REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: April 5, 2019

TO: Honorable Members of the City Council

FROM: Sharon M. Tso SMTso
Chief Legislative Analyst

Assignment No: 19-03-0281

AECOM HOTEL
INCENTIVE EVALUATION

SUMMARY

On June 8, 2018, Council adopted an action pursuant to Motion (Huizar-Price, CF #18-0399, Attachment A) to authorize the Chief Legislative Analyst (CLA) to evaluate the proposed AECOM Hotel project and determine whether financial assistance is warranted to support development of the project. AECOM Capital, as the development team of AECOM South Park, LLC (Developer), has developed plans for the AECOM Hotel project, which will consist of a 16-story hotel at 1155 South Olive Street with a total of 258 rooms. The hotel will be a select service hotel and will provide facilities and services associated with this hotel model. The project will also include ground-level restaurant space, ground-level retail space, meeting space, a rooftop deck with a pool and fitness center, and a 36 space subterranean parking garage.

A review conducted by the City's independent consultant (Attachment B) determined that the project has a finance gap of $50,563,000. The review also determined that the project will generate $34,602,000 net present value (NPV)($106,532,000 nominal) in net new revenues to the City. Consistent with City policy, the Developer would be eligible to receive up to $17,301,000 NPV in financial assistance (which is 50% of net new revenues generated by the project). The City would receive an estimated $17,301,000 NPV in new General Fund revenues.

The project would generate new jobs, additional City revenue, new hotel rooms to support the Los Angeles Convention Center (LACC), and provide community benefits. Therefore, providing financial assistance for the project would be consistent with City policy.

At this time authorization is required to execute a Memorandum of Understanding (Attachment C) between the City and the Developer which will form the framework for the final incentive agreement. Following Council's approval, the CLA will negotiate the final incentive agreement to support the AECOM Hotel. All final documents will be presented to Council and Mayor for final consideration.

RECOMMENDATIONS

That the City Council:

1. Authorize the Mayor to execute a Memorandum of Understanding between the City of Los Angeles and AECOM South Park, LLC providing terms for agreements necessary to provide a revenue participation agreement to close the financing gap in the AECOM Hotel project; and

2. Direct the Chief Legislative Analyst (CLA) and with assistance of the City Attorney and other City departments as necessary to negotiate the final definitive documents to provide a revenue participation agreement to support the AECOM Hotel project for consideration by Council.

FISCAL IMPACT STATEMENT

There is no fiscal impact on the City General Fund associated with this action, inasmuch as City staff are being instructed to report on the final, definitive documents necessary to provide a future revenue participation agreement for the AECOM Hotel project.

BACKGROUND

On June 8, 2018, Council adopted an action pursuant to Motion (Huizar-Price, CF #18-0399, Attachment A) to authorize the CLA to evaluate the proposed AECOM Hotel project and determine whether financial assistance is warranted to support development of the project. AECOM Capital, as the development team of AECOM South Park, LLC, has developed plans for the AECOM Hotel project, which will consist of a 16-story hotel at 1155 South Olive Street with a total of 258 rooms.

City policy requires that an independent review be conducted to evaluate the project construction and finance plan, as well as potential City revenues that result from project completion. On Council approval, the CLA conducted a competitive process and selected RSG to prepare the required review. RSG received documentation from the Developer concerning their finance plan and construction costs to determine the development feasibility of the project. They also estimated the amount of new revenues that would accrue to the City as a result of project completion.

The final report by RSG (Attachment B) determined that the project has a finance gap of $50,563,000. The review also determined that the project will generate $34,602,000 NPV in net new revenues to the City over the proposed 28 year term. Consistent with City policy the Developer is eligible to receive up to $17,301,000 NPV in financial assistance. The City would receive up to $17,301,000 NPV in new General Fund revenues over the life of the agreement. The final amount will be determined at the close of construction by an independent evaluation.

Proposed Project

The AECOM Hotel project will consist of a 16-story select service hotel and will provide a total of 258 new hotel rooms. The hotel will include all facilities associated with a select service hotel, including parking, meeting rooms, a ground-level restaurant, and ground-level retail. The project will also include a rooftop deck with a pool and fitness center.

Memorandum of Understanding

Should Council determine that an incentive is appropriate to support development of this project, a Hotel Incentive Agreement would be prepared to establish terms for the provision of financial assistance. At this stage, a draft Memorandum of Understanding (MOU) has been prepared (Attachment C) that provides terms that would serve as the basis for negotiation of the definitive documents necessary to establish the hotel incentive agreement between the City and the Developer. The terms are as follows:

- Incentive payment of $17,301,000 NPV ($29,466,000 nominal) over a term of up to 25 years, subject to final construction cost reconciliation.

- The hotel will achieve and maintain a three star rating, as defined by the Mobile Travel Guide, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the term.

- The Developer shall provide a Community Benefits Package, including local hiring, living wage compliance, job training initiatives, and a room block agreement for the LACC and other elements.

- The Developer shall ensure that the City, to the extent practical, is designated as the "point of sale" for construction related costs.

- Upon completion of construction, an independent party will evaluate the construction costs for the project. If construction costs are lower than estimated in the City's analysis, then the amount of the hotel incentive would be reduced. This cost reconciliation will ensure that the City's incentive is commensurate with the gap.

If the Council and Mayor determine that an incentive should be provided for the project, the MOU should be approved and the Mayor authorized to execute the MOU. It should be noted that the MOU is an advisory document intended to guide further negotiations. It is not a binding document.

Substantial City Public Benefit

The Block Grant Investment Fund (BGIF) Policy, adopted by Council in 1996 and revised in 2001, provides the guidelines under which the City's assistance for hotel incentive agreements are based. As noted previously, the City selected RSG through a competitive bid process to conduct a review of the financial feasibility, public revenues, and employment generation associated with the AECOM Hotel project, as required by the BGIF Policy.

The following provides findings for the AECOM Hotel project in compliance with the BGIF policy. Policy requires that the project meet City policy objectives, such as provide quality jobs, provide long-term revenue growth in the City's General Fund, and enhance the City's long term economic position. The AECOM Hotel project provides the following public benefits:

Job Creation
RSG evaluated the project using Rims II Direct Effect Multipliers for accommodations and retail, and determined that the project would generate 221 full-time equivalent jobs. This accounts for jobs both within the project and in the region generally (direct, indirect, and induced). RSG estimates that the project would generate 397 construction-related jobs.

Hotel Support for Los Angeles Convention Center (LACC)
Table 1 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. Council has been operating under a policy to support the development of 8,000 hotel rooms within walking distance of the LACC. Table 1 shows that 7,239 hotel rooms are available, under construction, or have approved entitlements in that area. An additional 1,881 rooms have been proposed, which could result in 9,120 hotel rooms within walking distance of LACC.

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 RSG analysis reports that the AECOM Hotel project will operate at an average of 78% occupancy rate through the first three years of operation, meaning that the market will be able to absorb these new rooms.

Development of the AECOM Hotel project will provide additional hotel rooms within walking distance of the LACC, contributing to the total number of rooms available to support Citywide conventions. Notably, this project will create 258 rooms within 1/2 mile of the LACC.

Table 1
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 Downton 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**	258	
Venice Hope**	300	
Total proposed		1,881
GRAND TOTAL		9,120

* Projects assisted by the City
**Projects requesting assistance from the City

Community Benefits

The Developer has agreed to provide community benefits as part of its project development plan. Those benefits include card check neutrality, living wage compliance, job training initiatives, local hiring compliance, and a room block agreement relating to the LACC. Additional community benefits may be included in the final Hotel Incentive Agreement, such as job creation programs.

Net New City Revenue

The project site is currently comprised of surface parking lot, generating approximately $3,895,000 (nominal) in public revenues over the term of the agreement. After construction, the project is estimated to generate $2,986,000 in net new public revenues in its first year of operation, a significant increase over existing revenues. This increase is a result of new gross tax receipts, including property tax, sales tax, utility tax, parking tax, and transient occupancy tax (TOT) revenues. As noted, City policy requires that no more than 50% of net new revenues would be available to incentivize development of the project, with all remaining funds accruing to the City.

Financial Need

Upon detailed review of financial information provided by the Developer, as well as information provided by other resources in the commercial finance market, RSG has determined that the AECOM Hotel project has a finance gap of $50,563,000. A significant factor in the cost of the project is that the site requires Type 1, concrete and steel high rise construction due to building height.

Site Specific Revenue

The RSG analysis calculated site specific revenues that would be generated by the project. The project is expected to generate $34,602,000 NPV ($106,532,000 nominal) in total net new revenues from sources such as property tax, sales tax, business tax, and TOT.

Incentive Available

As indicated above, RSG has determined the project would result in the generation of $34,602,000 NPV ($106,532,000 nominal) in net new City revenues. The project is eligible to receive up to 50% of net new revenues generated by the project and may not exceed the projected finance gap. Since the finance gap is $50,563,000, the Developer would be eligible to receive up to $17,301,000 under City policy. The General Fund, then, would receive an estimated $17,301,000 NPV ($77,066,000 nominal) in new revenues over the life of the agreement.

This incentive is structured so that no payment will be made to the Developer until the Project has been constructed, opened, and is generating TOT. As a result, the General Fund is fully protected from making any payment that has not been earned.

Project Readiness
The Developer has begun site preparation and pre-construction activities, at their risk, in order to be ready for the commencement of construction. All entitlements and required environmental assessments have been completed and approved. As a result, the project is ready to begin construction upon final determination of incentive support.

