

Attachment B

Government Code Section
53083 Report



ECONOMIC DEVELOPMENT SUBSIDY REPORT

Prepared Pursuant to California Health and Safety Code Section 53083

**Select-Service Hotel DTLA
City of Los Angeles**

June 21, 2019

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INTRODUCTION

In 2013, Assembly Bill 562 (“AB 562”) added Section 53083 to the California Health and Safety Code (“HSC”). This law requires cities and counties to post a report on their website before approving an economic development subsidy of \$100,000 or more to a business entity on or after January 1, 2014.¹ The law specifies that the report must be posted on the local agency’s website for the entire term of the subsidy.

This report is the City of Los Angeles’ (“City”) Economic Development Subsidy Report (“Economic Development Subsidy Report”) regarding a proposed economic development subsidy (“Economic Development Subsidy”) to the developer of a proposed 16-story select-service hotel at 1155 South Olive Street in Downtown Los Angeles, California (“Project”). The Project is proposed to include 258 guestrooms, 400 square feet of meeting space, over 4,500 square feet of restaurant and retail space, a rooftop deck with a pool and fitness center, and a 36-space subterranean parking garage. Figure 1 on the following page shows a conceptual view of the Project from the intersection of 12th and Olive Streets, looking northwest. Figure 2 is a map of the vicinity of the Project site.

Presently, the Project site is being used as a private parking lot that serves the greater South Park neighborhood. City revenue projections presented in this report are net new site-specific revenues, which is defined as tax revenues to the City General Fund generated by the Project less any General Fund revenue already generated from the Project site or revenues transferred from other areas of the City. Thus, City revenue projections presented in this report are net of City revenue that would be generated by the Project site if it remained a parking lot.

¹ Health and Safety Code Section 53083 specifies that it does not apply for 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 incomes, as defined in HSC Section 50093.

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Economic Development Subsidy Report: Select-Service Hotel DTLA



Figure 1: Conceptual View of Project from 12th and Olive Streets, Looking Northwest (March 2019)
Source: AECOM Capital

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Economic Development Subsidy Report: Select-Service Hotel DTLA

