


REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 21, 2019

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File: 18-0399
Assignment No: 19-05-0532

AECOM HOTEL HOTEL DEVELOPMENT INCENTIVE AGREEMENT

SUMMARY

On April 30, 2019, Council approved a Memorandum of Understanding (MOU) (CF# 18-0399) to provide an incentive of \$17,301,000 net present value (NPV) to support the AECOM Hotel project (Project) at 1155 South Olive Street. Attached for consideration is a Hotel Development Incentive Agreement (HDIA) that documents the terms for the incentive and associated community benefits to be provided by AECOM Capital (Developer).

A feasibility analysis of the Project completed by the City determined that a gap of \$50,563,000 existed in the Project financing. The analysis also determined that City revenues to be generated by the Project, in the amount of \$34,602,000, are sufficient for the City to provide financial assistance in the amount of \$17,301,000 in compliance with policies related to economic development support.

Based on the findings related to providing support for the Project, Council approved a MOU that provided the terms for negotiation of an HDIA. City staff and the Developer completed negotiations, and have transmitted herein for consideration documents necessary to implement the project. In addition, this report transmits the State-mandated Government Code Section 53083 report which provides a summary analysis of the incentives provided to support the Project and jobs anticipated to be created by the Project.

RECOMMENDATIONS

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

1. Find, based on the independent judgement of the decision-maker, after consideration of the whole of the administrative record, the project was assessed in Mitigated Negative Declaration, No. ENV-2014-564-MND adopted on February 5, 2015; and pursuant to CEQA Guidelines 15162 and 15164, and the addendum (ENV-2014-564-MND-REC1) dated November 2018, no major revisions are required to the Mitigated Declaration; and no subsequent EIR or negative declaration is required for approval of the project;
2. Authorize the Mayor to execute the AECOM Hotel Development Incentive Agreement (HDIA, Attachment A) between the City of Los Angeles and AECOM

Capital to provide, as a conditional obligation, financial support of up to \$17,301,000 net present value;

4. Approve the Government Code Section 53083 report (Attachment B) for the AECOM Hotel HDIA and instruct the Economic and Workforce Development Department to provide periodic reporting on this project as required under Section 53083 of the Government Code, with assistance of the City Administrative Officer, Chief Legislative Analyst, Office of Finance, and other departments as necessary; and
5. Request the City Attorney to prepare and present an ordinance to establish a Special Fund for the purpose of receiving funds and making payments to meet the conditional and administrative obligations associated with the AECOM Hotel HDIA, to be known as the "AECOM Hotel Trust Fund."

FISCAL IMPACT STATEMENT

Approval of the HDIA and the other associated documents will have a net fiscal impact on the City's General Fund. This agreement is expected to result in the development of a hotel with a total of 258 rooms that would generate \$34,602,000 NPV (\$106,532,000 nominal) in new City tax revenues over 25 years upon opening and operation of the hotel. Hotel incentive assistance of \$17,301,000 NPV (\$29,466,000 nominal) would be provided to the Developer, while the General Fund receives \$17,301,000 (\$77,066,000 nominal).

BACKGROUND

On May 4, 2018, Motion (Huizar-Price, CF #18-0399) was introduced 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 Capital, has developed plans for the AECOM Hotel project, which will consist of a sixteen-story select-service hotel at 1155 South Olive Street containing 258 rooms within walking distance of the Los Angeles Convention Center (LACC). The hotel will include all facilities associated with a select-service hotel, including restaurant and retail space, fitness center, and meeting space.

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. The CLA 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 estimated the amount of new revenues that would accrue to the City as a result of project completion. The final report by RSG, transmitted and on file (CF 18-0399), 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 (\$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 (\$29,466,000 nominal) in financial assistance, which is no more than the finance gap in the project and below 50% of net new City revenue generated by the project. The City would receive up to \$17,301,000 NPV (\$77,066,000 nominal) in new General Fund revenues.

On April 30, 2019, Council approved instructions directing the CLA to negotiate final definitive documents to provide an incentive of \$17,301,000 NPV related to construction of the Project.

