementation plan (CF# 13-1090-S1).

There is a demonstrated need for an updated policy which outlines the requirements for identifying, assessing, and ultimately, granting assistance to hotel development projects in order to provide negotiating staff with clear methodologies and expectations.

Consultant Project Studies and Negotiations

The City used five separate independent studies performed by three different consultants to determine eligibility for financial assistance. These contracts were between the City and each respective consultant, and were paid for by developer funds. Based on consultant conclusions about the existence of a project's feasibility gap, and the City's determination that a project complied with the BGIF policy, the City ultimately approved financial assistance for the projects.

- Alternative Project Analyses - The studies may have arrived at different conclusions about the existence of a feasibility gap and the need for financial assistance, **if** the City had requested an alternative cost/valuation method for each project, or considered modifications to the proposed projects in order to reduce development costs, or considered other types of projects that could have been built instead of a hotel or mall.
- Cited Public Benefits - The studies also estimated, when possible, the number of additional jobs that could be created, the amount of General Fund revenue that could be generated, the potential induced economic impacts, and the extent to which a project could support the Los Angeles Convention Center (LACC) by adding more hotel rooms within ½ a mile walking distance.

Better methods exist for the City to ensure it is receiving the most accurate and consistent information about the potential public benefits. Prior to approving an Incentive Agreement, the City should confirm whether the economic and financial impacts cited in the proposed Incentive Agreement, corresponding study, and any development agreement reconcile with one another and examine why any differences may exist. Doing so could provide the Council and Mayor with more complete information about the potential economic impacts in order to make a decision about a project's merits, while facilitating the City's future evaluation of a project's actual economic and financial impacts.

The City should create a better negotiating advantage by including in the evaluation/negotiation process, a qualified City entity or consultant, with robust experience in real-estate transactions/negotiations to assist with both the evaluation of proposals for financial assistance, as well as the negotiations of terms of agreements for Incentive Agreements. Such action would provide the proper expertise to determine if other opportunities exist to make adjustments to scopes of projects, or propose other alternatives, to significantly reduce or eliminate the feasibility gap. Further, this would better ensure the City receives the most favorable terms and conditions for potential Incentive Agreements.

Evaluation of Economic and Financial Impacts

The City should enhance its evaluation and reporting of actual economic and financial outcomes, as the Incentive Agreements do not contractually obligate the City do so. Pew Charitable Trusts (Pew) recommends that it may be beneficial for state and local governments to establish an ongoing, evaluation process for tax incentives in order to facilitate future decision-making. Based on Pew's policy briefs, the City should:

- *Make a plan.* The City's negotiating entity should:
 - Establish a strategic schedule to evaluate tax incentives;
 - Assign responsibilities for evaluations; and
 - Identify clear, measureable goals.
- *Measure the impact.* Assess results for the economy and budget. Relevant steps should include:
 - Select the metrics to measure;
 - Consider cause and effect;
 - Consider net effects (determine if incentives had a net impact or simply transferred effects from one business to another); and

- Compare results to other economic development strategies.
- *Inform decisions.* Build program evaluations into policy and budget deliberations. Specifically,
 - Identify opportunities for improvement; and
 - Inform lawmakers to regularly review incentives.

Post-Construction Cost Reconciliations

Four of the five Incentive Agreements required the City to conduct a post-construction cost reconciliation to determine whether reductions should be recommended to the financial assistance already negotiated based on the actual costs of construction. Under that process, the City would lower the financial assistance packages for the projects when development costs were confirmed to be lower than initially projected; however, no adjustments are made if the projected/actual value of the project increases. Three of four Incentive Agreements also afforded an opportunity to waive the post-construction cost reconciliation requirement, when reported development costs exceeded the original estimates.

As written in the reviewed Incentive Agreements, the City’s financial assistance is not subject to revision if the developer spends equal to or more than the amount noted in the consultant’s study. However, this was further interpreted to mean that the City did not have to verify and confirm that reported costs were actually higher than estimated, or if they were in general alignment with accepted cost categories of what had been included in the proposed development project. The Council should require as part of its policy, a post-construction cost reconciliation for all Incentive Agreement projects.

Performance-Based Incentive Agreement Provisions

All five of the Incentive Agreements could have been enhanced by including performance requirements as a condition to the provision of an incentive payment by the City. One method to enforce intended performance outcomes is to include “clawback” provisions in the Incentive Agreements that allow the City to recover funds previously paid to the developer when nonperformance occurs during the project’s operation. As an alternative to a clawback provision, the City could instead agree only to pay an incentive after the project’s performance expectations have been met and confirmed.

The City’s intended goal for incentivizing Downtown hotels was to draw more conventions. However, the agreements do not include guarantees for increased convention bookings. Similarly, the mall agreement does not require that the mall maintain a certain number of jobs, or other benefits as promoted by the City.

As part of this Office’s review, benchmarked jurisdictions with development Incentive Agreements were examined. Said agreements require a recipient to create a certain number of net jobs, increase wages, increase property values, etc., to remain eligible to receive financial incentive payments. For example, the State of Arizona “Competes Fund” incentivizes projects that promise to meet certain economic development milestones, but also includes clawback provisions to ensure it can take back funds for nonperformance. In Austin and Orlando, the cities do not pay out their respective incentives until certain performance outcomes have been met. **For those cities, no funds are transferred until outcomes have been achieved and confirmed.**

In addition, the Government Finance Officers Association (GFOA) recommends that:

“...any jurisdiction's economic development incentives have specific goals and criteria that serve to define the economic benefit that both the government and the entities receiving the incentives expect to gain from the incentives, the conditions under which the incentives are to be granted, and the actions to be taken should the actual benefits or outcomes differ from plan.”