Andy Galan
Analyst

Attachments:	A	Motion (Huizar-Price) CF# 18-0039
	B	AECOM Hotel– Financial Feasibility, Public Revenue & Employment Analysis by RSG
	C	Memorandum of Understanding Between the City of Los Angeles and AECOM South Park, LLC

Attachment A

Motion (Huizar-Price)
CF# 18-0399

MOTION

ECONOMIC DEVELOPMENT

Los Angeles has made great strides to improve its tourism business over the past decade. The City is nearing its goal of attracting 50 million visitors a year, and new cultural and entertainment venues such as the Lucas Museum and the new LA Football Club stadium are anticipated to draw more visitors to the City. Plans to expand the Los Angeles Convention Center (LACC) will result in an increase in events that will attract more visitors from around the nation and the world. Despite the City's progress to date to expand its hotel stock, there is still a need for additional hotel rooms to serve the needs of all visitors to the City.

In October 2017, my office released a report that looked at ways to make LACC more competitive and draw more tourists and economic development to Downtown Los Angeles. The report found that despite recent growth, there is still a need for hotels that are capable of providing large room blocks within walking distance of the Convention Center. The report put forward specific recommendations on how to reach the goal of 8,000 hotel rooms by 2020, including the continued judicious reinvestment of net new site-specific tax revenues, such as Transient Occupancy Tax to promote the development of high priority hotel projects.

A proposal to construct a 243-room select service hotel within walking distance of the Convention Center, on Olive Street at 12th Street, to be developed by AECOM Capital was recently announced. The Developer has indicated that the proposed hotel project requires financial assistance to construct and has requested that the City evaluate and consider providing economic incentives such as those that have been provided to other large hotel projects. As with previous projects, the Developer would provide funds to support any independent economic and fiscal analysis necessary to evaluate their proposal.

In order to prepare the City to meet the needs of our growing tourism sector, and for the growth of the LACC, cultural and entertainment venues at Exposition park, and the 2028 Olympic and Paralympic Games, it is essential that the City support the development of new hotel rooms if it is determined that the project requires assistance. As with previous projects, it is essential that the City conduct the necessary due diligence to determine whether a financing gap exists in this project and recommend options for the City to ensure that a quality project is able to move forward and provide the City with necessary hotel rooms and the quality jobs they generate.

I THEREFORE MOVE that the City Council authorize and instruct the Chief Legislative Analyst (CLA) to hire consultants necessary to evaluate the proposed hotel project at Olive Street at 12th Street and make recommendations on economic development incentives that could help the project move forward, including, but not limited to, a potential site specific revenue agreement consistent with City policies; accept $150,000 for consultant services from the developer to analyze the economics and financing associated with this instruction; request / authorize / instruct the City Controller to deposit / appropriate / expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action; and

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

PRESENTED BY: ______________________
JOSÉ HUIZAR
Councilmember, 14th District

MAY 0 4 2018

SECONDED BY: ______________________

ORIGINAL

jw

Attachment B

"AECOM Hotel – Financial Feasibility, Public Revenue & Employment Analysis"

RSG

CHIEF LEGISLATIVE ANALYST
CITY OF LOS ANGELES
200 N SPRING ST
CITY HALL ROOM 255
LOS ANGELES, CA 90012

FEASIBILITY AND ECONOMIC IMPACT ASSESSMENT REPORT

Select-Service Hotel DTLA
City of Los Angeles

March 27, 2019

RSG

CONTENTS

INTRODUCTION

AECOM Capital ("Developer") has submitted plans to develop a 16-story, 258-room select-service hotel ("Project") at 1155 South Olive Street in Los Angeles, California ("Project Site") and is seeking financial assistance from the City of Los Angeles ("City"). Figure 1 on the following page shows a conceptual view of the Project from the intersection of 12th and Olive Streets, looking northwest. The 0.41-acre Project Site is currently used as a surface parking lot.

Over the past decade, the City has worked towards improving its tourism business, setting a goal of attracting 50 million visitors per year by 2020. The development of new cultural and entertainment venues, as well as the proposed expansion of the Los Angeles Convention Center, are expected to bring the City closer to reaching this goal. To accommodate increased tourism, the City has identified a need to increase its hotel stock, particularly within walking distance of the Convention Center ("Targeted Area"). In 2013, the City's Department of Convention and Tourism Development set a benchmark of developing 8,000 hotel rooms in the Targeted Area by 2020. The proposed Project is located within the Targeted Area.

The City's Block Grant Investment Fund ("BGIF") Policy, which was approved by City Council in 1998 and amended in 2001, provides subsidies to projects proposed within the City to assist in closing financing gaps of those projects. The Developer estimates that the Project will have a $49.4 million financing gap and has requested financial assistance from the City from the BGIF Fund. The BGIF Policy sets the maximum site-specific financial assistance available to a project at the lesser of the project's feasibility gap or 50 percent of net new site-specific tax revenue generated by the project.

The City's Office of the Chief Legislative Analyst ("CLA") retained RSG to evaluate the financial feasibility and fiscal and economic impacts of the Project. Before preparing our analysis, RSG met with the City and representatives of the Developer's team. Additionally, the Developer provided RSG several documents, including conceptual site plans, a December 2018 market demand analysis prepared by CBRE, construction cost estimates, and data regarding historic parking revenue received and property tax amounts paid for the Project Site. RSG independently evaluated the assumptions presented by the Developer and CBRE, requested additional data from CBRE and the City as needed, and completed our own research as needed.

This Report presents our findings regarding the following details of the Project:

- Overall feasibility of the Project;
- The net fiscal impact of the Project to the City during construction and the first 25 years of operation; and
- The number of temporary and permanent jobs generated by the Project within the City.

This Report stands as an independent assessment of the overall terms, conditions, and impacts of the Project. The City may use this information to determine if the Project requires financial assistance, and, if so, the level and type of such assistance needed.

The Project description, development cost, feasibility gap, and site-specific tax revenues presented in this Report are primarily based upon information provided by the Developer. Refinements to the Project are inevitable at this stage, as the permits have not yet been approved. Should the development program be altered materially, our conclusions are subject to change.

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

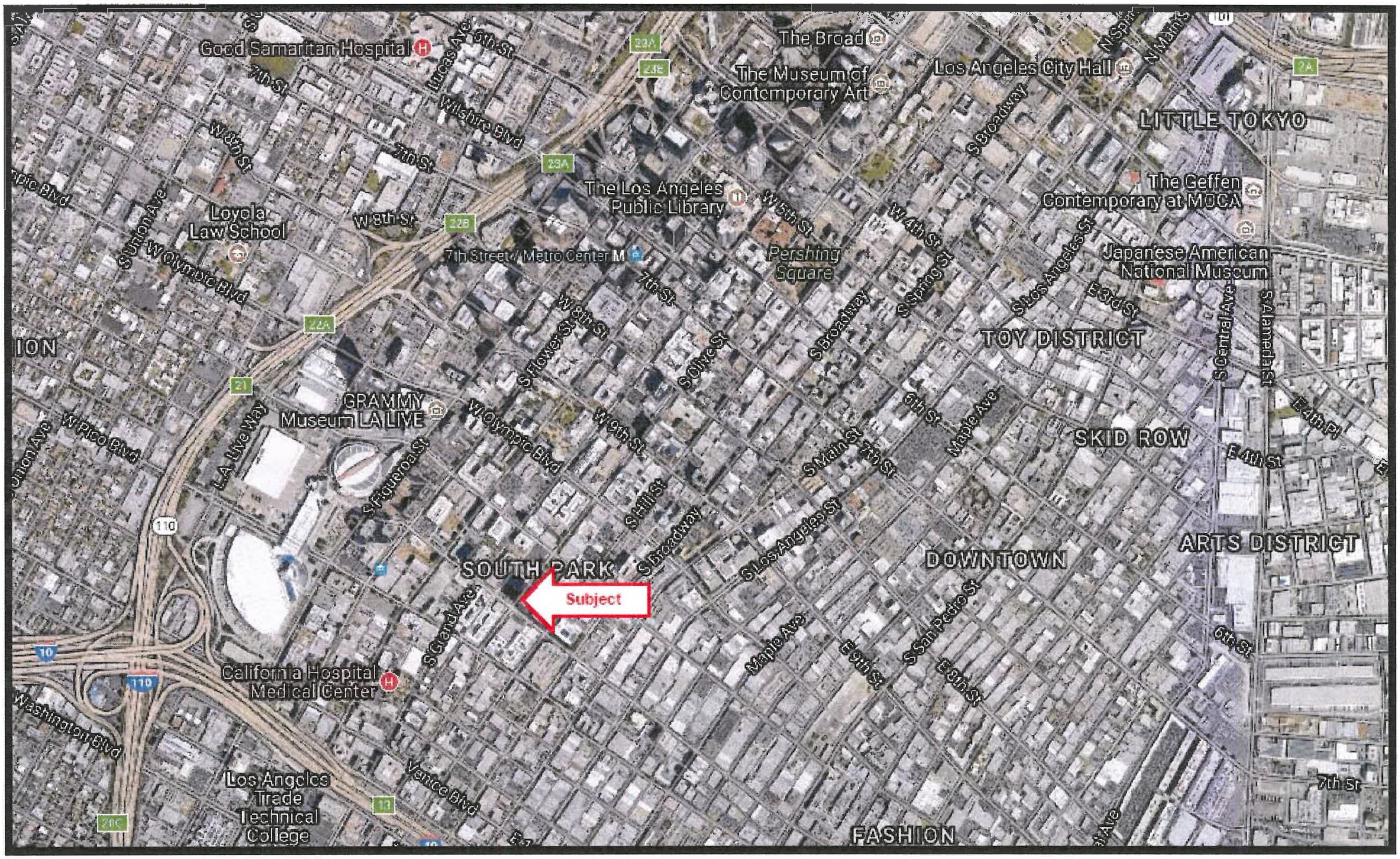


Figure 2: Project Site Vicinity Map
Source: CBRE

EXECUTIVE SUMMARY

Based on the Project description, methodology, and assumptions referenced herein, RSG has concluded the following about the Project:

- **$50.6 Million** Feasibility Gap – RSG estimates that the Project development costs would total $112.2 million and the value of the Project would total $61.6 million, indicating a $50.6 million feasibility gap.

