



ECONOMIC DEVELOPMENT SUBSIDY REPORT

Prepared Pursuant to California Health and Safety Code Section 53083

Grand Avenue Mixed-Use Development
City of Los Angeles

October 27, 2016

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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 mixed-use project on the site located at 100 South Grand Avenue, also known as Parcel Q, in the Bunker Hill area of downtown Los Angeles (“Grand Avenue Mixed-Use Development” or “Project”). The Project is proposed to include a 305-room Equinox-branded hotel, 301 mixed-income apartments, 128 for-sale condominiums, over 210,000 square feet of restaurant and retail space, and a 1,500-space parking structure.

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.

¹ AB 562 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.

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 Related Companies, L.P. (“Developer”). Throughout the United States and internationally, the company develops, acquires, and operates luxury residential, retail, office, hotel, and mixed-use properties. The company’s headquarters is located at 60 Columbus Circle, New York, NY 10023.

EFFECTIVE DATES AND SCHEDULE

The proposed Economic Development Subsidy includes a “Hotel Subsidy” and a “Parking Subsidy.” If approved, both the term of the Hotel Subsidy (“Hotel Subsidy Term”) and the term of the Parking Subsidy (“Parking Subsidy Term”) will commence on the earlier of March 31st or September 30th immediately following the “Completion Date,” the date on which the City issues the certificate(s) of occupancy or temporary certificate(s) of occupancy for the Project.

The Hotel Subsidy Term will continue until the earlier of (a) the date when the maximum allowable Hotel Subsidy amount (detailed in the following section) is paid to the Developer, (b) the 25th anniversary of the Completion Date, or (c) any other termination of the Amended and Restated Implementation Agreement pertaining to the Project (“Agreement”). The Parking Subsidy Term will continue until the earlier of (a) the date when the maximum allowable Parking Subsidy amount (detailed in the following section) is paid to the Developer, (b) the 10th anniversary of the Completion Date, or (c) any other termination of the Agreement.

ECONOMIC DEVELOPMENT SUBSIDY DESCRIPTION

Again, the proposed Economic Development Subsidy includes a Hotel Subsidy and a Parking Subsidy. The Hotel Subsidy is equal to 100 percent of the Transient Occupancy Tax (TOT) revenues generated by the hotel component of the Project during the Hotel Subsidy Term. Per the Agreement, the Hotel Subsidy amount is capped at the aggregate amount of payments which, when discounted to present value as of the Completion Date using a 10 percent discount rate per year, equals \$49,885,480. The Agreement specifies that the \$49,885,480 amount may be reduced based on the audit of the actual hotel construction costs required by the Agreement or increased up to \$59,302,383 if Los Angeles County (“County”) or The Los Angeles Grand Avenue Authority at the County’s instruction provides financial assistance to the Developer to assist in development of the Project.

The Parking Subsidy is equal to 100 percent of the Parking Occupancy Tax revenues generated by the Project’s parking facility during the Parking Subsidy Term. Per the Agreement, the Parking

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Subsidy amount is capped at the aggregate amount of payments which, when discounted to present value as of the Completion Date using a 10 percent discount rate per year, equals \$7,624,000. Upon receiving the maximum allowable Parking Subsidy amount, the Developer is required to pay all monthly net cash flow from the Project's parking facility (net operating income less debt service) to the City until 100 percent of the Parking Subsidy payments received by the Developer has been reimbursed to the City.

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 \$66.9 million (net present value discounted at 10 percent). The estimate is reduced to \$59.3 million (net present value discounted at 10 percent) after accounting for the Developer's reimbursement of 100 percent of the Parking Subsidy. These estimates assume the Developer is paid the highest Hotel Subsidy and Parking Subsidy amounts allowed by the Agreement.

STATEMENT OF PUBLIC PURPOSES

The City's independent consultants conclude that the Project would serve as a catalyst for downtown development and have a net positive impact on the local economy. The consultants estimate that the total permanent direct, indirect, and induced economic output of the Project would exceed \$251.3 million within the City limits and \$272.1 million within the County limits. Furthermore, the total direct, indirect, and induced economic output generated by construction of the Project is expected to exceed \$1.03 billion within the City limits and \$1.08 billion within the County limits. 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 four-year construction period and the first 25 years of operation, the Grand Avenue Mixed-Use Development is expected to generate \$133.3 million in City tax revenue (net present value discounted at 10 percent). Of this estimate, \$59.3 million (44.5%) is TOT, \$26.7 million (20.0%) is property tax, and \$17.6 million (13.2%) is sales tax. The remainder is property tax in lieu of motor vehicle license fees, gross receipts tax, parking occupancy tax, utility user tax, real property transfer tax, and one-time tax revenue (including construction materials sales tax, construction gross receipts tax, and initial property transfer tax). The table on the following page summarizes the City's projected tax revenues generated by the Project through the 25th year of operation.