Reporting

In 2014, the California State legislature passed a law which regulates “economic development subsidies” of over \$100,000. As noted in Government Code Section 53083 (§ 53083), an “economic development subsidy” is:

“...any expenditure of public funds or loss of revenue to a local agency in the amount of one hundred thousand dollars (\$100,000) or more, for the purpose of stimulating economic development within the jurisdiction of a local agency, including, but not limited to, bonds, grants, loans, loan guarantees, enterprise zone or empowerment zone incentives, fee waivers, land price subsidies, matching funds, tax abatements, tax exemptions, and tax credits. Economic development subsidies shall not include expenditures of public funds by, or loss of revenue to, the local agency for the purpose of providing housing affordable to persons and families of low or moderate income, as defined in Section 50093 of the Health and Safety Code.”

Meeting this definition, the City’s Incentive Agreements require that the City publicly report the following information on its internet site(s):

- Name/address of the beneficiary of the subsidy
- Start and end dates
- Estimated total amount of subsidy
- Statement of public purpose
- Projected tax revenue as a result of the subsidy
- Estimated number of jobs created by the subsidy

The City has developed policies covering the processing of economic development subsidy reports to comply with § 53083. Currently, the City is publicly reporting on hotel projects approved for financial assistance after January 1, 2014. Although not required, the City could enhance public transparency by publishing reports all projects receiving incentives that were initiated prior to January 1, 2014.

- *GASB Statement 77 Reporting.* In August 2015, GASB issued new requirements for state and local governments that will require additional reporting of information related to development Incentive Agreements. Prior to this, the City did not include any financial information related to the Incentive Agreements in its financial statements. Beginning Fiscal Year 2016-17, GASB 77 requires the City to include a supplementary footnote in its financial statements with the following information:
 - Tax being abated
 - Authority under which it is provided
 - Eligibility criteria

- Provisions for recapture
- Types of commitments made by the recipients
- Gross dollar amount of taxes abated
- Commitments made by the City as part of the agreement

The Controller's Office has worked closely with various City departments and the City's external auditors to determine which City programs and incentives are subject to GASB 77.

All Incentive Agreements approved prior to January 30, 2017, including the five projects we reviewed, were included in the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ending June 30, 2017.

Room Block Agreements

The hotel Incentive Agreements contain a room block agreement intended to support the City's efforts to attract more conventions. The room block agreements run for 35 years and give the City and its contractor, the Los Angeles Tourism and Convention Board (LATCB), the right to request that the hotel operator hold up to 75% of its rooms for a convention. The number of rooms eventually held depends on the amount of advance notice provided to the hotel operator.

However, the room block agreements as written put no limits on the requirements that hotel operators can request from convention organizers during negotiations. We also note that the hotel operator has the discretion to:

- Provide rooms for any number of days—consecutive or nonconsecutive;
- Provide any number of rooms (with no minimum requirement); and
- Request food and beverage minimum purchases as a condition to offering rooms.

Per LATCB, these conditions weaken the ability of the room block agreements to meet their intended goal - to reserve and secure rooms for convention attendees, thereby discouraging event organizers from seeking Los Angeles for their convention. In order to allay concerns identified by the LATCB, the City could strengthen the efficacy of the room block agreements to ensure that the City is provided the appropriate share of room blocks for conventions at the Convention Center.

Attachments: Supporting Information - Attachment A
Benchmarking of Economic Incentives in other Jurisdictions - Attachment B

Supporting Information

This document provides additional information intended to provide an overview of general processes, including a comparative summary of the five Incentive Agreements approved by the City between 2005 and 2015 based on the Office of the City Controller's review. This document is organized in the following sections:

- I. Overview of how the City's Incentive Agreements work;
- II. The framework used to approve the Incentive Agreements;
- III. The process for developing the Incentive Agreements;
- IV. The typical features and terms of the Incentive Agreements; and
- V. A summary table of specific key issues for all five agreements reviewed.

I. How the City's Incentive Agreements Work

a. Hotel Incentive Agreements

The City's hotel tax Incentive Agreements authorize the City to provide financial assistance in the form of a hotel's Transient Occupancy Taxes (TOT, also referred to as "bed taxes") over a set period of time. The City typically stops providing financial assistance once the maximum amount specified in the Incentive Agreement has been reached, or the specified number of years have passed since the start of the agreement. The maximum incentive amount is determined in a City commissioned study, and is limited to 50% of the hotel's estimated net new tax revenues from all sources, which the City assumes would not have been realized through alternative or private development without the incentive. The maximum incentive amount is not a guarantee, since the periodic financial assistance payments depend on the actual TOT generated by a hotel.

Example of Financial Assistance Calculation and Terms

Assume that a study estimates that a hotel will generate \$400 million in net new tax revenues from all sources to the City over 25 years. Under such an example, the City would structure its Incentive Agreement and related financial assistance as follows:

- Total Amount of All Financial Assistance:
The agreement would provide the developer up to \$200 million in potential financial assistance, representing 50% of the \$400 million in estimated future net new taxes received by the City. This calculation is based on a City policy that has been used as a framework for Incentive Agreements, and a commissioned study that estimates the future tax benefits to the City.
- Expiration of Financial Assistance Payments:
The agreement expires when *either* of these two events occur:
 - 1) \$200 million has been provided to the developer; or
 - 2) The 25 year term of the agreement has run out.

So if \$200 million is provided to the developer before 25 years, the agreement is expired. If the 25 year term of the agreement runs its course, the agreement is expired regardless of whether or not the full \$200 million tax incentive has been provided to the developer.

