



City of Garden Grove



ECONOMIC DEVELOPMENT REPORT & ANALYSIS

B-2 Site - NewAge Garden Grove II, LLC

Nickelodeon Resort Hotel

Prepared Pursuant to Government Code Sections

§53083 and §52201

August 28, 2022

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INTRODUCTION

In 2013, Assembly Bill 562 (“AB 562”) added Section §53083 to the Government Code. 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.

In furtherance of the encouragement of economic development, Assembly Bill 806, adopted in 2016, amended Section §52201 to the Government Code. This law, similar to Section §53083, requires that public agencies who dispose of properties to create economic benefit for the community may do so, provided the legislative body approves the action and certain findings are completed.

The Legislature intended that both §53093 and §52201 promote economic development for local communities while also promoting transparency and accountability in economic development subsidies, similar to annual financial reporting and local fiscal decisions.

This report includes summary information for the proposed project and project public assistance. The information is consistent as required by AB 562- §53083 and AB 806 - §52201 which include a fiscal review and estimated reuse value as necessary to determine the projected revenue generated to benefit the City as well as the cost as part of the economic development plan for the B2-Nickelodeon Resort Hotel Development Project (“Project”). Therefore, this report is intended to address the requirements of Government Codes §53083 and §52201, and is being made available to the public prior to consideration of the proposed Agreement and authorization of the economic development subsidy.

PROJECT DESCRIPTION

In 2016, the City of Garden Grove entered into an Exclusive Negotiation Agreement (ENA) between the City and NewAge Garden Grove, LLC (“Developer”) for the development of approximately 3.72 acres of real property in the City. The ENA provided for the Developer to reduce site acreage, redesign the project, complete the environmental review of the Project and determine the economic feasibility of the project. The Developer encountered a number of development constraints, including rising costs due to worldwide demand for construction materials and associated commodities, then complication due Covid pandemic related impacts. It concluded that the most feasible site for development is a 3.72-acre parcel of the original 10 acre anticipated development site. The 3.72-acre site is comprised of approximately 2.22 acres (“Agency Property”) being conveyed to the Developer pursuant to the Agency DDA and approximately 1.5 acres owned by the City (“City Property”) being conveyed to the Developer pursuant to the City DDA (Site Map, Exhibit “A”). The Agency Property and City Property are collectively referred to as the “Site” for this Report.

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The proposed AAA Four Diamond Hotel Project is anticipated to include 500 guest suites with balconies; themed pool experience with lazy river; storage and loading area at 8,600 square feet; event space with a 600-person theater; a grand ballroom at 9,490 square feet; two meeting rooms at 4,194 square feet and 4,031 square feet; a variety of food and beverage opportunities to be placed throughout the hotel totaling 22,296 square feet; themed amenities totaling 13,238 square feet; 7,000-square foot arcade; and a spa and fitness center at 8,532 square feet. The project is estimated to welcome approximately 750,000 hotel patrons and resort guests per year.

REPORTING REQUIREMENTS OF GOVERNMENT CODE SECTION 53083

Government Code Section 53083 requires that economic development programs involving public revenue sharing assistance include the following information:

1. The name and address of all business entities, except for sole proprietorships, which 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.

REPORTING REQUIREMENTS OF GOVERNMENT CODE SECTION 52201

Government Code Section 52201 requires that economic development programs involving public revenue sharing assistance include the following information:

1. A copy of the proposed acquisition, sale, or lease
2. A summary that describes and specifies all of the following:
 - a. The cost of the agreement to the city, county, or city and county, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the city, county, or city and county, plus the expected interest on any loans or bonds to finance the agreements.
 - b. For the sale or lease of property, the estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the general plan or zoning.
 - c. For the sale or lease of property, the estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market

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- value of the interest to be conveyed or leased, determined at the highest and best use, then the city, county, or city and county shall provide as part of the summary an explanation of the reasons for the difference.
- d. An explanation of why the acquisition, sale, or lease of the property will assist in the creation of economic opportunity, with reference to all supporting facts and materials relied upon in making this explanation.
 - e. The resolution approving the acquisition, sale, or lease shall be adopted by a majority vote unless the legislative body has provided by ordinance for a two-thirds vote for that purpose and shall contain a finding that the acquisition, sale, or lease of the property will assist in the creation of economic opportunity. For the sale or lease of property, the resolution shall also contain one of the following findings:
 - i. The consideration is not less than the fair market value at its highest and best use.
 - ii. The consideration is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the sale or lease.
 - iii. The provisions of this section are an alternative to any other authority granted by law to cities to dispose of city-owned property.