- **$34.6 Million** in Net New Fiscal Impacts to the City (net present value, discounted at 10 percent) – RSG expects that the Project would generate $36.1 million of tax revenue to the City during the construction period and the first 25-year operating period. This $36.1 million amount includes $29.1 million of transient occupancy taxes ("TOT"), $3.4 million of property taxes, and $3.7 million of remaining tax revenue, including on-site sales taxes, utility user taxes, gross receipts taxes, parking occupancy taxes, and construction materials and receipts taxes (numbers do not add up precisely to total due to rounding). Over the same period, the Project Site would generate $1.5 million in City tax revenue if it remained the surface parking lot it is today. Thus, the Project would generate $34.6 million in net new site-specific tax revenues.

- **416** New Temporary and Permanent Jobs – RSG finds that construction is expected to directly generate the full-time equivalent of 269 new temporary construction jobs per year during the 2.5-year construction period and approximately 147 new permanent jobs. Both construction and operations would also generate indirect and induced temporary and permanent jobs.

The Project as proposed is not currently feasible without financial assistance. The City may choose to provide financial assistance to the Project based on the findings of this Report and consistent with the City's BGIF Policy. Pursuant to the BGIF Policy, the maximum subsidy to the Project is the lesser of the Project's feasibility gap ($50.6 million based on RSG's estimate) or 50 percent of the net new site-specific tax revenues generated by the Project in the first 25 years of the Project ($17.3 million based on RSG's estimate). Therefore, based on the findings of this Report, **the maximum assistance from the BGIF Fund available to the Project is $17.3 million**. After a $17.3 million subsidy, the remaining $17.3 million, as well as all net new revenues generated by the Project after the first 25-year operating period would be net new revenue to the General Fund.

PROJECT DESCRIPTION

The Developer is proposing to develop a 16-story, 138,000-square-foot select-service hotel at 1155 South Olive Street in Downtown Los Angeles. As presented in the Developer's December 2018 conceptual site plans and October 2018 hard construction cost estimates provided to RSG, the Project includes the following components:

- 258 guestrooms;
- 2,722 square feet of ground-level restaurant space;
- 1,896 square feet of ground-level retail space;
- 400 square feet of meeting space;
- A rooftop deck with a pool and fitness center; and
- A 36-space subterranean parking garage totaling 16,442 square feet.

LOCATION

The Project is proposed to be located in Downtown Los Angeles and is generally bound to the south by the intersection of South Olive Street and West 12th Street, to the north by Margo Street, to the west by West 12th Street, and to the east by a five-story parking garage. The Project Site is currently used as a surface parking lot and is adjacent to USC Tower and the mixed-use development G12, as well as other commercial and residential buildings. Attractions within a 10-minute walk of the Project Site include the Los Angeles Convention Center, LA Live, Staples Center, and the Microsoft Theatre.

DEVELOPMENT CALENDAR

Currently, the Developer anticipates that construction will begin on December 20, 2019 and end on May 31, 2022, and the Project will open on May 31, 2022. For the purpose of our analysis, RSG assumed a construction period of January 1, 2020 to May 31, 2022 and an opening date of July 1, 2022. Should the Project commence construction even a few months later, the impacts described in this report could be deferred and/or altered from the forecast presented in this Report.

DEVELOPMENT FEASIBILITY ANALYSIS

RSG's development feasibility analysis considers the cost of construction compared to valuation of the Project. RSG has concluded that the Project will face a deficit of approximately **$50.6 million**, because development costs exceed the conventional valuation metrics by this amount. Thus, the Project as proposed is not presently feasible without financial assistance. The Project costs are approximately **$112.2 million**, inclusive of on- and off-site improvements and indirect costs. By comparison, the total value of the Project is approximately **$61.6 million**. Thus, the feasibility gap is equivalent to about 45 percent of RSG's estimated development costs.

The sections that follow detail the development costs and Project valuation.

DEVELOPMENT COSTS

DEVELOPMENT COSTS SUMMARY

RSG estimates that the Project costs will total **$112.2 million**. Our estimate is substantially based on construction cost data from Marshall Valuation Service ("MVS"), which is regarded as an authoritative guide to construction replacement costs. Our cost estimate is also based on construction cost estimates provided by the Developer and cost estimates for comparable hotel projects.

RSG's estimate of total development costs are outlined in Table 1 on the following page.

Table 1: RSG's Development Cost Estimates

LINE ITEM	COST
Land	$12,000,000
Closing Costs	$250,000
Land Cost Subtotal	**$12,250,000**
Hotel	$49,828,882
Retail	$685,339
Restaurant	$1,501,059
Parking	$2,791,990
Furniture, Fixtures & Equipment	$10,391,100
Retail and Restaurant Tenant Improvement Costs	$310,000
On-site Improvements	$2,487,374
General Conditions	$3,399,787
Construction Contingency	$7,139,553
Hard Costs Subtotal	**$78,535,085**
Architect and Consultant Fees	$5,659,239
Fees	$1,305,203
Taxes, Insurance, Legal & Accounting	$2,356,053
Pre-opening & PR/Marketing	$899,000
Development Fee	$4,738,975
Soft Cost Contingency	$1,196,678
Operating Reserve	$500,000
Financing Costs and Fees	$4,746,230
Softs Costs Subtotal	**$21,401,377**
TOTAL PROJECT COSTS	$112,186,462

DEVELOPMENT COSTS ASSUMPTIONS

In preparing our development cost estimates, RSG incorporated the following key assumptions:

- Land: RSG assumed a land value of $12 million, which was the recorded purchase price paid by the Developer in October 2018 according to both CoStar Group and CoreLogic MetroScan sales data. RSG also assumed $250,000 of incidental closing costs.

- Building Hard Costs: Based on MVS data, RSG estimates the hard costs as $362 per square foot for the hotel component and $473 per square foot for the retail and restaurant components. Note that MVS cost data includes certain soft costs, including contractor's overhead and profit, sales taxes, permit costs, and insurance during construction.

- Parking Hard Costs: Based on MVS data, RSG estimates the hard costs of the 36-space subterranean parking garage at $77,555 per space. Again, MVS cost data includes some soft costs.

- Furniture, Fixture & Equipment ("FF&E") and Operating Supplies & Equipment ("OS&E"): The Developer assumed an FF&E and OS&E budget of approximately $40,000 per key. This budget includes costs related to freight, warehousing, and technology. RSG considers this assumption reasonable, given the proposed quality level of the Project, and assumed the same budget in our development cost estimates.

- Retail and Restaurant Tenant Improvements: The Developer assumed a $310,000 budget ($67 per square foot) for tenant improvements for the retail and restaurant components. RSG considers this assumption reasonable and assumed the same budget in our development cost estimates.

- On-site Improvements: The Developer assumed a $2.5 million budget for on-site improvements. RSG considers this assumption reasonable and assumed the same budget in our development cost estimates.

- General Conditions: RSG estimates that general condition costs will total 5 percent of the above hard costs.

- Architects and Consultants: The Developer assumed a $5.7 million budget for architects and consultants, which is 6.6 percent of hard costs. RSG considers this assumption reasonable and assumed the same budget in our development cost estimates.

- Fees & Permits: The Developer assumed a $1.3 million budget for fees. RSG considers this assumption reasonable and assumed the same budget in our development cost estimates. Note that the Developer assumed a $973,000 budget for permits, but because MVS data includes permit costs, RSG did not include this amount in our cost estimates to avoid double counting.

- Taxes, Insurance, Legal & Accounting: RSG estimates that taxes, insurance, legal, and accounting costs will total 3 percent of hard costs. Alternatively, the Developer assumed these costs would total 4.5 percent of hard costs.