- **Taxes Used to Provide Financial Assistance:**
Since the City is the direct recipient of TOT collected by hotel operators from their guests, as opposed to other taxes that are collected by other government agencies (e.g. property taxes, sales taxes, etc.), the City is able to track and provide 100% of all TOT generated by the hotel project to the developer as specified by the terms of an executed Incentive Agreement. ***The operator of a hotel with an associated tax Incentive Agreement actually pays the TOT it collects from its guests to the City, but the City remits these amounts to the developer of the project per the Incentive Agreement.***
- **Financial Assistance Amount and Payments:**
The periodic financial assistance payments vary, as they are based upon actual TOT tax generated and remitted by the hotel. For instance, if the hotel generated \$1 million in TOT taxes in one year, the developer would receive \$1 million as financial assistance payment for that year. Likewise, if the hotel generated \$20 million in TOT taxes during a year, the entire \$20 million would be provided. As indicated previously, the sum of all such financial assistance would not exceed \$200 million as established under this example Incentive Agreement.

b. Unique Characteristics of the Westfield Mall Incentive Agreement

The City entered into an Incentive Agreement with Westfield for the redevelopment of a retail shopping mall in the West San Fernando Valley. The City agreed to provide up to 50% of the mall's future "net new tax revenues" to the developer, which the Incentive Agreement with Westfield defines as "revenues actually paid to and received by the City...and shall include new property taxes...any new sales taxes, etc."¹ Since the mall does not provide hotel TOT tax revenue to the City, the Westfield Incentive Agreement defines the payment amount (the initial annual "rebate amount") as the City's share of property taxes paid by Westfield.^{2,3} In February of each year, the City is to make payments to the developer from a special City fund.

Tax Revenue "True Up" Requirement

The total "rebate amount" is subject to adjustment in March of the following year (thirteen months later) in an annual true-up report. This report is intended to be based upon auditable back-up information, including, but not limited to: tax bills, invoices, sales reports, and/or canceled checks. The report is also intended to take into account *all* site-specific tax revenues related to the project. Based on the City's review of the report, the City can request that the developer refund overpayments for the prior year's rebate amount. Similarly, the developer can request an additional amount from the City for any underpayment.

¹ Net new tax revenues include taxes, motor vehicle, license in-lieu-fee, any new sales/use taxes, City businesses taxes or utility taxes, gross receipts taxes, and parking occupancy taxes from parking facilities on the Project Site in excess of Existing City Revenues.

² Westfield Subvention Agreement, Contract # C-123771, pages 9-10.

³ Per the Westfield Subvention Agreement, the City can designate the tax source of the "rebate amount," but will use its best efforts to designate 100% of the City's share of property taxes as the source for payment.

Despite these provisions, the Westfield Incentive Agreement—like all other agreements—cannot exceed 50% of the net new revenues that were estimated for the life of the agreement. The agreement also ends by the 25th year of the agreement even if the developer is unable to reach the maximum incentive amount. As with the hotel Incentive Agreements, the City provides the assistance based on the notion that without the incentive, the project would not have been built.

II. Incentive Agreement Framework/Policy

a. City's Use of Block Grant Investment Fund Policy (BGIF)

The City does not have an approved policy specifically for hotel or mall Incentive Agreements. Instead, the City has used the Block Grant Investment Fund (BGIF) policy as a framework to evaluate projects that request assistance through a tax Incentive Agreement.⁴

The BGIF policy was established in the 1990s and amended in 2001 to guide decisions for making “*highly selective public investments in commercial and industrial projects which [would] leverage significant private sector investment.*” The policy was intended to guide the City in providing gap financing to projects that could not be carried solely by the private sector. Funding paid to developers consisted of Community Development Block Grant (CDBG) moneys, combined with U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Funds and unexpended BGIF dollars.

Financial assistance provided by the City through the BGIF policy was to be “paid back” through the recovery of 50% of the net new site-specific tax revenue, over 20 years. The payments ceased when 50% of net new tax revenues were captured, or when 20 years had elapsed.

While the BGIF policy served as the framework for the City's recent hotel and mall Incentive Agreements, the City did not use the BGIF's 20-year “repayment” timeframe. Rather, the City provides the incentive as ongoing assistance, as a tax rebate to the developers for varying lengths of time, but not more than 25 years or 50% of net new tax revenues to the City from all sources.

b. Proposed Hotel Incentive Policy

In February 2015, the Chief Legislative Analyst (CLA) proposed a Hotel Incentive Policy (HIP) that was based on the BGIF framework.⁵ The CLA synthesized the most notable recommendations from a consultant study, which were to be implemented by the Economic and Workforce Development Department (EWDD) with assistance from the CLA, City Administrative Officer (CAO), and City Attorney.

However, no action was taken on the proposed policy, and as written, the policy is not applicable to other industries or businesses (e.g. malls).

⁴ Council File 13-0991, CLA Memo: (http://clkrep.lacity.org/online/docs/2013/13-0991_rpt_CLA_02-05-2015.pdf), page 1.

⁵ Council File 13-0991, CLA Memo: (http://clkrep.lacity.org/online/docs/2013/13-0991_rpt_CLA_02-05-2015.pdf) page 1.

Under the CLA's proposed HIP, the City would provide financial support for eligible hotels with a feasibility gap as determined by an independent financial and economic analysis as follows:

“-Up to 50% of net new site specific tax revenues for new hotels with 300 or more rooms maintained at a minimum 3-star quality;

-Up to 50% of net new site specific tax revenues for adaptive reuse hotel projects with 150 or more rooms maintained at a minimum 3-star quality; and

-Up to 50% of net new site specific tax revenues for renovations of existing hotels with 150 or more rooms maintained at a minimum 3-star quality.”