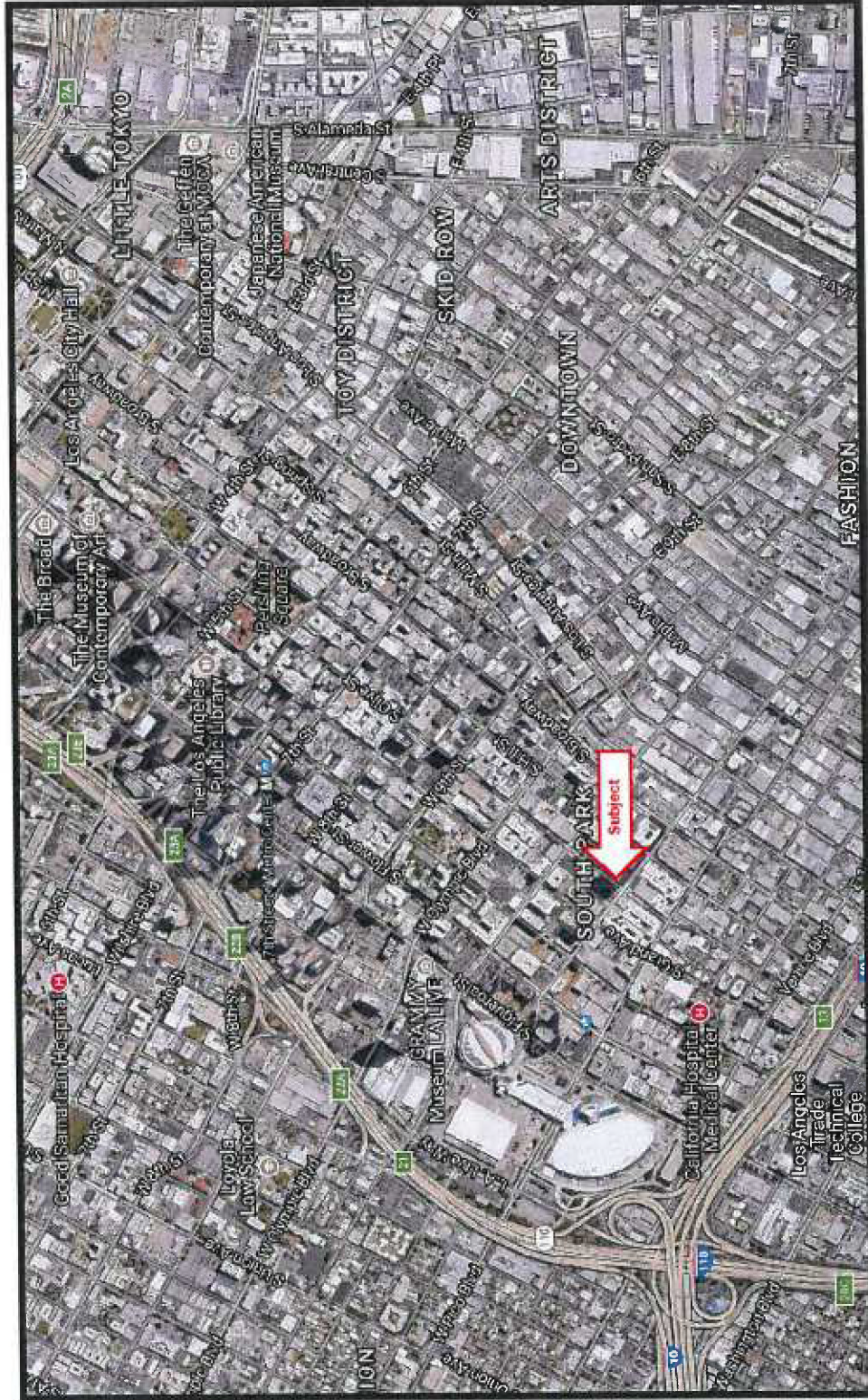


Figure 2: Project Site Vicinity Map
Source: CBRE

REPORTING REQUIREMENTS OF HEALTH AND SAFETY CODE SECTION 53083

HSC Section 53083 requires that reports on economic development subsidies include the following information:

1. The name and address of all business entities, except for sole proprietorships, that are beneficiaries of the subsidy, if applicable.
2. The start and end dates and schedule for the subsidy, if applicable.
3. A description of the subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the subsidy.
4. A statement of the public purposes for the subsidy.
5. Projected tax revenue to the local agency as a result of the subsidy.
6. Estimated number of jobs created by the subsidy, broken down by full-time, part-time, and temporary positions.

INFORMATION REQUIRED BY HEALTH AND SAFETY CODE SECTION 53083

BENEFICIARIES

The sole business entity that would be a beneficiary of the Economic Development Subsidy is AECOM Capital (“Developer”). The company’s registered address is 1150 S. Olive Street, Suite 2250, Los Angeles, CA 90015.

EFFECTIVE DATES AND SCHEDULE

The proposed Economic Development Subsidy would be provided in the form of “Hotel Incentive Payments.” If approved, the term of “City Financial Assistance” would commence on the “Hotel Completion Date,” which is the date on which the City issues a temporary certificate of occupancy or certificate of occupancy (if no temporary certificate of occupancy is issued) with respect to the Hotel.

The City Financial Assistance would continue until the earlier of (a) the twenty-fifth (25th) anniversary of the Hotel Completion Date, (b) the date on which the Developer has received the Maximum Hotel Incentive Amount (detailed in the following section) and (c) the date on which the Hotel Development Incentive Agreement (“Agreement”) terminates.