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REQUIREMENTS- GOVERNMENT CODE SECTION 53083

BENEFICIARIES - 1

The business entity that would be a beneficiary of the Economic Development Subsidy is NewAge Garden Grove II, LLC. (“Developer”) and Kam Sang Company, Inc. as the Developer’s Managing Partner. The company’s headquarters is located at 411 East Huntington Drive, Suite 305, Arcadia, CA 91006.

EFFECTIVE DATES AND SCHEDULE -2

The B-2 development project has been part of the City’s planning effort over the past 20 years. Over time the size of the project area and scope of development has evolved and resulted in the proposed Nickelodeon Resort Hotel Project on approximately a 3.72-acre site. The resort project is designed to accommodate a AAA Four Diamond Hotel as compared to the previous projects that included designs and accommodations of a standard 2-star hotel project. The current Disposition and Development Agreement (DDA) outlines a transient occupancy tax (TOT) revenue sharing agreement that assume project commencement and development in mid-year 2023 and will be ready for occupancy in 2026. The DDA is anticipated to commence the year of Project opening in 2026 and will be in place for up to thirty (30) years, at which time the DDA will end.

ECONOMIC DEVELOPMENT SUBSIDY DESCRIPTION – 3

The proposed Economic Development assistance is based solely on the completion of the Nickelodeon Resort Hotel on a site that is currently vacant and undeveloped. The assistance of public revenues for the project is based on those tax revenues not currently being generated or available to the City and will materialize only after the completion of the Nickelodeon Resort Hotel Project.

It is important to note that the proposed public assistance is based strictly on two key components: 1) project completion, and 2) project generated transient occupancy tax (TOT) collected by the City. It is important to note, the TOT revenue source, and other revenue sources such as sales tax and property tax, are NOT currently being generated from the Site, which has been vacant for almost 2 decades.

All revenue sharing assistance amounts will be solely generated by Site development. If approved, the terms for sharing the Transient Occupancy Tax (TOT) generated public revenue is documented in the Disposition and Development Agreement and include a covenant that address the detail of the public revenue sharing terms.

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The Developer has proposed, that in order to make the Development feasible and a reality, the City provide a public revenue sharing program based on TOT tax generation. Generally, tax sharing programs allow public agencies to reinvest a portion of public revenues generated from Site development into an identified project that requires assistance. Public reinvestment and assistance provides for a sustainable and feasible new community asset, such as the resort hotel proposed in the City. The Developer has identified a public revenue sharing amount of up to a maximum of \$93 million which will account for a feasible development.

Over thirty (30) years the Project is estimated to generate in Transient Occupancy Tax, Sales Tax, Measure O Tax, and Project Property Tax of approximately \$329.4 million. This public revenue would not be otherwise generated if the Nickelodeon Resort Hotel Project is not developed.

The Developer, in order to achieve a feasible project, including Developer equity and third (3rd) party financing, requires a public revenue sharing agreement that allows up to a maximum of \$93 million in project assistance over a term not to exceed thirty (30) years.

A summary of Project total public revenue generated, proposed public assistance to the Project, and Project net public revenue generated (approximately \$236.4 million retained by the City) is provided in **Table 1** below. The precise terms of the assistance are addressed in the Development and Disposition Agreement (DDA) that is attached to this report.

Table 1

Project Generated Gross Tax Revenues Over 30 Year Term: City Receipts/Total	
<i>Property Tax</i>	\$7,769,801
<i>Sales Tax & Measure O</i>	\$62,147,092
<i>Transient Occupancy Tax (TOT)</i>	\$259,433,489
Gross Estimated Tax Collected	\$329,350,383
Project Economic Development Subsidy Over 30 Year Term: Developer Assistance	
<i>Property Tax</i>	\$0
<i>Sales Tax & Measure O</i>	\$0
<i>Transient Occupancy Tax (TOT)</i>	\$93,000,000
Gross Economic Assistance	\$93,000,000
Project Generated Gross Tax Revenues Over 30 Year Term: City Net Revenue & General Fund Receipts Retention	
<i>Property Tax</i>	\$7,769,801
<i>Sales Tax & Measure O</i>	\$62,147,092
<i>Transient Occupancy Tax (TOT)</i>	\$166,433,489
Gross Estimated Tax - General Fund Revenue	\$236,350,383

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STATEMENT OF PUBLIC PURPOSES -4

The loss of redevelopment has left the City of Garden Grove, as well as all cities statewide, with a loss of local resources to encourage economic development and maintain City services. The California Legislature and Governor Brown made the decision to terminate redevelopment which removed the single largest economic tool available to local agencies. Following the decision to terminate statewide redevelopment, the Governor and Legislature recognized the necessity of cities, counties and the State to encourage employment, retain jobs and companies in California.