In addition, eligibility for a hotel Incentive Agreement would be determined based on compliance with the terms of HIP, the BGIF policy, appropriate land use and zoning authority, and entitlement approval. **HIP would also require that hotel Incentive Agreements specify the requirements for granting assistance to hotel development projects.**

III. Incentive Agreement Development Process

a. Initiation

The City contracts with an independent consultant to produce a study that determines a project's eligibility for financial assistance. These studies are paid for by developer funds and are intended to determine whether a project meets the City's requirements in order to qualify for financial assistance through an Incentive Agreement.

b. Requirements and Goals

Based on the BGIF framework for the five agreements reviewed, a project must:

- Meet the City's policy goals;
- Generate additional tax revenue for the City and create more jobs; and
- Require public assistance to meet the developer's financial need, because without such assistance, the project would not be built.

One of the City's policy goals is to support the attraction of additional and larger scale conventions to the Los Angeles Convention Center (LACC), by increasing the number of hotel rooms within ½ a mile walking distance of the LACC. As depicted in the figure below, extracted from a September 2015 Whitepaper prepared by the Convention and Tourism Development Department, there were 3,172 hotel rooms within walking distance of the LACC as of Fiscal Year 2013-2014.⁶

The properties listed in the below image, and referenced as 1, 8, 10, 12, 13, and 14, are the subjects of the City's four hotel incentive agreements. Specifically, #s 1 and 8 are part of the Headquarters Hotel project, while #s 10 and 12 are part of the Olympic North project.

⁶ CTD, "Whitepaper: The Future of the Los Angeles Convention Center," September 2015.



EXISTING AS OF JULY 1, 2013		
1	JW Marriott Los Angeles L.A. LIVE	878
2	Sheraton Los Angeles (The Bloc)	485
3	Figueroa Hotel	285
4	Stillwell Hotel	232
5	Mayfair Hotel	215
6	Luxe City Center Hotel	175
7	Ritz Milner	137
8	Ritz-Carlton, Los Angeles	123
9	O Hotel	67
Subtotal		2,597
OPENED FISCAL YEAR 2013-2014		
10	Residence Inn Los Angeles L.A. LIVE	219
11	Ace Hotel	182
12	Courtyard Los Angeles L.A. LIVE	174
Subtotal		575
TOTAL EXISTING		3,172

UNDER CONSTRUCTION		
13	InterContinental Los Angeles Downtown	900
14	Hotel Indigo (Metropolis)	350
15	Empire Hotel	183
16	Cavalli Hotel (Oceanwide Plaza)	183
17	Case Hotel	151
Subtotal		1,767
UPCOMING		
18	JW Marriott Expansion	755
19	dtLA South Park	300
20	W Hotel (Figueroa North)	75
Subtotal		1,130
OPPORTUNITY SITES		
21	LACC	1,000
22	Pico Blvd + Figueroa St	750
23	Olympic West	600
24	Genting Property	600
25	9th Street Sites	400
26	Pico + Hope/Flower	350
Subtotal		3,700
TOTAL FUTURE		6,597

TOTAL ROOMS EXISTING & FUTURE: 9,769

c. Determining Project Feasibility

A project is considered financially infeasible if the project's total development costs (including land) exceed the project's estimated value. The excess cost is the project's **feasibility gap**, which is initially determined by the developer and subsequently verified by the City through a commissioned study. **The existence of a feasibility gap serves as the basis of eligibility for consideration by the City to proceed with an Incentive Agreement.**

The feasibility gap, as defined by the City, is the difference between the development costs and the project’s value (total “warranted investment”), which are defined below:

- The “warranted investment” is what investors would reportedly be willing to pay for a business venture or property based on the project’s estimated income stream after it is anticipated to open. The warranted investment is typically calculated in the City’s studies using net operating income (in current dollars) divided by a capitalization rate that represents the relative risk of the income stream.^{7,8}
- The total development costs of the project are the sum of all direct and indirect costs related to construction, including land costs.

If the project’s estimated development costs exceed the warranted investment amount, the project is deemed “financially infeasible” for a market-based private development, and could be considered for financial assistance by the City, given broader policy goals.

d. City Studies on Feasibility Gap and Public Revenues

Based on assumptions regarding development costs and economic modeling, independent consultants, hired by the City, estimate how much additional tax revenue will be generated by a project, and the project’s feasibility gap. The three consultants engaged by the City for the five projects reviewed are listed below.

Project	Principal Consultant
Convention Headquarters Hotel	PKF Consulting
Wilshire Grand Hotel	Keyser Marston Associates
Olympic North Hotel	Keyser Marston Associates
Westfield Topanga Mall	Rosenow Spevacek Group ⁹
Metropolis Hotel	Keyser Marston Associates

e. Net Present Value

While the feasibility gap is a product of the project’s costs (in current dollars) and the project’s value (expressed as a future income stream over time, discounted to a current dollar figure), the incentive amount is based on the estimated net new tax revenues from the project over a set period of time. Since the financial assistance is provided by the City from public tax revenue after the project begins operating, it is typically expressed as a maximum amount over the agreement term, as a nominal figure. However, given the time value of money, the total of the future financial assistance amounts may also be expressed in current dollars, using a Net Present Value (NPV) calculation. While the incentive amount is not directly tied to the feasibility gap, we noted that for the five projects reviewed, the NPV figure for the maximum development tax incentive was equal to or less than the stated feasibility gap.

⁷ The Village at Topanga – Feasibility and Economic Impact Assessment, 2013, pg. 21.

⁸ In the Headquarters Hotel study, the City used an alternative method for determining the project’s value called the discounted cash flow method.