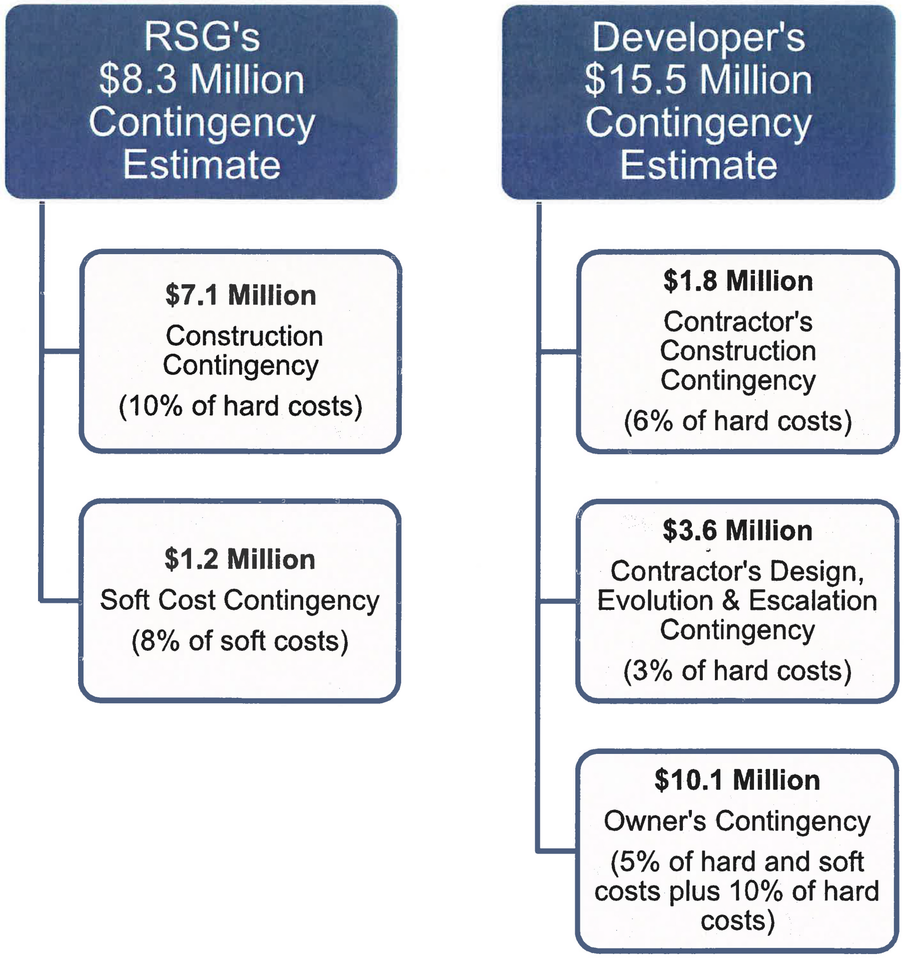
- Pre-opening & Public Relations/Marketing: The Developer assumed a $899,000 budget for pre-opening and public relations/marketing, which is $3,484 per room. RSG considers this assumption reasonable and assumed the same budget in our development cost estimates.

- Operating Reserve: The Developer assumes a $500,000 operating reserve. RSG considers this assumption reasonable and assumed the same reserve amount in our development cost estimates.

- Financing Costs: RSG estimates that financing costs will total $4.8 million based on industry standard financing assumptions and the current market.

- Contingencies: RSG estimates $8.3 million in contingencies, while the Developer estimates $15.5 million in contingencies. Because of the significant discrepancy between these estimates, Figure 3 is provided below to compare the estimates.

Figure 3: RSG & Developer's Contingency Estimates



- <u>Development Fee:</u> The Developer assumed a development fee of $4.7 million, which is 4 percent of RSG's total development cost estimate. RSG considers this assumption reasonable and assumed the same amount in our development cost estimates.

VARIANCES FROM DEVELOPER'S COST ESTIMATES

The Developer estimates that the development costs for the Project will total $123.2 million, which is $11.0 million (9.8 percent) higher than RSG's estimates. The largest single discrepancy between the Developer and RSG's estimates are the contingencies, which the Developer currently estimates at $15.5 million and RSG estimates at $8.3 million. This discrepancy is detailed above.

RSG acknowledges that both RSG's and the Developer's estimates are preliminary at this time, and reconciliation of the final development expenses, as customarily required by the City's subvention agreements, would provide the final figures of actual Project costs.

PROJECT VALUATION

Deducting the estimate of a project's total development costs from the project value yields the amount of the project's surplus or feasibility gap. The value of a proposed project can be estimated based on assumptions about the operations of the project and industry standards for expected returns for the project type. RSG estimates that the total value of the Project is **$61.6 million**, which, based on RSG's development cost estimate of **$112.2 million**, indicates a **$50.6 million** feasibility gap for the Project.

NET OPERATING INCOME

RSG's valuation of the Project is based on an estimate of the Project's net operating income ("NOI") at stabilization in Year 3. RSG estimates that the NOI in the first year of stabilization will be **$6.3 million**, (or 27.4 percent of gross revenues), which is $5.4 million in 2019 dollars.

To assist us in the preparation of our NOI estimates, RSG obtained data from STR, a leading provider of hotel analytics. Among other information, STR provides historical data related to average daily rates ("ADR"), occupancy rates, supply, revenue, and expenses for a customized group of hotels selected by the client. RSG obtained STR data for four hotels that, in our judgement, are generally comparable to the Project in terms of location, amenities, building condition, and level of service. The Project is in a location and category for which there are currently no perfect comparables, so RSG made some qualitative adjustments to the STR data when forecasting performance for the Project. In addition to relying on STR data, RSG analyzed trends in the Los Angeles hotel market.

RSG's NOI estimate incorporates the following assumptions:

- ADR: CBRE assumes a $256 ADR at opening. The average ADR for the 2015 to 2018 period for the four hotels in RSG's STR dataset is $234, which suggests that an initial $256 ADR is within a reasonable range. Thus, RSG also assumed an initial ADR of $256 in our NOI estimates.

  CBRE assumed that the Project's ADR would inflate 3 percent annually. RSG, however, assumed that the ADR would increase 2 percent annually in the first five years of operation and 2.5 percent annually for the remainder of the first 25 years of operation. A number of select-service hotels are currently proposed in the Downtown Los Angeles market, including three select-service hotels with a total of over 1,000 rooms proposed to be developed by Lightstone Group at the intersection of West Pico Boulevard and Figueroa Street. An influx of new select-service offerings will at least temporarily affect ADR of new and existing product until the market stabilizes. HVS, an established provider of hotel market data, anticipates growth in ADR in the Downtown Los Angeles hotel market, but attributes this growth to the introduction of new luxury hotels to the market, rather than an overall trend. The data RSG obtained from STR appears to support this conclusion, as it shows that ADR for hotels comparable to the Project have actually tapered slightly since 2016.

- Occupancy Rate: CBRE assumes a 71 percent occupancy rate in Year 1, a 78 percent occupancy rate in Year 2, and an 80 percent occupancy rate thereafter. The average occupancy rate for the 2015 to 2018 period for the four hotels in RSG's STR dataset is 83 percent, suggesting that CBRE's estimate is reasonable and perhaps even slightly conservative. RSG incorporated CBRE's occupancy rate assumptions in our NOI estimates.

- Retail Lease Revenue: CBRE assumes that the monthly rent income for the 1,896 square feet of ground-level retail will be $4.46 per square foot at opening, and the rent will increase 3 percent annually. Based on RSG's survey of retail lease rates in the vicinity of the Project Site, RSG included the same assumptions in our NOI estimates.

- FF&E Reserve: CBRE estimates the FF&E reserve as 2 percent of total revenues in Year 1, 3 percent of total revenues in Year 2, and 4 percent of total revenues thereafter. Based on industry standards, RSG finds these assumptions reasonable and included the same assumptions in our NOI estimates.

- Other Revenue & Expenses: Based on industry standards, RSG finds CBRE's assumptions regarding other revenue and expenses reasonable and included the same assumptions in our NOI estimates.

RETURN ON COST ANALYSIS

RSG calculated a **$61.6 million** value and **$50.6 million** feasibility gap for the Project based on a return on cost analysis. The analysis entails estimating the Project's value by dividing the Project's NOI at stabilization by a return on cost threshold. The Project's total development cost is then deducted from the Project value to indicate the Project's surplus or feasibility gap. For this analysis, RSG assumed that an appropriate return on cost threshold for the Project is 8.75 percent, which (1) is within the standard threshold range for hotels in the market area and (2) reflects current capitalization rates ("cap rates") and yields for the Los Angeles hotel market.

RSG's feasibility gap analysis calculations based on return on cost are shown in Table 2 below:

Table 2: RSG's Feasibility Gap Analysis Based on Return on Cost

Return on Total Investment	
(A) Stabilized Total Project NOI (2019 dollars)	$5,392,000
(B) Return on Cost Threshold	8.75%
(C) Total Warranted Investment (A / B)	$61,623,000
(D) Less: Total Development Costs	($112,186,000)
Estimated Project Surplus / Feasibility Gap (C + D)	**($50,563,000)**

RSG

PROFIT MARGIN ANALYSIS

To verify our feasibility gap estimate based on the return on cost analysis, RSG estimated the Project's feasibility gap using an alternative method based on profit margin. This analysis indicates a feasibility gap of **$51.7 million**, which is consistent with the return on cost analysis. RSG prefers the return on cost analysis over the profit margin analysis, because (1) the return on cost analysis entails less assumptions and (2) return on cost is a more commonly used metric than profit margin for evaluating development projects. Nonetheless, RSG considers the profit margin analysis worthwhile to confirm whether the results of the return on cost analysis are reasonable.

The profit margin analysis entails estimating the Project's value by dividing the Project's NOI at stabilization by an appropriate cap rate, which RSG assumed to be 6.5 percent based on cap rate data for Los Angeles hotels, as provided by real estate valuation firm Situs RERC. The Project's total development cost is then deducted from the Project value to indicate the Project's profit or loss without any financial assistance. Finally, the Project's total feasibility gap is calculated by subtracting an appropriate profit margin at the time of sale from the profit/loss amount. RSG assumes that an appropriate profit margin is 20 percent of total development costs, which aligns with industry standards for hotel developments.

RSG's feasibility gap analysis calculations based on profit margin are shown in Table 3 below.