With the adoption of Assembly Bill 562 in 2013, and codified as California Government Code Section §53083, the California Legislature recognized the authority of local officials to use their regulatory powers, direct spending, and tax policies to influence where, when, and how the private sector invests capital and improves real property.

The City has concluded that the Project would serve as a continued catalyst for the City hotel corridor and provide a significant net positive financial impact on the entire local economy. It is estimated that the total permanent direct, indirect and induced economic output of the Project during the 30-year public assistance program will provide approximately \$2 billion in project generated financial contribution to the City and region. Additionally, the City and region will realize an estimated 2,800 jobs.

The B-2 adopted Planned Unit Development and the Disposition Development Agreement (DDA) provide a comprehensive set of plans, design guidelines, regulatory standards, and administrative and implementation programs which act as a regulatory 'bridge' between the City of Garden Grove's General Plan and project level development within the DDA.

The B-2/Nickelodeon Resort Hotel design guidelines within the DDA provide for and requires a high-quality AAA Four Diamond Resort Hotel to be constructed on the identified Site. The resort will contain 500 guest suites with balconies, themed pool experience with lazy river, 600-person theater, grand ballroom, meeting rooms, variety of food and beverage opportunities, themed amenities, 7,000-square foot arcade, and a spa and fitness center.

The City has concluded that the Development and its adjacency to the Disneyland resort and hotels that welcomes over 17 million visitors a year, the Great Wolfe attraction and Resort hotel and adjacency to two (2) major Freeways, I-5 and 91, will serve as a catalyst for future City developments that will continue to provide a net positive impact on the local economy. The City estimates that the total estimated direct economic output of the Project will exceed \$1.75 billion, produced by expenditures at the Resort and other spin-off sales within the City limits through the 30 years of the public assistance agreement.

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Additionally, the total direct economic output generated by construction of the Project is expected to exceed \$277 million within the City limits.

30-YEAR CITY TAX REVENUE PROJECTION - 5

Throughout the construction period and the first 30 years of operation, the Nickelodeon Resort Hotel Development Project is expected to generate approximately \$236.4 million in City tax revenue. Of this, \$166.4 million (70.4%) is TOT, \$7.8 million (3.3%) is property tax, and \$62.1 million (26.3%) is sales tax. The table on the following page summarizes the City's projected tax revenues generated by the Project through the 30th year of operation.

Project Generated Gross Tax Revenues Over 30 Year Term: City Net Revenue & General Fund Receipts Retention	
<i>Property Tax</i>	\$7,769,801
<i>Sales Tax & Measure O</i>	\$62,147,092
<i>Transient Occupancy Tax (TOT)</i>	\$166,433,489
Gross Estimated Tax - General Fund Revenue	\$236,350,383

ESTIMATED NUMBER OF JOBS CREATED - 6

The Nickelodeon Resort Hotel Development is both a local and regional catalytic project. Over a 30 year period, the completed Nickelodeon Resort Hotel Development will have a financial impact within the City and region in excess of \$2 billion dollars. Benefits attributable to the Project will include jobs created and revenues generated from Project hotel stays, retail sales, spin off of jobs, and tourism expenditures for services such as dining, fuel, attractions, and other visitor demands. The Development is expected to create and support over two thousand jobs, many which will be local.

Project construction is estimated to exceed \$277 million dollars. The Development is expected to create approximately 1,000 jobs through construction and permanent full time equivalent positions. In addition to the direct jobs created by the Project, indirect and induced jobs generated for the community, area, and region are expected to be one thousand eight hundred (1,800) jobs.

This innovative project will ignite other development within the local and regional vicinity. This spin off effect will create further investment, local jobs, and amenities for residents and public revenues.