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25-YEAR CITY TAX REVENUE PROJECTIONS 100 SOUTH GRAND AVENUE, LOS ANGELES

Year	Net New Transient Occupancy Tax	Net New Property Tax	Net New Sales Tax	Net New VLF In-Lieu	Net New Gross Receipts Tax	Net New Parking Occupancy Tax, Years 1-10	Net New Parking Occupancy Tax, Years 11-25	Net New User Utility User Tax	Net New Real Property Transfer Tax	One-Time Tax Revenue	Net New Total
CY 1 2017	\$ -	\$ 103,000	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 377,000	\$ 510,000
CY 2 2018	-	734,000	-	215,000	-	-	-	-	-	1,166,000	2,115,000
CY 3 2019	-	1,390,000	-	408,000	-	-	-	-	-	1,201,000	2,999,000
CY 4 2020	-	2,073,000	-	608,000	-	-	-	-	-	1,469,000	4,150,000
1 2021	4,546,500	2,114,000	1,529,000	620,000	77,000	1,108,000	-	198,000	-	709,000	10,901,500
2 2022	5,166,420	2,156,000	1,575,000	633,000	87,000	1,141,000	-	204,000	35,000	-	10,997,420
3 2023	5,531,120	2,199,000	1,623,000	645,000	93,000	1,175,000	-	210,000	72,000	-	11,548,120
4 2024	5,701,220	2,243,000	1,671,000	658,000	96,000	1,210,000	-	216,000	110,000	-	11,905,220
5 2025	5,871,460	2,288,000	1,721,000	671,000	99,000	1,247,000	-	223,000	113,000	-	12,233,460
6 2026	6,041,700	2,334,000	1,773,000	685,000	102,000	1,284,000	-	229,000	115,000	-	12,563,700
7 2027	6,223,980	2,381,000	1,826,000	698,000	105,000	1,322,000	-	236,000	117,000	-	12,908,980
8 2028	6,418,440	2,428,000	1,881,000	712,000	108,000	1,362,000	-	243,000	119,000	-	13,271,440
9 2029	6,600,860	2,477,000	1,937,000	727,000	111,000	1,403,000	-	251,000	122,000	-	13,628,860
10 2030	6,807,500	2,526,000	1,996,000	741,000	115,000	1,445,000	-	258,000	124,000	-	14,012,500
11 2031	7,001,960	2,577,000	2,055,000	756,000	118,000	-	1,488,000	266,000	127,000	-	14,388,960
12 2032	7,211,960	2,628,000	2,117,000	771,000	122,000	-	1,533,000	274,000	129,000	-	14,785,960
13 2033	7,428,260	2,681,000	2,181,000	787,000	126,000	-	1,579,000	282,000	132,000	-	15,196,260
14 2034	7,651,140	2,735,000	2,246,000	802,000	129,000	-	1,626,000	290,000	134,000	-	15,613,140
15 2035	7,880,740	2,789,000	2,313,000	818,000	133,000	-	1,675,000	299,000	137,000	-	16,044,740
16 2036	8,117,200	2,845,000	2,383,000	835,000	138,000	-	1,726,000	308,000	140,000	-	16,492,200
17 2037	8,360,660	2,902,000	2,454,000	851,000	142,000	-	1,777,000	317,000	143,000	-	16,946,660
18 2038	8,611,540	2,960,000	2,528,000	868,000	146,000	-	1,831,000	327,000	146,000	-	17,417,540
19 2039	8,869,840	3,019,000	2,604,000	886,000	151,000	-	1,886,000	337,000	148,000	-	17,900,840
20 2040	9,135,980	3,080,000	2,682,000	904,000	155,000	-	1,942,000	347,000	151,000	-	18,396,980
21 2041	9,410,100	3,141,000	2,762,000	922,000	160,000	-	2,000,000	357,000	154,000	-	18,906,100
22 2042	9,692,340	3,204,000	2,845,000	940,000	165,000	-	2,060,000	368,000	158,000	-	19,432,340
23 2043	9,983,120	3,268,000	2,931,000	959,000	170,000	-	2,122,000	379,000	161,000	-	19,973,120
24 2044	10,282,580	3,334,000	3,018,000	978,000	175,000	-	2,186,000	390,000	164,000	-	20,527,580
25 2045	10,591,000	3,400,000	3,109,000	998,000	181,000	-	2,251,000	402,000	167,000	-	21,099,000
Total	\$ 189,137,620	\$ 72,009,000	\$ 55,760,000	\$ 21,126,000	\$ 3,204,000	\$ 12,697,000	\$ 27,682,000	\$ 7,211,000	\$ 3,118,000	\$ 4,922,000	\$ 396,866,620
NPV 10%	\$ 59,302,383	\$ 26,722,000	\$ 17,626,000	\$ 7,839,000	\$ 1,002,000	\$ 7,624,000	\$ 5,140,000	\$ 2,280,000	\$ 922,000	\$ 4,858,000	\$ 133,315,383