Table 3: RSG's Feasibility Gap Analysis Based on Profit Margin

Profit Margin Analysis	
(A) Stabilized Total Project NOI (2019 dollars)	$5,392,000
(B) Cap Rate	6.50%
(C) Total Stabilized Value (A / B)	$82,953,846
(D) Less: Total Development Costs	($112,186,000)
(E) Developer Profit/Loss Without Assistance (C + D)	**($29,232,154)**
(D) Total Development Costs	$112,186,000
(F) Profit Margin Threshold	20.0%
(G) Profit Threshold (D * F)	**$22,437,200**
Estimated Project Surplus/Feasibility Gap (E - G)	**($51,669,000)**

VARIANCE FROM DEVELOPER'S FEASIBILITY GAP ESTIMATES

CBRE estimates that the Project's feasibility gap is $49.4 million, which is $1.2 million (2.3 percent) lower than RSG's estimate. This variance is largely due to methodology. While RSG's feasibility gap estimate is based on a return on cost analysis, CBRE's feasibility gap estimate is based on the amount of financial assistance needed to achieve an 18 percent internal rate of return ("IRR") on equity upon sale of the Project after 10 years of operations. Despite the difference in methodologies, the results of CBRE and RSG's analyses are relatively consistent.

FISCAL IMPACT ANALYSIS

The Project will provide benefits to the City in the form of net new site-specific tax revenues. Net new site-specific revenue 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.

RSG's analysis of Project-generated revenue is categorized by the following revenue sources:

- Transient occupancy tax ("TOT");
- Property tax;
- On-site sales tax;
- Utility user tax;
- Gross receipts tax;
- Parking occupancy tax;
- Construction materials and gross receipts tax.[1]

FISCAL IMPACT SUMMARY

RSG estimates that the Project will generate **$34.6 million** in net new site-specific tax revenues in the first 25-year operating period (net present value, discounted at 10 percent). Fiscal impact projections presented in this Report begin with "Construction Year One" in FY 2019-20 and end in FY 2046-47, a 25-year term beginning in the first year of operations in addition to a construction period of approximately 29 months. The Project is assumed to stabilize in Year 3 of Project operations. Net present values of fiscal impacts presented in this Report are discounted to FY 2022-23, the first year of Projection operations.

RSG assumes that all hotel visits to the Project are net new hotel visits to the City. This assumption is based on the Department of Convention and Tourism Development's identification of the need to add 8,000 hotel rooms to the supply in the Convention Center area by 2020, a benchmark that has not yet been met.

The Project Site is currently improved with a surface parking lot that generates property tax and parking occupancy tax revenues to the City. RSG received FY 2017-18 data from CBRE regarding the property taxes paid for the Project Site and the parking revenue received at the Project Site. Based on this information, RSG estimates that the Project Site as currently developed would generate $1.5 million in City tax revenue through FY 2046-47. RSG deducted this amount from our estimate of gross revenue projections to calculate our projections of net new revenues.

[1] Construction Materials Sales Tax and Construction Gross Receipts Tax are one-time revenues generated from purchases of materials and business tax during the construction period.

Table 4 on the following page provides a summary by revenue source of the total revenues for the City over the 25-year period. Following Table 4, Table 5 shows RSG's calculation of 50 percent of the net present value of net new tax revenue, discounted at 10 percent.

Table 4: 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	2019-20	$ -	$ -	$ -	$ -	$ -	$ -	$ 85,000	**$ 85,000**
CY 2	2020-21	-	61,000	-	-	-	-	175,000	**236,000**
CY 3	2021-22	-	183,000	-	-	-	-	165,000	**348,000**
1	2022-23	2,400,000	295,000	27,000	60,000	26,000	160,000	-	**2,968,000**
2	2023-24	2,689,000	301,000	30,000	61,000	29,000	179,000	-	**3,289,000**
3	2024-25	2,813,000	307,000	31,000	63,000	31,000	187,000	-	**3,432,000**
4	2025-26	2,869,000	313,000	32,000	65,000	31,000	191,000	-	**3,501,000**
5	2026-27	2,927,000	319,000	33,000	67,000	32,000	195,000	-	**3,573,000**
6	2027-28	3,000,000	326,000	34,000	69,000	33,000	199,000	-	**3,661,000**
7	2028-29	3,075,000	332,000	35,000	71,000	34,000	203,000	-	**3,750,000**
8	2029-30	3,152,000	339,000	36,000	73,000	34,000	207,000	-	**3,841,000**
9	2030-31	3,230,000	345,000	37,000	75,000	35,000	211,000	-	**3,933,000**
10	2031-32	3,311,000	352,000	38,000	78,000	36,000	215,000	-	**4,030,000**
11	2032-33	3,394,000	359,000	39,000	80,000	37,000	219,000	-	**4,128,000**
12	2033-34	3,479,000	367,000	40,000	82,000	38,000	224,000	-	**4,230,000**
13	2034-35	3,566,000	374,000	42,000	85,000	40,000	228,000	-	**4,335,000**
14	2035-36	3,655,000	381,000	43,000	87,000	41,000	233,000	-	**4,440,000**
15	2036-37	3,746,000	389,000	44,000	90,000	42,000	237,000	-	**4,548,000**
16	2037-38	3,840,000	397,000	46,000	93,000	43,000	242,000	-	**4,661,000**
17	2038-39	3,936,000	405,000	47,000	96,000	44,000	247,000	-	**4,775,000**
18	2039-40	4,034,000	413,000	48,000	98,000	46,000	252,000	-	**4,891,000**
19	2040-41	4,135,000	421,000	50,000	101,000	47,000	257,000	-	**5,011,000**
20	2041-42	4,239,000	430,000	51,000	104,000	49,000	262,000	-	**5,135,000**
21	2042-43	4,345,000	438,000	53,000	108,000	50,000	267,000	-	**5,261,000**
22	2043-44	4,453,000	447,000	54,000	111,000	52,000	273,000	-	**5,390,000**
23	2044-45	4,565,000	456,000	56,000	114,000	53,000	278,000	-	**5,522,000**
24	2045-46	4,679,000	465,000	58,000	117,000	55,000	284,000	-	**5,658,000**
25	2046-47	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**

RSG

Table 5: 50% of Net New Site-specific Tax Revenues

	Gross Revenues	NPV @ 10%
Total Site-specific Tax Revenues	$ 110,427,000	$ 36,107,000
Less: Existing Amount	$ (3,895,000)	$ (1,505,000)
Net New Site-specific Tax Revenues	$ 106,532,000	$ 34,602,000
50% of Net New Site-specific Tax Revenues	**$ 53,266,000**	**$ 17,301,000**

TRANSIENT OCCUPANCY TAX

Transient occupancy tax revenue is generated from a City fee charged upon hotel room stays. The City has a 14 percent TOT rate. As mentioned in the above subsection regarding NOI, RSG's projection of TOT revenue incorporates an ADR of $256 at opening in July 2022, as well as a 2 percent annual inflation in ADR in Years 2 through 5 and 2.5 percent annual inflation thereafter. Additionally, our TOT revenue projections incorporate occupancy rates of 71 percent occupancy rate in Year 1, a 78 percent occupancy rate in Year 2, and an 80 percent occupancy rate thereafter.

As shown in Table 6 below, the Project is expected to generate **$2.4 million** in the first year of operations and **$29.1 million** over the 25-year projection period (net present value, discounted at 10 percent).

Table 6: Transit Occupancy Tax Revenue Projections

	Fiscal Year	Average Daily Rate	Occupancy Rate	Annual Room Revenue	TOT Revenue
1	2022-23	$ 256.35	71%	$ 17,139,740	$ 2,400,000
2	2023-24	261.48	78%	19,206,165	2,689,000
3	2024-25	266.71	80%	20,092,604	2,813,000
4	2025-26	272.04	80%	20,494,456	2,869,000
5	2026-27	277.48	80%	20,904,345	2,927,000
6	2027-28	284.42	80%	21,426,954	3,000,000
7	2028-29	291.53	80%	21,962,628	3,075,000
8	2029-30	298.82	80%	22,511,693	3,152,000
9	2030-31	306.29	80%	23,074,486	3,230,000
10	2031-32	313.94	80%	23,651,348	3,311,000
11	2032-33	321.79	80%	24,242,631	3,394,000
12	2033-34	329.84	80%	24,848,697	3,479,000
13	2034-35	338.08	80%	25,469,915	3,566,000
14	2035-36	346.54	80%	26,106,663	3,655,000
15	2036-37	355.20	80%	26,759,329	3,746,000
16	2037-38	364.08	80%	27,428,312	3,840,000
17	2038-39	373.18	80%	28,114,020	3,936,000
18	2039-40	382.51	80%	28,816,871	4,034,000
19	2040-41	392.07	80%	29,537,292	4,135,000
20	2041-42	401.88	80%	30,275,725	4,239,000
21	2042-43	411.92	80%	31,032,618	4,345,000
22	2043-44	422.22	80%	31,808,433	4,453,000
23	2044-45	432.78	80%	32,603,644	4,565,000
24	2045-46	443.60	80%	33,418,735	4,679,000
25	2046-47	454.69	80%	34,254,204	4,796,000
Total					$ 90,328,000
NPV	10%				**$29,081,000**

PROPERTY TAX

The City annually receives a portion of the ad valorem property taxes from all real property. According to County of Los Angeles Auditor-Controller reports, the City's General Fund share of the 2018-19 property taxes in the Project Site's Tax Rate Area is approximately 26.3 percent of the general 1 percent property tax levy, net of the Educational Revenue Augmentation Fund ("ERAF") adjustment. For the sake of simplicity, RSG estimated property taxes based on the assumption that the Project Site's assessed valuation in Year 1 would be equal to the total development cost. We then applied the maximum Proposition 13 annual inflation rate of 2 percent.