⁹ PKF Consulting evaluated the financial feasibility of the now-defunct hotel component of the Westfield Topanga Mall. Rosenow Spevacek Group was responsible for the estimates of the retail, parking and other improvements relating to the Project.

f. Potential Modification of Maximum Financial Assistance

Four of the five Incentive Agreements also required the City to conduct a post-construction cost reconciliation (not to be confused with the “True Up,” applicable only to the Westfield Mall) to determine whether changes should be recommended to the maximum financial assistance amounts.¹⁰ That is, if the actual development costs are lower than expected, the City can recommend that the financial assistance amount be reduced from the initial agreement.

It should be noted that three agreements also contain a contract clause which allowed the parties to waive the reconciliation if the City determines that construction costs exceed the original estimates. All projects reportedly cost more than was estimated for development in the studies.

In addition, none of the agreements provide for a review or ongoing analysis of the actual “value” of the project in comparison to the estimate that was used to determine the feasibility gap and justify the incentive.

IV. Typical Features and Terms of the City’s Incentive Agreements

An Incentive Agreement is a legally binding contract, which uses a consultant’s estimate for (1) the potential net new tax revenues that a proposed project could generate for the City, and (2) the feasibility gap. The City uses the net new tax revenues to set the maximum incentive amount, to be paid as rebates of certain taxes paid over a period of 25 years or more.

The City’s Incentive Agreements included, but were not limited to, the following:

- Recitals regarding the general goals and/or anticipated economic benefits of the agreement (however, these are not contractually obligated nor monitored by the City)
- Responsibilities of the developer and operator and the City
- The financial gap statement, which serves as a declaration that a project is infeasible without City assistance in the form of a tax subvention
- Amount of the City incentive (limited to 50% of net new tax revenue)
- Scope of the proposed project
- Annual tax guaranty amount that the development project will pay during construction, if applicable
- Room block agreement, if applicable
- Construction job-site permit
- Project labor agreement

Most of the features listed above were described previously. The following provides additional detail of issues related to room block agreements, guarantees for prior tax revenues, construction related sales & use tax for job-site permits, and project labor agreements.

¹⁰ The Headquarters Hotel Incentive Agreement did not have a post-construction reconciliation requirement.

a. Room Block Agreements

The hotel Incentive Agreements contain a room block agreement to support the City's efforts to attract more conventions. The room block agreement runs for 35 years and gives the City the right to request that a hotel hold a certain number of rooms for a convention.

The agreements give the City and the Los Angeles Tourism and Convention Bureau (LATCB) the right to request up to 75% of the hotel's rooms for Convention Center events. The rooms are typically requested through the LATCB. The room block agreements require the hotel to provide a certain number of days (room block days) for each room block request, which vary depending on the amount of advance notice provided to the hotel. The room block days are essentially the number of days the hotel should make available to the convention organizer to book an event.

LATCB monitors room block requests and responses because it is a signatory to the room block agreements. As of 2015, the Los Angeles Convention and Tourism Development Department took on the role of monitoring LATCB's implementation of the room block agreements as part of LATCB's contract with the City.

b. Developer Guaranty for Prior Tax Revenues

For new projects that redevelop a prior tax-generating property, the City required a **guaranty** that the new project will continue to pay an amount equivalent to what the City previously received from the prior property (sales, utility, parking occupancy and transient occupancy taxes, etc.).

Two of the five Incentive Agreements had this requirement: Westfield Mall and Wilshire Grand Hotel.

- Westfield Mall

The guaranty is for \$116,141 and per the agreement:

*"...mean(s) an unconditional corporate guaranty to be executed by the developer guarantor...(who) will guaranty to the City annual General Fund revenues derived from the Project Site of not less than **\$116,141**, which represents the amount generated by the existing properties and or businesses on the effective date of the Agreement."*

The terms and conditions, as indicated in the agreement: *"...to the extent the City suffers any loss to its General Fund during the construction period for the Project...this Guaranty shall remain effective until the Completion Date or until terminated earlier by written consent of City."*

- Wilshire Grand Hotel

The guaranty is for **\$4.1 million annually** during construction and *"...represents the total public revenues generated by the existing property and paid to the City for the period March 1, 2009, through February 28, 2010, without escalation. The various revenues comprising the Annual Base Period Amount are the following: the component of property taxes received by the City, gross receipts tax, sales tax, utility user's tax, parking occupancy tax and transient occupancy tax."*

However, the Incentive Agreement also permitted the hotel developer to reduce its guaranty by the amount of additional tax revenue created for the City during construction.

c. Construction Related Sales & Use taxes

An important feature of these agreements is that the **City’s tax Incentive Agreements require the developer’s contractors and subcontractors to identify the City as the direct recipient of sales and use taxes during their construction activities.** Doing so allows for the direct identification of those new taxes, bypassing the countywide pool.¹¹ This can help the City receive the full amount related to those construction activities, as opposed to the tax dollars being remitted to the State and the typical countywide pooling process.

The requirements set by the Incentive Agreements vary for in-state and out-of-state purchases:

- **In-State Purchases** - The City requires the developer’s contractors to identify the City as the recipient of taxes on all purchases for contracts exceeding \$5 million.
- **Out-of-State Purchases** – The City requires the developer’s contractors to identify the City as the direct recipient of taxes for purchases exceeding \$500,000, but less than \$5 million.

d. Project Labor Agreements

The Metropolis, Olympic North, and Wilshire Grand Hotel Incentive Agreements also required the developers to enter into a labor agreement to promote hiring union labor.

V. Summary Table of Specific Terms and Conditions of Five Incentive Agreements

The table on page 11 of this attachment contains key features of the five Incentive Agreements reviewed. While the figures and amounts noted in the columns “Estimated Project Cost,” “Project Valuation,” “Expected Rate of Return,” and “Feasibility Gap” are interrelated and used to determine if an incentive would be granted, the “Incentive Amount” is derived from the estimated “City Revenues” (i.e., new site-specific additional tax revenue).