ECONOMIC DEVELOPMENT SUBSIDY DESCRIPTION

The City Financial Assistance is equal to 100 percent of the Transient Occupancy Tax (“TOT”) from the Project as received by the City during the applicable “Annual Payment Period”, which is a period of 12 consecutive calendar months commencing on the first day of the calendar month following the Hotel Completion Date. Per the Agreement, the aggregate amount of Hotel Incentive Payments paid to the Developer shall not exceed the amount of Seventeen Million Three Hundred Thousand Dollars (\$17,300,000) in net present value back to the Hotel Completion Date, discounted at the rate of 10 percent. The Agreement specifies that the \$17.3 million amount may be reduced based on the audit of the actual hotel construction costs, which is required by the Agreement.

Pursuant to the above, the estimated total amount of the City’s expenditure of public funds as a result of the Economic Development Subsidy is \$17.3 million (net present value discounted at 10 percent). This estimate assumes the Developer is paid the highest total Hotel Incentive Payments amount allowed by the Agreement.

STATEMENT OF PUBLIC PURPOSES

The City's independent consultant concludes that the Project would serve as a catalyst for downtown development and have a net positive impact on the local economy. The Project would create temporary and permanent jobs and generate net new tax revenue for the City while reducing physical and economic blight at the Project site. The Project would also increase the City's number of high-quality hotel rooms, which would support the City's hosting of the 2028 Olympic and Paralympic games and increased tourism, which is anticipated due to the proposed expansion of the Los Angeles Convention Center.

The following sections detail projections concerning City tax revenue and the number of jobs created as a result of the Project.

25-YEAR CITY TAX REVENUE PROJECTION

Throughout the 2.5-year construction period and the first 25 years of operation, the Project is expected to generate \$36.1 million in net new City tax revenue (net present value discounted at 10 percent). However, the Project Site is currently improved with a surface parking lot that generates property tax and parking occupancy tax revenues to the City, which would be expected to generate \$1.5 million in City tax revenue through FY 2046-47 if no new development occurred. Therefore, the Project is expected to generate \$34.6 million in net new City tax revenue (net present value discounted at 10 percent). The table on the following page summarizes the City's projected net tax revenues generated by the Project through the 25th year of operation.

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Economic Development Subsidy Report: Select-Service Hotel DTLA

Select-Service Hotel DTLA: 25-Year Fiscal Impact Projections Summary

Fiscal Year	Transient Occupancy Tax	Property Tax	On-site Sales Tax	Utility User Tax	Gross Receipts Tax	Parking Occupancy Tax	Construction Materials & Receipts Tax	Total
CY 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,000	\$ 85,000
CY 2	-	61,000	-	-	-	-	175,000	236,000
CY 3	-	183,000	-	-	-	-	165,000	348,000
1	2,400,000	295,000	27,000	60,000	26,000	160,000	-	2,968,000
2	2,689,000	301,000	30,000	61,000	29,000	179,000	-	3,289,000
3	2,813,000	307,000	31,000	63,000	31,000	187,000	-	3,432,000
4	2,869,000	313,000	32,000	65,000	31,000	191,000	-	3,501,000
5	2,927,000	319,000	33,000	67,000	32,000	195,000	-	3,573,000
6	3,000,000	326,000	34,000	69,000	33,000	199,000	-	3,661,000
7	3,075,000	332,000	35,000	71,000	34,000	203,000	-	3,750,000
8	3,152,000	339,000	36,000	73,000	34,000	207,000	-	3,841,000
9	3,230,000	345,000	37,000	75,000	35,000	211,000	-	3,933,000
10	3,311,000	352,000	38,000	78,000	36,000	215,000	-	4,030,000
11	3,394,000	359,000	39,000	80,000	37,000	219,000	-	4,128,000
12	3,479,000	367,000	40,000	82,000	38,000	224,000	-	4,230,000
13	3,566,000	374,000	42,000	85,000	40,000	228,000	-	4,335,000
14	3,655,000	381,000	43,000	87,000	41,000	233,000	-	4,440,000
15	3,746,000	389,000	44,000	90,000	42,000	237,000	-	4,548,000
16	3,840,000	397,000	46,000	93,000	43,000	242,000	-	4,661,000
17	3,936,000	405,000	47,000	96,000	44,000	247,000	-	4,775,000
18	4,034,000	413,000	48,000	98,000	46,000	252,000	-	4,891,000
19	4,135,000	421,000	50,000	101,000	47,000	257,000	-	5,011,000
20	4,239,000	430,000	51,000	104,000	49,000	262,000	-	5,135,000
21	4,345,000	438,000	53,000	108,000	50,000	267,000	-	5,261,000
22	4,453,000	447,000	54,000	111,000	52,000	273,000	-	5,390,000
23	4,565,000	456,000	56,000	114,000	53,000	278,000	-	5,522,000
24	4,679,000	465,000	58,000	117,000	55,000	284,000	-	5,658,000
25	4,796,000	474,000	59,000	121,000	56,000	289,000	-	5,795,000
Totals:	\$ 90,328,000	\$ 9,689,000	\$ 1,063,000	\$ 2,169,000	\$ 1,014,000	\$ 5,739,000	\$ 425,000	\$ 110,427,000
NPV @ 10%:	\$ 29,081,000	\$ 3,372,000	\$ 335,000	\$ 686,000	\$ 321,000	\$ 1,887,000	\$ 425,000	\$ 36,107,000