As shown in Table 7 below, the Project is expected to generate **$295,000** in the first year of operations and **$3.4 million** over the 25-year projection period (net present value, discounted at 10 percent).

Table 7: Property Tax Revenue Projections

	Fiscal Year	Total Assessed Value	Property Tax Revenue
Const.	2019-20	23,210,992	61,000
Const.	2020-21	69,632,976	183,000
1	2022-23	112,186,462	295,000
2	2023-24	114,430,191	301,000
3	2024-25	116,718,795	307,000
4	2025-26	119,053,171	313,000
5	2026-27	121,434,234	319,000
6	2027-28	123,862,919	326,000
7	2028-29	126,340,178	332,000
8	2029-30	128,866,981	339,000
9	2030-31	131,444,321	345,000
10	2031-32	134,073,207	352,000
11	2032-33	136,754,671	359,000
12	2033-34	139,489,765	367,000
13	2034-35	142,279,560	374,000
14	2035-36	145,125,151	381,000
15	2036-37	148,027,654	389,000
16	2037-38	150,988,207	397,000
17	2038-39	154,007,971	405,000
18	2039-40	157,088,131	413,000
19	2040-41	160,229,893	421,000
20	2041-42	163,434,491	430,000
21	2042-43	166,703,181	438,000
22	2043-44	170,037,245	447,000
23	2044-45	173,437,990	456,000
24	2045-46	176,906,749	465,000
25	2046-47	180,444,884	474,000
Total			$ 9,689,000
NPV	10%		**$ 3,372,000**

SALES TAX

The City receives one percent of gross receipts from the sale of tangible personal property sold in the City of Los Angeles. Additional sales taxes for Metro transportation projects are excluded from these calculations in our Report. To estimate the sales tax generated from hotel sales, RSG assumed that 100 percent of food and beverage sales and 25 percent of miscellaneous revenue (RSG defines miscellaneous revenue as hotel revenue other than room and retail lease revenue; this income specifically includes revenue generated from the sale of in-room movies, business services, telecommunications, sale of pre-packaged foods, and parking) would be subject to sales tax.

At this time, no retail tenants have been secured for the Project, which is typical at this early stage of development. To estimate the sales tax generated from the 1,896-square-foot retail space, RSG utilized CBRE's assumption that the sales would total $656 per square foot at opening and increase 3 percent annually. RSG assumed that 100 percent of retail sales would be subject to sales tax.

As shown in Table 8 below, the Project is expected to generate **$27,000** in the first year of operations and **$335,000** over the 25-year projection period (net present value, discounted at 10 percent).

Table 8: Sales Tax Revenue Projections

	Fiscal Year	Hotel: Food & Beverage Revenue	Hotel: Taxable Miscellaneous Revenue	Retail: Taxable Sales	Total Taxable Sales	Sales Tax Revenue
1	2022-23	$ 1,266,743	$ 223,565	$ 1,243,086	$ 2,733,395	$ 27,000
2	2023-24	1,433,382	252,975	1,280,379	2,966,736	30,000
3	2024-25	1,514,239	267,246	1,318,790	3,100,275	31,000
4	2025-26	1,559,667	275,263	1,358,354	3,193,284	32,000
5	2026-27	1,606,457	283,521	1,399,105	3,289,082	33,000
6	2027-28	1,654,650	292,027	1,441,078	3,387,755	34,000
7	2028-29	1,704,290	300,787	1,484,310	3,489,387	35,000
8	2029-30	1,755,418	309,811	1,528,839	3,594,069	36,000
9	2030-31	1,808,081	319,105	1,574,704	3,701,891	37,000
10	2031-32	1,862,323	328,679	1,621,946	3,812,948	38,000
11	2032-33	1,918,193	338,539	1,670,604	3,927,336	39,000
12	2033-34	1,975,739	348,695	1,720,722	4,045,156	40,000
13	2034-35	2,035,011	359,156	1,772,344	4,166,511	42,000
14	2035-36	2,096,061	369,931	1,825,514	4,291,506	43,000
15	2036-37	2,158,943	381,029	1,880,279	4,420,251	44,000
16	2037-38	2,223,712	392,459	1,936,688	4,552,859	46,000
17	2038-39	2,290,423	404,233	1,994,788	4,689,445	47,000
18	2039-40	2,359,136	416,360	2,054,632	4,830,128	48,000
19	2040-41	2,429,910	428,851	2,116,271	4,975,032	50,000
20	2041-42	2,502,807	441,717	2,179,759	5,124,283	51,000
21	2042-43	2,577,891	454,968	2,245,152	5,278,011	53,000
22	2043-44	2,655,228	468,617	2,312,507	5,436,352	54,000
23	2044-45	2,734,885	482,676	2,381,882	5,599,442	56,000
24	2045-46	2,816,931	497,156	2,453,338	5,767,425	58,000
25	2046-47	2,901,439	512,070	2,526,938	5,940,448	59,000
Total						$ 1,063,000
NPV	10%					**$ 335,000**

UTILITY USER TAX

The City of Los Angeles Municipal Code Article 1.1, Chapter 2 imposes a tax on telephone, electricity, and natural gas users in the City. CBRE assumed that utility expenses would total

$2,006 per guest room at opening and increase 3 percent annually. Based on RSG's analysis of STR data, these assumptions are on the conservative end of what is reasonable. Additionally, the City's tax rates vary by utility, ranging from 9 percent to 12.5 percent, and CBRE assumed an overall utility tax rate of 11.5 percent. RSG incorporated CBRE's assumptions in our fiscal impact projections.

As shown in Table 9 below, the Project is expected to generate **$60,000** in the first year of operations and **$686,000** over the 25-year projection period (net present value, discounted at 10 percent).

Table 9: Utility User Tax Revenue Projections

	Fiscal Year	Utility Expense Per Available Room	Total Utility Expenses	Utility Tax Revenue
1	2022-23	$ 2,006	$ 517,600	$ 60,000
2	2023-24	2,066	533,128	61,000
3	2024-25	2,128	549,121	63,000
4	2025-26	2,192	565,595	65,000
5	2026-27	2,258	582,563	67,000
6	2027-28	2,326	600,040	69,000
7	2028-29	2,396	618,041	71,000
8	2029-30	2,467	636,582	73,000
9	2030-31	2,541	655,680	75,000
10	2031-32	2,618	675,350	78,000
11	2032-33	2,696	695,611	80,000
12	2033-34	2,777	716,479	82,000
13	2034-35	2,860	737,973	85,000
14	2035-36	2,946	760,112	87,000
15	2036-37	3,035	782,916	90,000
16	2037-38	3,126	806,403	93,000
17	2038-39	3,219	830,595	96,000
18	2039-40	3,316	855,513	98,000
19	2040-41	3,415	881,179	101,000
20	2041-42	3,518	907,614	104,000
21	2042-43	3,623	934,842	108,000
22	2043-44	3,732	962,888	111,000
23	2044-45	3,844	991,774	114,000
24	2045-46	3,959	1,021,528	117,000
25	2046-47	4,078	1,052,173	121,000
Total				$ 2,169,000
NPV	10%			**$ 686,000**

RSG

GROSS RECEIPTS TAX

Section 21, Article 1, Chapter 2 of the Municipal Code outlines gross receipts taxes to be imposed and collected by the City Office of Finance. The City Office of Finance website[2] outlines the commercial categories and rates at which business taxes are imposed. The two applicable categories for the Project are Rental of Dwelling Units, which applies to hotels, and Retail Sales. The current tax rate for both categories is $1.27 per $1,000 or fractional part thereof of gross receipts. The amount of gross receipts taxes is determined by applying the City's tax rate to the annual sales generated by the tenants – similar to sales tax except that the tax is levied on the seller's gross income (i.e., receipts), rather than the sale of goods themselves.

As shown in Table 10 below, the Project is expected to generate **$26,000** in the first year of operations and **$321,000** over the 25-year projection period (net present value, discounted at 10 percent).

[2] Source: https://finance.lacity.org/know-your-rates (link current as March 13, 2019).

Table 10: Gross Receipts Tax Revenue Projections

	Fiscal Year	Hotel Revenues	Retail Sales	Total Taxable Revenue	Gross Receipts Tax Revenue
1	2022-23	$ 19,402,000	$ 1,243,086	$ 20,645,086	$ 26,000
2	2023-24	21,755,000	1,280,379	23,035,379	29,000
3	2024-25	22,784,000	1,318,790	24,102,790	31,000
4	2025-26	23,266,000	1,358,354	24,624,354	31,000
5	2026-27	23,758,000	1,399,105	25,157,105	32,000
6	2027-28	24,368,000	1,441,078	25,809,078	33,000
7	2028-29	24,991,000	1,484,310	26,475,310	34,000
8	2029-30	25,631,000	1,528,839	27,159,839	34,000
9	2030-31	26,286,000	1,574,704	27,860,704	35,000
10	2031-32	26,960,000	1,621,946	28,581,946	36,000
11	2032-33	27,651,000	1,670,604	29,321,604	37,000
12	2033-34	28,481,000	1,720,722	30,201,722	38,000
13	2034-35	29,335,000	1,772,344	31,107,344	40,000
14	2035-36	30,215,000	1,825,514	32,040,514	41,000
15	2036-37	31,121,000	1,880,279	33,001,279	42,000
16	2037-38	32,055,000	1,936,688	33,991,688	43,000
17	2038-39	33,017,000	1,994,788	35,011,788	44,000
18	2039-40	34,008,000	2,054,632	36,062,632	46,000
19	2040-41	35,028,000	2,116,271	37,144,271	47,000
20	2041-42	36,079,000	2,179,759	38,258,759	49,000
21	2042-43	37,161,000	2,245,152	39,406,152	50,000
22	2043-44	38,276,000	2,312,507	40,588,507	52,000
23	2044-45	39,424,000	2,381,882	41,805,882	53,000
24	2045-46	40,607,000	2,453,338	43,060,338	55,000
25	2046-47	41,825,000	2,526,938	44,351,938	56,000
Total					$ 1,014,000
NPV	10%				**$ 321,000**

PARKING OCCUPANCY TAX

The City imposes a 10 percent tax on parking occupancy fees in the City. Residential parking spaces are exempt, and hotel parking spaces are exempt if the occupants remain at the hotel longer than 30 days. The Developer proposes to include only 36 parking spaces as part of the Project. However, RSG assumed that 50 percent of occupied rooms in the hotel would need one parking space in the City. Because RSG is estimating net new parking occupancy tax revenue to the City, our analysis is intended to capture all new parking revenue generated by the project, including parking revenue generated off-site. Based on current parking rates at comparable hotels near the Project Site, RSG assumed that the parking rate in Year 1 would be $47.75 and increase 2 percent annually.