Further definitions of these terms, as used for the column headings on the table (page 11), is noted below:

Estimated Project Cost – is the total projected development cost including: land; architectural and engineering services; construction; furniture, fixtures and equipment; and related project/construction management costs until the project is operational.

Project Valuation – is based on a calculation that projects the future net operating income of the project, including the owner/investor’s *expected rate of return*, over a specific number of years. That future income stream is then discounted into current dollars (through a net present value, or discount rate calculation).

Expected Rate of Return - represents the owner/investor’s desired or required payback for their investment, that can vary based on an investors’ risk appetite, opportunities for alternative investments, or market benchmarks of capitalization rates of similar real-estate transactions. The higher the investor’s expected rate of return (given same operating income/revenue assumptions) the lower the project valuation, and vice versa.

¹¹ State Board of Equalization, Publication 9: Construction and Building Contractors, March 2016.

Feasibility Gap – is the difference between Estimated Project Costs and Project Valuation, indicating the project would cost more to develop than its “value”. The existence of a feasibility gap, and not the size of a gap, is used to determine the projects’ eligibility for a tax incentive, since the City assumes the owner/investor would not pursue the development without financial assistance from the City.

Incentive Amount – represents the total financial assistance to be paid to the owner/operator over the term of the Incentive Agreement. This amount is limited to half of the total estimated net site-specific tax revenue to be received by the City through all taxing entities, as projected by the consultant. Typically noted as a nominal figure (i.e., the cumulative total dollars paid over the term), given time value of money it can also be expressed in current dollars using a Net Present Value (NPV) calculation. For the five projects listed, the maximum tax incentives paid over agreement periods totals \$654 million; however, that total could also be stated as \$202 million NPV.

City Revenues – the estimated additional tax revenue, from all sources, that will be received by the City associated with the project. Projected by the consultant, it is used as a basis to identify and limit the maximum incentive amount.

Key Information related to the Five Reviewed Incentive Agreements

Project	Executed Year	City's Purpose Per Incentive Recitals and Council Files	Hotel Quality / # of Rooms	Estimated Project Cost (Millions)	Project Valuation (Millions)	Expected Rate of Return	Feasibility Gap (Millions)	Incentive Amount (Millions)	City Revenues (Millions) (over term)	Annual Guaranty (during construction)
Convention Center Hotel (Headquarters Hotel)	2007	<ul style="list-style-type: none"> Stimulate Convention Center Activity Economic Activity 	4 Star/ 1,100	\$412.5	230.8	<ul style="list-style-type: none"> 12% Discount Rate 9% Terminal Cap Rate 	\$181.7 ^h	\$246 - \$270 over 25 years or \$62 NPV	\$565 ^{bc}	\$0
Wilshire Grand Hotel	2011 ^a	<ul style="list-style-type: none"> Stimulate Convention Center Activity Economic Activity 	4 Star/660	\$365.2	Not Established	Not Established	\$97 ⁱ	Up to \$250 over 25 years or \$54-\$79.2 NPV	\$108-158 ^h	\$4.1 Million
Olympic North Hotel	2012	<ul style="list-style-type: none"> Stimulate Convention Center Activity Economic Activity 	3 Star/392	\$162.7	\$126.9	9.5% Cap Rate	\$35.8	\$67.3 over 25 years or \$21.9 NPV	\$43.7 ^h	\$0
Westfield Mall	2014	<ul style="list-style-type: none"> Public benefits and general welfare of its citizens Economic Activity 	Not Applicable	\$335.7	\$300	6%-7% Cap Rate	\$35.6	Up to \$47.7 over 25 years or \$20.9-\$25 NPV	\$41.9 ^h	\$116,000
Metropolis Hotel	2015	<ul style="list-style-type: none"> Stimulate Convention Center Activity Economic Activity 	3 Star/350	\$183.7	\$113.3	9% Cap Rate	\$13.5 ^j	\$18.7 over six years or \$13.5 ^f NPV	\$52.4 ^{eh}	\$0

Notes: (a) Amended in 2013 and 2016 (b) this figure is over 29 ½ years; (c) indicated as a nominal figure, as stated in the agreement; not PV; (e) over 27 years; (h) figure presented at the discounted net present value, NPV; and (j) This is a net feasibility of \$127.3-\$113.8 million negotiated by the City.

Benchmarking of Economic Incentives in Other Jurisdictions

The Office of the City Controller reviewed best practices proposed by hotel industry researchers, and the use of financial incentives by other jurisdictions to stimulate private development. This information is summarized in the following sections:

- National public-private incentive tools for hotel development
- Comparable hotel incentives related to convention activity
- Other types of incentives provided to help publicly finance hotel development
- Various incentive tools used by three other cities to stimulate private development

I. National Public-Private Incentive Tools for Hotel Development

An analysis conducted in 2012¹ indicates that while hotel development can lead to economic gains, many jurisdictions that have used some of the incentives were left with a disproportionate share of costs and downside risk during the great recession. The experts noted that further research is necessary to more accurately identify the risks and returns of public sector investments to encourage hotel development. The following chart provides brief summaries of the other types of incentives we reviewed:

Incentive Tools	Description	Purpose
Tax rebates and deferrals	-Government rebates new taxes from the hotel to the developer.	-Increase the value of project to investors; can make a project feasible.
Lowering development costs by subsidizing one or more aspects of the project	-Government builds infrastructure such as roads, parking structures, “hotel podium” and leases back to the developer. <ul style="list-style-type: none"> • Hotel podiums include the public meeting spaces. • Hotel developer would own rooms and government would own public meeting spaces. -Government waives development impact fees and other fees.	-Reduce costs that lower a project’s value.
Low cost leases of public land	-Government leases land it can purchase or already owns.	-Reduce costs that lower a project’s value.