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The Development is estimated to generate the following number of direct full-time equivalent jobs as well as indirect and induced jobs as a result of the development which is directly dependent upon the City’s Economic Development assistance program:

Job Creation Estimation	
Full Time Equivalent (fte)	
Project	
<i>Construction Jobs</i>	600
<i>Hotel Jobs</i>	
<i>Full Time</i>	380
Project Total	980
Local Community & Region	
<i>Local Spin-Off/ Multiplier Effect</i>	1,790
Project Related Total Estimated Job Creation	2,770

**EPI - estimated job creation - 10 jobs per \$1 million expended*

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REQUIREMENTS- GOVERNMENT CODE SECTION §52201

COPY OF THE PROPOSED ACQUISITION, SALE OR LEASE – 1

The agreement, Disposition and Development Agreement (DDA) is between The City of Garden Grove and the NewAge Garden Grove II, LLC. The DDA is included as Attachment A.

The business entity that would be the beneficiary of the Economic Development Subsidy is NewAge Garden Grove II, LLC. (“Developer”) with Kam Sang Company, Inc., as its Managing Partner. The company’s headquarters is located at 411 East Huntington Drive, Suite 305, Arcadia, CA 91006.

A summary of the DDA is as follows:

- The DDA includes the purchase price, indemnity and insurance provisions, and other provisions customary to disposition and development of property as entered into by the City.
- City shall contribute to the Developer, based on the Covenant in the DDA, public assistance consideration payments in an amount equal to sixty percent (60%) of the Transient Occupancy Tax (“TOT”) collected and remitted to the City during the 30-year Operating Period based on the applicable TOT rate and City TOT collection, with respect to the Proposed Project. The DDA and covenant provides for a public assistance amount of up to \$93 million with a term not to exceed 30 years. The public assistance amount could be achieved in less than 30 years. Conversely, if the 30-year tax sharing term expires and the \$93 million has not been achieved by the project, the amount of public assistance will be less.
- The Developer’s submittal indicates the costs to develop the hotel rooms will meet or exceed the minimum requirements of \$250,000 per key for shell costs and \$45,000 per key for FF&E costs.
- Developer shall comply with the Prevailing Wage Statutes and use not less than 40% for union labor.
- The Developer shall purchase the 19 parcels associated with the Resort hotel for \$920,000.
- It is estimated that the total resort costs will be approximately \$277 million dollars for land, soft costs, and construction of resort hotel, parking and associated resort attractions.

See Attachment A for the Complete DDA.

SUMMARIES THAT DESCRIBE AND ADDRESS THE FOLLOWING 5 PROJECT AREAS - 2

2a)

The cost of the agreement to the city, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the City plus the expected interest on any loans or bonds to finance the agreements.

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The Site being developed contains 19 parcels that have been acquired over the past 2 decades.

The common addresses of the parcels involved in the DDA are: 12241, 12261, 12271, 12291, 12311, and 12323 Harbor Boulevard and 12246, 12252, 12262, 12282, 12292, 12312, 12322, 12251, 12261, 122281, 12291, 12311, and 12321 Thackery Drive. The combined parcels are approximately 3.72 acres.

The acquisition costs related to the 19 parcels, including parcel acquisition purchase prices, relocation, demolition, and associated costs are approximately \$9.7 million (excluding interest and other financial costs) as documented by the City.

CITY RELATED ACQUISITION COSTS	
<i>Acquisition costs</i>	\$8,349,384
<i>Appraisal</i>	\$81,800
<i>Relocation</i>	\$734,798
<i>Demolition /Site Clearance</i>	\$528,472
TOTAL	\$9,694,454

The City and Developer have agreed as part of the terms of the DDA and the feasibility of the Resort Hotel development, that the Developer will pay the City \$920,000 for the 3.72-acre site.

DEVELOPER LAND PURCHASE PRICE DISPOSITION AND DEVELOPMENT AGREEMENT	
<i>Acquisition costs</i>	\$920,000

The price being paid by the Developer for the site to achieve project feasibility indicates that the City will provide a net land contribution of approximately \$8,774, 500.

CITY PROJECT LAND COST BASED ON DISPOSITION AND DEVELOPMENT AGREEMENT	
<i>Net Land Cost to City</i>	\$8,774,454

The DDA also provides that City and Developer will enter into a covenant that provides public assistance payments that are derived from TOT generated by the AAA Four Diamond Resort Hotel Project to the Developer. The sharing of a Transient Occupancy Tax (TOT) generated by the resort hotel is regarded as public assistance under both Government Code §53083 and §52201.