As shown in Table 11 below, the Project is expected to generate **$160,000** in the first year of operations and **$1.9 million** over the 25-year projection period (net present value, discounted at 10 percent).

Table 11: Parking Occupancy Tax Revenue Projections

	Fiscal Year	Annual Occupancy	Number of Rooms Occupied	Parking Spaces Utilized	Cost of Individual Parking	Total Parking Cost	City Parking Revenue
1	2022-23	71%	66,861	33,431	$ 47.75	$ 1,596,476	$ 160,000
2	2023-24	78%	73,453	36,727	48.71	1,788,952	179,000
3	2024-25	80%	75,336	37,668	49.68	1,871,483	187,000
4	2025-26	80%	75,336	37,668	50.68	1,908,913	191,000
5	2026-27	80%	75,336	37,668	51.69	1,947,091	195,000
6	2027-28	80%	75,336	37,668	52.72	1,986,033	199,000
7	2028-29	80%	75,336	37,668	53.78	2,025,754	203,000
8	2029-30	80%	75,336	37,668	54.85	2,066,269	207,000
9	2030-31	80%	75,336	37,668	55.95	2,107,594	211,000
10	2031-32	80%	75,336	37,668	57.07	2,149,746	215,000
11	2032-33	80%	75,336	37,668	58.21	2,192,741	219,000
12	2033-34	80%	75,336	37,668	59.38	2,236,596	224,000
13	2034-35	80%	75,336	37,668	60.56	2,281,328	228,000
14	2035-36	80%	75,336	37,668	61.78	2,326,954	233,000
15	2036-37	80%	75,336	37,668	63.01	2,373,493	237,000
16	2037-38	80%	75,336	37,668	64.27	2,420,963	242,000
17	2038-39	80%	75,336	37,668	65.56	2,469,382	247,000
18	2039-40	80%	75,336	37,668	66.87	2,518,770	252,000
19	2040-41	80%	75,336	37,668	68.20	2,569,145	257,000
20	2041-42	80%	75,336	37,668	69.57	2,620,528	262,000
21	2042-43	80%	75,336	37,668	70.96	2,672,939	267,000
22	2043-44	80%	75,336	37,668	72.38	2,726,398	273,000
23	2044-45	80%	75,336	37,668	73.83	2,780,926	278,000
24	2045-46	80%	75,336	37,668	75.30	2,836,544	284,000
25	2046-47	80%	75,336	37,668	76.81	2,893,275	289,000
Total							$ 5,739,000
NPV	10%						**$1,887,000**

CONSTRUCTION SALES & GROSS RECEIPTS TAX

Construction sales tax is the City's sales tax rate assessed on the price of materials purchased in order to construct a project. These include materials such as lumber, glass, concrete, and piping. As previously discussed in the Sales Tax subsection, the City's sales tax rate is 1.0 percent. RSG assumed that 50 percent of our estimate of total hard costs for the Project would be construction materials. Additionally, CBRE assumed that the Developer would designate the City as the point of sale for 100 percent of materials; RSG considers this assumption slightly aggressive, but incorporated the assumption in our analysis. Given the relatively small amount of projected construction sales tax revenues generated by the Project, changing this assumption would have a nominal effect.

Additionally, Section 21.188 of the City's Business Tax Ordinance establishes a gross receipts tax for entities engaged in the construction, alteration, repair, or demolition of any building. The gross receipts tax includes a base tax of $153 on all construction up to $60,000. Beyond $60,000, the construction business is taxed at a rate of $1.01 for every $1,000 in excess of $60,000. RSG applied the base tax and tax rate per $1,000 of gross receipts to our estimate of the Project hard costs.

Based on the development schedule outlined earlier in the Report, RSG assumed that 21 percent of construction would be completed in FY 2019-20, 41 percent would be completed in FY 2020-21, and the remaining 38 percent would be completed in FY 2021-22.

The Project is expected to generate **$425,000** of construction sales tax and gross receipts tax revenue during the 2.5-year construction period.

VARIANCE FROM DEVELOPER'S NET NEW REVENUE ESTIMATES

Our $110.4 million estimate of gross revenues (in nominal dollars) generated by the Project in the first 25-year operating period is 4.9 percent lower than CBRE's $116.0 million estimate, largely due to RSG's slightly less aggressive assumptions about (1) the development cost of the Project; (2) the growth in the hotel's ADR throughout the 25-year operation period; and (3) the share of revenue subject to sales tax. RSG noted that our estimates of gross receipts taxes are slightly higher than CBRE's because we included gross receipts tax revenue on the sales in the leased retail space, which CBRE's analysis appears to exclude. Additionally, our estimates of parking occupancy taxes are slightly higher than CBRE's, because we estimated off-site parking revenue generated by the Project, which appears to be excluded from CBRE's analysis.

Note that CBRE did not estimate the amount of revenue that the Project Site would generate over the same period if the Project Site remained as a surface parking lot.

ECONOMIC IMPACT ANALYSIS

Development and ongoing operation of the Project will generate employment opportunities. For the purpose of this analysis, RSG used the IMPLAN model to measure the temporary and permanent economic impacts of the Project using zip code-based data for the City. IMPLAN is an input-output analysis software tool that tracks the interdependence among various producing and consuming sectors of the economy. According to MIG, Inc., the creators 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 utilized the 2016 County of Los Angeles dataset to calculate direct, indirect, and induced employment.

The IMPLAN inputs are investment or operating costs of the Project. RSG's estimate of total Project costs exclusive of land costs ($100,186,000) was used to determine temporary economic impacts resulting during construction of the Project. The Project's gross annual receipts in the first year of operations ($19,561,000 for the hotel and $1,137,000 for the retail, in 2019 dollars) were used to determine permanent economic impacts resulting during operation of the Project.

RSG analyzed the direct, indirect, and induced employment during the construction phase (temporary employment) and operations phase (permanent employment). The definitions of direct, indirect, and induced employment are provided below:

Direct Employment – Refers to the direct employment that occur at the Project Site resulting from development costs and operational sales revenue.

Indirect Employment – Changes in sales, jobs, and/or income within the businesses that supply goods and services to the Project. Indirect employment does not occur directly at the Project Site, but is an indirect effect to surrounding or related businesses.

Induced Employment – Regional changes resulting from additional spending earned either directly or indirectly from the Project.

The IMPLAN analysis concludes that the Project will directly result in the full-time equivalency of **269 temporary jobs per year of the 2.5-year construction period and 147 permanent jobs**. Table 12 on the following page provides additional detail regarding employment generated by the Project, including indirect and induced employment.

Table 12: Employment Impacts

	Direct	Indirect	Induced	Total
Temporary (Construction)	269	49	79	**397**
Permanent (Operations)	147	34	40	**221**
Total	**416**	**83**	**119**	**618**

CONCLUSIONS

RSG was retained by the City to evaluate the feasibility of the Project, estimate the net new site-specific tax revenues generated by the Project, and project the number of jobs generated by the Project. RSG's findings are as follows:

- The Project's feasibility gap is **$50.6 million**. This feasibility gap is based on RSG's $112.2 million estimate of total Project costs and a $61.6 million valuation of the Project.

- The Project will yield $36.1 million in site-specific tax revenues (net present value, discounted at 10 percent) during the 2.5-year construction period and first 25 years of operation. Of this amount, 81 percent is TOT revenue and 9 percent is property tax revenue. The remaining revenue includes on-site sales taxes, utility user taxes, gross receipts taxes, parking occupancy taxes, and construction materials and receipts taxes.

  The Project Site is currently improved with a surface parking lot that generates property and parking occupancy tax revenues for the City. If the parking lot remained, the City would yield $1.5 million of property tax and parking occupancy tax revenues from the Project Site during the time period in question. Deducting this amount from the Project's gross tax revenues yields **$34.6 million in net new site-specific tax revenues generated by the Project**.

- The Project will directly generate the full-time equivalency of **269 temporary jobs per year of the 2.5-year construction period and 147 permanent jobs**. The Project will generate a total of 397 temporary jobs and 221 permanent jobs when direct, indirect, and induced employment are included.