¹ Robert R. Nelson, Bruce Baltin & Brandon Feighner (2012): Public-Private Financing Structures Used in the United States to Develop Convention Hotels, *Journal of Convention & Event Tourism*, 13:2, page 135-146.

Incentive Tools	Description	Purpose
Assisting the project with public debt instruments (bonds)	<p>-Government can issue bonds secured by bed taxes or other tax streams (property taxes, taxes on car rentals, retail sales, restaurant meals, taxis, airport departures and gaming)</p> <p>-Government can issue bonds secured by tax increment financing (TIF). These bonds are paid by increases in property and bed taxes.</p> <p>-Government can issue bonds secured by project revenues. Revenues can pay back the bond, such as revenue from a parking facility.</p> <p>-Government can issue bonds secured by the full faith and credit of the government (all government's taxing sources are subject to repay debt, not just from the project).</p>	<p>-In some cases, tax exempt municipal bonds can help local governments obtain low(er) interest financing because investors are willing to accept lower returns on securities since their income gains are not taxed by the State and/or Federal government.</p> <p>-The lower cost of capital can make a project feasible.</p>
Credit Enhancements for bond debt.	<p>-Government can purchase insurance to guarantee bond repayment.</p> <p>-Government can obtain a letter of credit from a bank to guarantee repayment of bond debt.</p>	<p>-These assurances can lower the interest on debt.</p>

II. Comparable Hotel Incentives related to Convention Activity

The Office of the City Controller identified two cities that use similar incentive arrangements to stimulate convention activity in their respective jurisdictions, Houston and Palm Springs:

Jurisdiction	Type of Financing	Purpose	Details	Length	Maximum Incentive
Houston	Rebate (subvention)	New Hotel	Property, sales, hotel, and mixed beverage	20 years	\$79 million
Palm Springs	Rebate (subvention)	New Hotels	75% adjusted tax rate or 50% TOT	30 years	\$50 Million

Palm Springs	Rebate (subvention)	New Comfort Hotels (125+ rooms)	50% TOT	20 Years	\$25 Million
Palm Springs	Rebate (subvention)	New Comfort Hotels (51 – 124 rooms)	50% TOT	10 Years	\$20 Million
Palm Springs	Rebate (subvention)	New Comfort Hotels (less than 49 rooms)	50% TOT	10 Years	\$10 Million
Palm Springs	Rebate (subvention)	Existing Hotels (125+ rooms)	50% TOT	10 Years	\$25 Million

III. Other types of incentives for publicly financed hotels

The Office of the City Controller researched a variety of publicly available information to identify other types of incentives used by local jurisdictions to stimulate hotel development. A summary, with links to sources describing them, is provided below.

Jurisdiction	Type of Incentive	Link
Austin	Bond and Fee Reductions	http://www.businesswire.com/news/home/20070320006204/en/Success-Hilton-Austin-Saves-City-90-Million
Austin	Bond and Fee Reductions	http://www.mystatesman.com/news/news/local-govt-politics/austin-tells-marriott-developer-it-violated-38-mil/nYLxg/
Baltimore	Bond	https://www.moodys.com/research/Moodys-affirms-the-Baltimore-Convention-Center-Hotel-Revenue-Bonds-MD--PR_289154
Boston	Bond	http://chieppostrategies.com/chieppo_docs/conventioncenter.pdf
Boston	Bond	http://www.cityofboston.gov/news/Default.aspx?id=1271
Cleveland	Bond	http://www.cleveland.com/business/index.ssf/2014/05/bond-financing_deal_coming_tog.html
Denver	Bond	http://www.gao.gov/assets/280/272369.pdf

Erie	Bond	http://www.gao.gov/assets/280/272369.pdf
Fort Myers	Subsidizing of infrastructure (cancelled)	http://www.news-press.com/story/news/local/fort-myers/2016/02/01/downtown-fort-myers-hotel-misses-deadline-future-question/79658078/
Fort Worth	Bond (cancelled)	http://www.star-telegram.com/news/local/article67389842.html
Louisville	Bond	http://www.gao.gov/assets/280/272369.pdf
Myrtle	Bond	http://www.gao.gov/assets/260/251475.pdf
Nashville	Bond, using Tax Increment Financing	http://nashvillecitypaper.com/content/city-news/omni-hall-fame-connector-approved-rely-34m-tax-increment-financing
Omaha	Bond	http://www.gao.gov/assets/280/272369.pdf
Omaha	Bond	http://www.gao.gov/assets/260/251475.pdf
Overland	Bond	http://www.gao.gov/assets/260/251475.pdf
Palm Beach	Bond	http://www.mypalmbeachpost.com/news/business/convention-center-hotel-to-break-ground-in-decembe/nbLKd/
Phoenix	Bond	http://www.gao.gov/assets/260/251475.pdf
Portland	Bond	http://www.oregonlive.com/business/index.ssf/2015/07/portland-convention-center-hot_1.html
Raleigh	Bond	http://www.gao.gov/assets/280/272369.pdf
Salt Lake City	Tax Credits	http://www.deseretnews.com/article/865644045/3-developers-bid-for-proposed-Salt-Lake-convention-hotel.html?pg=all
San Antonio	Bond	https://www.sanantonio.gov/Portals/0/Files/Finance/off-statements/2005AB-MoodysSP-Report-20160127.pdf
San Jose	Bond	http://www.mercurynews.com/bay-area-news/ci_17621509
San Jose	Bond	http://www.sanjoseinside.com/2011/03/16/bond_financing_mcenery_convention_center/
Schaumburg	Bond	http://www.gao.gov/assets/280/272369.pdf
Shreveport	Bond	http://www.gao.gov/assets/280/272369.pdf

St. Louis	Bonds and Tax Credits	http://www.brookings.edu/~media/research/files/reports/2005/1/01cities%20sanders/20050117_conventioncenters.pdf
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IV. Additional Information on Financial Incentives used by three other Jurisdictions

While the following may not apply to convention activity or hotels, they offer options for structuring and managing incentives.