The terms of the DDA and public assistance formula is based on an amount equal to sixty percent (60%) of the Transient Occupancy Tax (TOT) collected and remitted to the City during the 30-year

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operating period. The public assistance is based on the applicable TOT rate and City TOT collection, which will vary from year to year of the Project subject to hotel occupancy and TOT rate charged by the City.

The DDA and covenant provides for a public assistance amount of up to \$93 million. The assistance is limited to TOT collected from the resort hotel over 30 years. The public assistance amount could be achieved in less than 30 years. Conversely, if the 30-year tax sharing term expires and the \$93 million has not been achieved by the project, the amount of public assistance will be less than the projected \$93 million.

Based on the land costs incurred by the City and the amount of public assistance in the form of TOT sharing covenant in the DDA, the Developer is expected to receive up to \$103 million in public assistance over a 30 year period. Based upon the net present value (NPV) of the public assistance provided to the Developer for the Project, the land contribution and TOT public assistance has an approximate NPV of \$56.3 million. The public assistance NPV value of \$56.3 million is representative of the estimated assistance in today's values.

The City does not anticipate that it will incur any loans, interest, or bonds associated with the DDA and public assistance.

2b)

For the sale of property, the estimated value of the interest to be conveyed, determined at the highest and best uses permitted under the general plan or zoning.

In July 2022, the City commissioned multiple appraisals by RP Laurain & Associates (RPLA). RPLA was tasked to assist the City in estimating the value for the interest to be conveyed pursuant to the DDA and Government Code §53083 and §52201. Based on the information provided by RPLA, the estimated Site value is \$9.7 million.

As noted above in 2a, the Developer is purchasing the development site for \$920,000. Therefore the amount of net value of the interest being conveyed is the difference between \$9.7 million and the \$920,000. The DDA, as part of the public assistance is conveying the development Site for approximately 9.5% of the value of the site as estimated through the valuations presented by RPLA.

2c)

For the sale of property, the estimated value of the interest to be conveyed, determined at the use and with the conditions, covenants, and development costs required by the sale. The purchase price to be made as part of the agreement. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use, then the city, county, or city and county shall provide as part of the summary an explanation of the reasons for the difference.

The DDA and related covenants require that the Developer construct a AAA Four Diamond Hotel, full service, Nickelodeon Resort Hotel that is a significantly higher quality project than was initially envisioned in the B-2 Planned Unit Development area and original DDA. The cost differential

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between the AAA Four Diamond Resort Hotel and a standard 2-star hotel, with the amenities addressed in the Nickelodeon DDA, is expected to have total project costs that are a minimum of double the cost to two-thirds more to provide the described resort hotel and associated amenities. The full service 4-star Nickelodeon Resort Hotel as defined in the DDA will include 500 upscale guest suites with balconies, themed pool experience with lazy river, a 600-person maximum occupancy theater, a grand ballroom, meeting rooms, a variety of food and beverage opportunities to be placed throughout the hotel, themed amenities, game arcade, and a spa and fitness center. The project is estimated to welcome approximately 750,000 hotel patrons and resort guests per year.

The DDA anticipates that the site will be transferred to the Developer at \$920,000 which is approximately 9.5% of the fair market value of the Site based upon RPLA appraisals, which indicate an estimated fair market of \$9.7 million.

The DDA terms and covenants require that the Developer deliver a AAA Four Diamond Resort Hotel quality project. The fair market value for the land cannot be realized due to the development requirements and cost of construction. Tierra West Advisors has estimated that the AAA Four Diamond full service Resort Hotel project costs required in the DDA, as compared to a standard 2-star limited service hotel, is approximately 45% to 65% more in development costs. The development costs are attributable to the finishes provided in lobby, individual rooms, meeting areas, water park features, resort attractions, and provisions required to provide a 4-star Resort.

The following is a brief comparison between the estimated cost to construct the 4-star Nickelodeon Resort Hotel and a 2-star limited service standard hotel as determined through Tierra West Advisors’ research.

4 STAR RESORT HOTEL VS 2 STAR HOTEL COMPARISON		
<i>Land Value</i>	\$10,600,000	\$10,600,000
<i>construction costs</i>	\$214,700,000	\$96,615,000
<i>FFE/contingency</i>		
<i>Soft Costs</i>	\$29,800,000	\$10,430,000
<i>PreDev/Fin costs</i>	\$22,400,000	\$11,200,000
<i>Total Project Costs</i>	<u>\$277,500,000</u>	<u>\$128,845,000</u>
<i>Cost Per Room - 500</i>	\$555,000	\$257,690

As noted, land value remains constant, but the impact to construction costs and soft costs, especially in the area of design related to attractions, water features, amenities, rooms and general upgrades required for AAA Four Diamond rated resort hotel projects impact development costs significantly.