Planning Review

The following is a summary of the environmental review process and final impacts resulting from the proposed project:

On February 5, 2015 the Department of City Planning issued Mitigated Negative Declaration (ENV-2014-0564-MND), which determined that the project would not have a significant effect upon the environment because the mitigation measures agreed to by the developer prior to the mitigated negative declaration and initial study were issued would reduce any potentially significant adverse effects to a non-significant level. The Deputy Advisory Agency certified that the Mitigated Negative Declaration reflected the independent judgement of the lead agency, determined that the project would not have a significant effect upon the environment, and adopted the Mitigated Negative Declaration. On March 24, 2015 the Zoning Administrator adopted that action.

Hotel Development Incentive Agreement

Following approval of the MOU by Council on April 30, 2019, staff initiated negotiations on the Hotel Development Incentive Agreement necessary to implement the project.

Attachment A provides the HDIA for the AECOM Hotel. The agreement conforms to the approved MOU in all terms as approved by Council on April 30, 2019. The following provides a summary of key terms in the agreement:

- A term of 25 years for all Project requirements, including a covenant to ensure that the site is operated as a hotel and that the community benefits would be provided for the full term.
- The City would establish a special fund to receive and distribute funds associated with the incentive of \$17,301,000 NPV.
- The Developer would provide community benefits, as described in Exhibit C of the HDIA.
- The Developer would comply with Americans with Disabilities Act requirements and obtain the services of a Certified Access Specialist (CASp) during design and construction of the Project, with associated reviews and reports to ensure compliance.
- Payments would be made on an annual basis.
- A cost reconciliation would be conducted on completion of the hotel, with the incentive payment reduced on a dollar-for-dollar basis if the actual cost of construction is lower than projected in the RSG analysis.

- No incentive payment will be made until the Project is operating and generating new revenues to the City.
- Failure to comply with the conditions and requirements of either agreement is grounds for terminating the agreement and ceasing incentive payments.

The HDIA requires that the Developer provide a Room Block Agreement to ensure that when the hotel is in operation it will provide rooms to support Citywide conventions meeting at the LACC. The Room Block Agreement will also ensure that rooms are available for the 2028 Olympic and Paralympic Games.

Government Code Section 53083

A law passed by the State legislature in 2013 amended Government Code Section 53083 to require that local jurisdictions report the amount of financial assistance provided in an economic development project and the number of jobs that project will generate. The jurisdiction is also required to report annually on the status of that assistance during the term of the agreement.

The Government Code Section 53083 report for this Project is provided as Attachment B. The report provides a summary of the HDIA, summarizes the economic impact of the project, and describes the economic opportunities and public purpose of the project. It also reports that the project is estimated to create 397 temporary construction jobs countywide. After opening, the project is estimated to create 221 full-time jobs countywide.

The Economic and Workforce Development Department (EWDD) currently provides periodic Section 53083 reports on other economic development projects in the City. To achieve efficiency and consistency in such reporting, the EWDD should be authorized to receive the necessary information from the Developer and submit the required annual reports for public review, with assistance from the City Administrative Officer (CAO), CLA, Department of Finance, and other departments as needed.

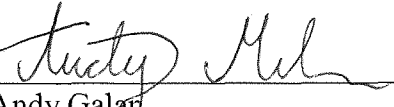
HDIA Administration

The CAO will be responsible for the administration of the HDIA payments and related calculations. The process of determining and making payments on an annual basis wherein the amount is based on actual receipts, and not on a set amount, requires monitoring to ensure timely payments required by the HDIA.

The CAO regularly engages corporate banks for trustee and paying agent services for various bond programs and finds this method to be the most efficient and cost-effective method to handle these transactions. The City has engaged US Bank as trustee for Community Taxing District No. 1 (Convention Center Hotel Project), which has facilitated the administration of this project. The CAO anticipates that they will use a trustee to facilitate administration of Project funding.

The EWDD would provide oversight of all other elements of the HDIA.

The Bureau of Contract Administration (BCA) will be performing labor compliance and local hire monitoring in accordance with the provisions of the HDIA. This will include monitoring and reporting, to be provided by BCA at a reasonable cost.


Andy Galati
Analyst

Attachment A
Attachment B

AECOM Hotel Hotel Development Incentive Agreement
Government Code Section 53083 Report