City of Austin
<p>How many incentives since 2005: 21.</p>
<p>Types of Businesses Targeted: Small businesses, and television production and film. However, City of Austin does not subsidize mixed use or retail with incentives.</p>
<p>Departments that negotiate incentives: Economic Development Department.</p>
<p>City Council Involvement in Negotiations: The Mayor and City Council may request additional considerations.</p>
<p>City performed economic studies/internal economic expertise: The City performs LOCI analyses and has internal staff with that expertise.</p>
<p>Internal tracking system: Yes.</p>
<p>Guidelines/Criteria for internal studies and businesses that qualify: Yes to both. The City does not qualify mixed use or retail with incentives.</p>
<p>Are evaluations performed and what economic indicators are tracked : -The City conducts an annual audit with a 3rd party independent evaluation, which measures the success of each project. -Indicators: Jobs, taxes generated, capital investment, salaries, minority hiring and contracting, and community value commitments as indicated in each contract.</p>
<p>Frequency of performance reporting: Annually.</p>
<p>Hotel/mall eligibility for incentives: -Provided incentives to one mall project, but none after that due to public opposition. ---City financed one 800 room hotel project (not provided tax incentives/subsidies)</p>
<p>Hotel room block agreements: Yes, 600 room block requirement.</p>

What are the benefits of your Hotel/Mall program(s):

Taxes and jobs.

Project labor agreements required:

No.

Ethics: Lobbying and election contribution limitations for recipients of incentives:

No response.

Loans offered in lieu of incentives:

Low interest loans to family businesses that hire one employee for every 35k borrowed, half of which must be disadvantaged.

Clawback provisions utilized:

No clawbacks because money is not given up front. Payments are not made until after a year and a third party confirms contract performance.

City of Orlando

How many incentives since 2005:

Less than 100

Types of Businesses Targeted:

Small businesses located or relocating in the City of Orlando, non-profit organizations located within the City and undertaking construction projects, small businesses undertaking façade improvements, businesses undertaking downtown façade improvements, minority/women owned businesses.

Departments/Offices that negotiate incentives:

The Economic Development Department, along with their CFO.

City Council Involvement in Negotiations:

Yes

City performed economic studies/internal economic expertise:

Yes in most cases, there are circumstances where outside consultants are brought in.

Internal tracking system:

Yes

Guidelines/Criteria for businesses that qualify:

There are guidelines for job creation programs that have been established by the City of Orlando and Orlando CRA for businesses locating to the City and/or CRA.

Are evaluations performed and what economic indicators are tracked :

Yes; return on investment, job creation, and additional project characteristics that benefit the community.

Frequency of performance reporting:

Annually.

Hotel/mall eligibility for incentives:

No Malls. Downtown hotels were provided incentives in the past as an economic catalyst.

Hotel room block agreements:

No.

What are the benefits of your Hotel/Mall program(s):

Economic catalyst.

Project labor agreements required:

No.

Ethics: Lobbying and election contribution limitations for recipients of incentives:

Governed by the State of Florida.

Loans offered in lieu of incentives:

Established special assessments for catalytic projects that are repaid by tax increment created by the project in the CRA.

Clawback provisions utilized:

All local incentives are performance based and require measures being met prior to incentives being paid. Some have payback provisions should the business not be in operation for a specific period of time.

City/County of San Francisco

How many incentives since 2005:

In one year, 4,295 incentives amounting to \$45.2 million in forgone taxes.

Types of Businesses Targeted:

Small clean technology companies, companies operating in an enterprise zone that increase their payroll (for a specified period of time), biotechnology companies, companies going public and issuing stock based compensation, and film production incentives.

Departments that negotiate incentives:

Not negotiated. Criteria is established for which companies qualify. The Office of Economic and Workforce Development provide information, referrals, and technical assistance.

Board of Supervisors Involvement in Negotiations:

They approve the incentive programs that are proposed by Office of Economic & Workforce Development. They are not on a case by case business, all of the programs are available to businesses meeting established criteria.

City performed economic studies/internal economic expertise:

-All legislation with financial impact is reviewed by the Office of Economic Analysis and sometimes the Budget Analyst's office as well.

-Many of tax exclusions require regular aggregated reporting by the Tax Collectors office and periodic review/updates from the Office of Economic Analysis.

Internal tracking system:

Yes.

Guidelines/Criteria for businesses that qualify:

Yes.

Are evaluations performed and what economic indicators are tracked :

Yes; indicators depend on the program, examples include jobs, payroll tax, number of payroll tax-paying establishments, sales tax, property tax, transfer tax, commercial rent, residential rent, housing values, jobs.

Frequency of performance reporting:

Varies by incentive program but can be annual.

Hotel/mall eligibility for incentives:

Not historically, but can be considered if these businesses meet the criteria of the City.

Hotel room block agreements:

No.

What are the benefits of your Hotel/Mall program(s):

NA.

Project labor agreements required:

Not for union labor. However, San Francisco has a First Source Hiring Program for economically disadvantaged individuals. Many developments are required to hire within City and County of SF.

Ethics: Lobbying and election contribution limitations for recipients of incentives:

Yes.

Loans offered in lieu of incentives:

Yes, offers affordable financing to eligible businesses, and partners with community lenders, Working Solutions and Bay Area Small Business Finance, to provide businesses with technical assistance, affordable financing, and support.

Clawback provisions utilized:

No.