ESTIMATED NUMBER OF JOBS CREATED

The City's independent consultant utilized an IMPLAN model and IMPLAN zip code-based data to estimate the number of full-time, part-time, and temporary jobs that would be created in the City 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 2013 County of Los Angeles dataset, which was the most recent dataset available for the County in December 2015, when the analysis was completed.

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, apartments, condominiums, restaurants, retail, and parking structure) or temporary jobs (which in this case are jobs associated with construction of the Project). Furthermore, 2015 U.S. Department of Labor data was used to estimate the number of jobs that would be full-time versus part-time.

The IMPLAN model indicates that the Grand Avenue Mixed-Use Development would directly generate the creation of 5,593 jobs in the City, of which 1,996 are estimated to be permanent operations jobs and 3,597 are estimated to be temporary construction jobs. Of the 5,593 total jobs, 4,386 are estimated to be full-time jobs and 1,207 are estimated to be part-time jobs. The table below provides further details, including the number of jobs expected to be indirectly created, the number of jobs expected to be generated in the entire County, and the amount of economic input expected to be generated.

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CITY AND COUNTY JOBS AND ECONOMIC OUTPUT

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<u>CITY OF LOS ANGELES</u>	Direct	Indirect	Induced	Total
Temporary (Construction)				
<i>Employment</i>				
<i>Full Time Employment</i>	2,989	1,049	921	4,959
<i>Part Time Employment</i>	608	865	759	2,232
<i>Economic Output</i>	\$ 618,535,184	\$ 232,217,137	\$ 186,088,385	\$ 1,036,840,706
Permanent (Operations)				
<i>Employment</i>				
<i>Full Time Employment</i>	1,397	170	214	1,781
<i>Part Time Employment</i>	599	140	176	915
<i>Economic Output</i>	\$ 156,383,567	\$ 45,967,147	\$ 49,040,439	\$ 251,391,153

<u>COUNTY OF LOS ANGELES</u>	Direct	Indirect	Induced	Total
Temporary (Construction)				
<i>Employment</i>				
<i>Full Time Employment</i>	2,989	1,133	1,106	5,228
<i>Part Time Employment</i>	608	934	912	2,454
<i>Economic Output</i>	\$ 618,535,184	\$ 246,675,012	\$ 219,934,262	\$ 1,085,144,458
Permanent (Operations)				
<i>Employment</i>				
<i>Full Time Employment</i>	1,397	213	262	1,872
<i>Part Time Employment</i>	599	176	216	991
<i>Economic Output</i>	\$ 156,383,567	\$ 56,555,972	\$ 59,197,443	\$ 272,136,982

Sources: RSG Inc, MIG Inc

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 December 13, 2016, in the City Council's Economic Development Committee at 1 p.m. in Los Angeles City Hall, 200 N. Spring Street, Room 1010 to discuss items related to the proposed disposition and development of the Project, including the Economic Development Subsidy, and again on December 14, 2016, in the City Council meeting at 10 a.m. in Los Angeles City Hall, 200 N. Spring Street, Room 340. The City issued public notice regarding the hearing on December 9, 2016

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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.