The City's BGIF Policy sets the maximum site-specific financial assistance available to a project at the lesser of the project's feasibility gap or 50 percent of net new site-specific tax revenue generated by the project. Accordingly, **the maximum assistance from the BGIF Fund available to the Project is $17.3 million**, half of the $34.6 million in net new site-specific tax revenues generated by the Project.

Attachment C

Memorandum of Understanding Between the City of Los Angeles and AECOM South Park, LLC

Memorandum of Understanding between the City of Los Angeles and AECOM South Park, LLC

Olive Avenue and 12th Street Select Service Hotel Project

The City of Los Angeles (the “City”) and AECOM South Park, LLC, a Delaware limited liability company (“Developer” and, collectively with the City, the "Parties") enter into this Memorandum of Understanding (“MOU”) as of April ___, 2019 for reference purposes, to provide non-binding guidelines for the negotiation of one or more agreements for the potential development of a hotel at 1155 South Olive Avenue in the City of Los Angeles (the "Project Site"). All terms and issues set forth in this MOU are subject to further discussions.

BACKGROUND

Developer has proposed the development of a 16-story, 3-star hotel, with approximately 258 guest rooms on the Project Site, together with approximately 2,722 square feet of ground-level restaurant space, 1,896 square feet of ground-level retail space, 400 square feet of meeting space, a rooftop deck with a pool and fitness center and a 36-space subterranean parking garage totaling 16,422 square feet (The “Project”). The Project Site is currently being used as a surface parking lot and is located at the corner of Olive Avenue and 12th Street in the City of Los Angeles. The Project Site is within walking distance to the the Los Angeles Sports and Entertainment District (the “LASED”) and the Los Angeles Convention Center (the “LACC”).

The Project is desirable to the City as part of its ongoing effort to expand the LACC, and the City has determined that new hotel rooms serving a variety of visitor needs are necessary to more fully utilize an expanded LACC, as well as to support further economic development within the District, provide additional visitor-serving uses that are beneficial to support the City's Olympic bid, and meet the City’s goal of attracting 50 million annual visitors. In addition, the City desires to create good paying jobs, thereby benefiting the downtown community and the City. The development of the Project would substantially contribute to the City's achievement of these goals.

Developer has asserted that the Project is not financially feasible without City financial assistance. The City has hired, at Developer’s expense, an independent experienced financial analyst (the “City Analyst”) to evaluate the Project and advise the City with regard to the financial feasibility of the Project.

CITY INVESTMENT

The sources of potential City support for the financing and implementation of the Project are outlined below. The City finds these terms to be acceptable in concept for negotiation and clarification of the terms of any agreements necessary and appropriate to support the implementation of the development of the Project.

In the event the Parties reach a tentative agreement on the terms and conditions of the City's financial commitment in the Project, the terms will be set forth in one or more definitive written agreements (collectively the "City Agreements").

The terms to be further discussed and negotiated are as follows:

1. Special Fund. The proposed financial commitment on the part of the City with respect to the Project will require the City to establish a special fund (the "Special Fund") and deposit funds from the City's General Fund (the "General Fund") into the Specific Fund on not less than an annual basis. The amount of funding with respect to the funding gap for the development of the Project will be determined by Net New Tax Revenues received by the City from the development and operation of the Project, as more specifically discussed below. Payments will be made from the Special Fund to Developer in arrears on an annual basis, with each payment in an amount equal to the TOT Financial Assistance received by the City generated by the Project for the applicable twelve (12)-month period. The payments of the TOT Financial Assistance to Developer will be subject to continued compliance by Developer with all material terms of the City Agreements.

2. Construction of the Project. Developer shall construct the Project substantially in accordance with (a) the milestones set forth in the Schedule of Performance and (b) the Scope of Development, as each is set forth in the City Agreements.

3. ADA Compliance/CASp. Developer shall construct and maintain the Project in accordance with all laws, rules, and regulations including all applicable federal, state, and local accessibility requirements. Developer shall utilize the services of a Certified Accessibility Specialist ("CASp") during the design and construction of the Project and shall provide written report(s) signed by the Project architect and the CASp to the City verifying that the Project has been designed and constructed in accordance with all applicable accessibility requirements. Such report may be incorporated into the architect certification described in Paragraph 4, below. Failure to comply with the accessibility requirements shall be deemed a material breach of the City Agreements.

4. Construction Costs and Project Financing Audit Upon substantial completion of the Project (as defined in the City Agreements), Developer shall submit a certification from the architect for the Project, stating that the Project has been constructed in substantial accordance with the approved plans and specifications (the "Plans and Specifications") as well as the requirements set forth in the City Agreements, including the accessibility requirements if not separately certified. Further, within 180 days after the issuance of a certificate of occupancy for the Project, the City shall work with Developer and the City Analyst to make (a) determination of final Project development and construction costs with respect to the Project; (b) a determination by the City that Developer has substantially completed the Hotel in substantial conformance with the Plans and Specifications as well as all accessibility requirements, and (c) a determination by the City that

Developer has satisfied all of Developer's development obligations under the City Agreements with respect to the Project.

5. Maximum Assistance. The total amount of TOT Financial Assistance will not exceed 50% of the Net New Tax Revenues projected to be generated by the Project and received by the City, determined as net present value ("NPV"), discounted at the rate of ten percent (10%) ("TOT Financial Assistance"). Based on the pro forma and other financial analysis by the City's financial consultant, the maximum amount of the TOT Financial Assistance is $17.3 million NPV. Such maximum amount of the TOT Financial Assistance is subject to reduction on a dollar for dollar basis to the extent that the project cost audit following completion of the project establishes that the total development costs for the Project were less than $112,186,462.

6. Tax Calculations. Net New Tax Revenues shall include City business and utility taxes, the City's share of construction-related tax revenues, property taxes, property taxes in lieu of vehicle license fee taxes, sales taxes, utility user taxes, business gross receipt taxes, parking revenues taxes, transient occupancy tax ("TOT") and any other tax revenues received by the City's General Fund and generated by the Project, all of which must actually be received by the City.

7. Transfer of Project and Property. During the term, Developer shall not sell, assign, convey or transfer the Project or any interest in the Project Site (each a "Transfer") without the prior written consent of the City, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that the City Agreements shall include certain customary permitted transferes to which Developer may effectuate a Transfer without the prior written consent of the City. A sale of equity interests in the Developer that does not change the management of Developer shall not constitute a Transfer nor shall any mortgage or construction financing.

8. Term. The City Agreements shall terminate on the date that is twenty-five years from the date of the completion of the Project.

9. Hotel Rating. The Hotel will achieve and maintain at least a three-star rating, as defined by the Mobil Travel Guide, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the Term.

10. Hotel Operator. The initial hotel operator for the Hotel, as well as any proposed change to any hotel operator during the Term, shall require the prior written approval of the City, which approval shall not be unreasonably withheld, conditioned or delayed. The Parties will agree to a pre-approved list of acceptable hotel operators and standards, which shall be attached to the applicable City Agreement and which shall not require the consent of the City if Developer decides, in its sole discretion, to replace the hotel operator.

11. Hotel Operation. The Hotel shall be operated in accordance with the hotel operating covenants and all other restrictions set forth in the applicable City Agreements for the entire Term.

12. Construction Sales Tax. For purposes of sales and use taxes, to the extent practical, Developer shall cause the City of Los Angeles to be designated as the "point of sale" for construction materials purchased in connection with the performance of the Project, including purchases made by any subcontractors of Developer. The City shall cooperate with Developer in obtaining any and all permits requried for the City to be designated as the "point of sale" for all construction-related purchases and will make its resources available to Developer to process any such permits.

13. Community Benefits Package. Developer shall comply with a community benefits package, as negotiated between the Parties. The package shall include card check neutrality, living wage compliance, job training initiatives, local hiring compliance, a room block agreement relating to the LACC and other elements agreed upon by the Parties. All or a portion of the items in the community benefits package may be the public benefits included in a development agreement for the Project.

14. Cooperation. The City will cooperate in processing any and all requests for required entitlements for the Project.

15. Government Code Section 53083. Developer shall cooperate with the City in complying with the disclosure and public hearing requirements set forth in Government Code Section 53083, including, to the extent necessary, providing any tax data or confidentiality waivers deemed by the City as necessary to ensure compliance with all statutorily required reporting requirements.

MOU IMPLEMENTATION

The Parties further acknowledge and agree that this MOU is merely an expression of the Parties conceptual agreement to the terms to be negotiated and further acknowledge and agree that the terms set forth in this MOU are not binding on any of the parties.

This MOU authorizes the Parties to negotiate and draft the City Agreements consistent with the terms of this MOU. Developer acknowledges and agrees that the final City Agreements, as well as any ordinances or other legislative acts necessary to effectuate the terms of any proposed City Agreements, must be approved by the City Council and, if applicable, the Mayor, as set forth in the Los Angeles City Charter and/or Administrative Code or as otherwise required by law.

IN WITNESS WHEREOF, the Parties have executed this MOU on the dates indicated.

DEVELOPER:

AECOM SOUTH PARK, LLC,
a Delaware limited liability company

By: AECOM Real Estate Fund I, L.P.,
Its: sole member

By: AECOM Real Estate Fund GP I, LLC,
Its: general partner

By: ______________________
Name: ______________________
Its: ______________________

CITY:

CITY OF LOS ANGELES,
a municipal corporation

By:____________________________
Name:__________________________
Title:___________________________

APPROVED AS TO FORM:

Michael N. Feuer, City Attorney

By____________________________

Deputy City Attorney

Date:_________________________

ATTESTED:

Holly Wolcott, City Clerk

By___________________________

Deputy City Clerk

Date:_________________________