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2d)

An explanation of why the sale of the property will assist in the creation of economic opportunity, with reference to all supporting facts and materials relied upon in making this explanation.

The Site has been assembled over the past 2 decades and during the time the parcels have been vacant and not generating any form of revenue. The City has actively pursued development of these parcels. However, impediments, such as Developer failure to proceed, recession, and loss of Redevelopment have made the development of these parcels infeasible. Following the decision to terminate Redevelopment, the Legislature recognized the necessity of cities, counties and the State to encourage employment, and retain jobs and companies in California.

The adoption of Government Code Sections §53083 and §52201 by the California Legislature recognized the authority of local officials to use their regulatory powers, direct spending, and tax policies to influence where, when, and how the private sector invests capital and improves real property.

The City has concluded that the Project would serve as a continued catalyst for the City hotel corridor and provide a significant net positive financial impact on the entire local economy. It is estimated that the total permanent direct, indirect and induced economic output of the Project during the 30 year public assistance program will provide approximately \$2 billion in project generated financial contribution to the City and region. Additionally, the City and region will realize an estimated 2,800 jobs.

Job Creation Estimation	
Full Time Equivalent (fte)	
Project	
<i>Construction Jobs</i>	600
<i>Hotel Jobs</i>	
<i>Full Time</i>	380
<i>Project Total</i>	980
Local Community & Region	
<i>Local Spin-Off/ Multiplier Effect</i>	1,790
Project Related Total Estimated Job Creation	2,770

*EPI - estimated job creation - 10 jobs per \$1 million expended

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The B-2 adopted Planned Unit Development and the Disposition Development Agreement (DDA) provide a comprehensive set of plans, design guidelines, regulatory standards, and administrative and implementation programs which will serve as the development plan to complete the resort hotel on a site that has been vacant over a 2 decade period.

The B-2/Nickelodeon Resort Hotel design guidelines within the DDA provide for and require a high-quality AAA Four Diamond Resort Hotel to be constructed on the identified Site. The resort will contain 500 guest suites with balconies, themed pool experience with lazy river, 600-person theater, grand ballroom, meeting rooms, variety of food and beverage opportunities, themed amenities, 7,000-square foot arcade, and a spa and fitness center.

The City has concluded that the Development and its adjacency to the Disneyland resort and hotels that welcomes over 17 million visitors a year, the Great Wolfe attraction and Resort hotel and adjacency to two (2) major Freeways, I-5 and 91, will serve as a catalyst for future City developments that will continue to provide a net positive impact on the local economy. The City estimates that the total estimated direct economic output of the Project will exceed \$1.75 billion, produced by expenditures at the Resort and other spin-off sales within the City limits through the 30 years of the public assistance agreement.

Additionally, the total direct, economic output generated by construction of the Project is expected to exceed \$277 million within the City limits.

The Site is currently undeveloped and not currently providing any economic impact to the City or region. The 4-star Nickelodeon Resort Hotel is anticipated to provide net revenues to the City as noted below:

Project Generated Gross Tax Revenues Over 30 Year Term: City Net Revenue & General Fund Receipts Retention	
<i>Property Tax</i>	\$7,769,801
<i>Sales Tax & Measure O</i>	\$62,147,092
<i>Transient Occupancy Tax (TOT)</i>	\$166,433,489
Gross Estimated Tax - General Fund Revenue	\$236,350,383

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2e)

The resolution approving the acquisition, sale, shall be adopted by a majority vote unless the legislative body has provided by ordinance for a two-thirds vote for that purpose and shall contain a finding that the sale of the property will assist in the creation of economic opportunity. For the sale or lease of property, the resolution shall also contain one of the following findings:

- i. The consideration is not less than the fair market value at its highest and best use.
- ii. The consideration is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the sale or lease.
- iii. The provisions of this section are an alternative to any other authority granted by law to cities to dispose of city-owned property.