ESTIMATED NUMBER OF JOBS CREATED

The City’s independent consultant utilized an IMPLAN model to estimate the number of full-time, part-time, and temporary jobs that would be created in the County of Los Angeles as a result of the Economic Development Subsidy. IMPLAN is an input-output analysis software tool that tracks the interdependence among various producing and consuming sectors of the economy. The inputs are investment or operating costs of the Project. According to MIG, Inc., the creator of IMPLAN, the software measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands. IMPLAN publishes countywide data on an annual basis; this analysis utilizes the 2016 County of Los Angeles dataset.

The IMPLAN model estimates the number of jobs by the following categories:

- *Direct jobs* created at the project site;
- *Indirect jobs* created at businesses that supply goods and services to the project; and
- *Induced jobs* that result from additional spending earned either directly or indirectly from the project.

The IMPLAN model also delineates whether the estimated jobs are permanent jobs (which in this case are jobs associated with the operations of the hotel, restaurant, retail, and parking structure) or temporary jobs (which in this case are jobs associated with construction of the Project).

As shown in the table below, the IMPLAN model indicates that the Project would directly generate 278 temporary construction jobs and 163 permanent operations jobs. Based on 2018 U.S. Bureau of Labor Statistics data, we estimate that the 278 construction jobs will include 240 full-time jobs and 38 part-time jobs, and the 163 operations jobs will include 96 full-time jobs and 67 part-time jobs. The table below provides further details, including the number of indirect and induced jobs expected to be created by the Project.

Select-Service Hotel DTLA: Employment Estimates

Temporary Employment (Construction)	Direct	Indirect	Induced	Total
Full-Time Employment	240	46	77	363
Part-Time Employment	38	7	12	57
Total	278	53	89	420
Permanent Employment (Operations)	Direct	Indirect	Induced	Total
Full-Time Employment	96	22	26	144
Part-Time Employment	67	16	18	101
Total	163	38	44	245

**ADDITIONAL REQUIREMENTS OF HEALTH AND SAFETY CODE
SECTION 53083**

In addition to posting this Economic Development Subsidy Report on the City's website during the entire term of the Economic Development Subsidy, HSC Section 53083 requires that the City provide public notice and conduct a public hearing regarding the Economic Development Subsidy prior to approval. The City will hold a public hearing on June 25, 2019 at 1:00pm at 200 North Spring Street to discuss items related to the proposed development of the Project, including the Economic Development Subsidy. The City will issue public notice regarding the hearing on June 21, 2019.

Also, pursuant to HSC Section 53083, during the term of the Economic Development Subsidy but not later than five years after approval, the City will post an updated report on its website concerning the Economic Development Subsidy and hold another public hearing to consider comments on the new report. The new report will contain the information provided above as actual numbers, rather than estimates.