The total project development costs and financial returns are such that the fair reuse value of the land is less than the fair market value of the land. The City's consultant, HTL Hospitality Advisors reviewed the costs for the Nickelodeon Resort Hotel development as presented by the Developer and prepared an independent development cost analysis as described by the terms of the DDA. The Developer and HTL have indicated that the project costs for the Nickelodeon Resort Hotel is \$277 million, which assumes a contingency to accommodate the unique project development aspects of the proposed Resort. The unusual designs, custom fabrication, amenities, fixturization, equipment for all aspects of the Resort will most likely lead to development cost increases that may exceed the estimated developments costs to construct the AAA Four Diamond Nickelodeon Resort Hotel as defined in the DDA and Developer presentations.

PROJECTED NICKELODEON RESORT HOTEL DEVELOPMENT COSTS	
<i>Land Value - FMV</i>	\$10,600,000
<i>Project Development Cost</i>	\$254,200,000
<i>contingency</i>	\$12,700,000
<i>Total Project Costs</i>	\$277,500,000
<i>estimate per key - 500</i>	\$555,000

For the purposes of this reuse analysis, Tierra West Advisors has assumed that the Developer, based on its strong successful track record in the hotel industry and other special use developments, will be successful in maintaining and managing project and development costs at \$266.9 million. Total project costs with land at fair market value and construction is estimated at \$277.5 million.

HTL developed a detailed operating proforma for the Nickelodeon Resort Hotel to provide and independent review of the operations of the resort over a 10-year period. The cash flow analysis was designed to compare the information provided by the Developer as well as to determine a value

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of the resort project based on net cash flow derived from the project to determine Project value. Net cash flow used to determine values of operating business is traditionally based on earnings before interest, tax and amortization (EBITA).

The Developer and HTL, as is typical of most financial operating pro formas analyses developed by investors, advisors, banks and other entities, assumes that a business will require a few years for ramp up of the operation to allow for stabilization of the operations of the business. HTL developed its standard 10 year operating pro forma that calculated the present value, applying a 13% discount rate and assumed sale of the project in the 10th year (standard financial assumption applied by investors, developers, lending institutions and consultants to determine value and calculate reuse value). The operating proforma resulted in a present value of \$162.3 million of net receipts.

As noted, total development costs of the Resort and fair market value of the land involved is projected to be \$265.5 million. The operating proformas prepared by HTL and the Developer indicate that the total present value of net operating cash flow, EBITA, over a 10-year analyses provides \$162.3 million in net receipts.

The differential between the total cost of development of \$265.3, excluding contingencies, and present value of net cash flow over 10 years of operations is \$162.3 million. The difference between total project costs and net cash flow from operations is approximately \$103 million.

PROJECT FEASIBILITY FINANCIAL GAP OR SHORTFALL	
<i>Total Project Costs</i> <i>(excluding construction contingency)</i>	\$265,300,000
<i>Less - Present Value of 10 Year Net Cash Flow</i>	\$162,300,000
<i>Project Shortfall</i>	\$103,000,000
estimate per key - 500	\$206,000

In order to develop the Nickelodeon Resort Hotel development, the project must be financially feasible. The Project development costs less the present value of the Project in the 10th year, indicates that the Project is not feasible without public assistance. The financial shortfall of \$103 million, as demonstrated in the chart above, must be addressed to make the project a reality.

The City and Developer have agreed to address the Project financial shortfall in the terms of the DDA. The DDA provides that the project cost shortfall be addressed through 2 primary public economic development assistance components:

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- 1) provide the land required to develop the resort project at less than fair market value of \$10.6 million, but at a fair reuse value of \$920,000 to allow for project feasibility and financeable; and,
- 2) provide public assistance based on the operation of the hotel through a TOT sharing agreement that would provide up to \$93 million dollars over a term not to exceed 30 years.

The public assistance in the form of offering the site at its fair reuse value based on the covenants and conditions and development costs and the proposed TOT public assistance revenue sharing program provide the necessary financial support to make the Nickelodeon Resort Hotel a feasible project and future reality.

PROJECT FEASIBILITY PUBLIC ASSISTANCE PROVIDE FAIR MARKET LAND VALUE CONTRIBUTION & TOT PUBLIC ASSISTANCE	
<i>Land Value Contribution*</i>	\$10,000,000
<i>TOT Sharing over 30 Years</i>	\$93,000,000
<i>Total Warranted Project Public Assistance</i>	\$103,000,000
estimate per key - 500	\$206,000

**(including costs incurred by City for assemblage)*

Therefore, the consideration for the Site is not less than the fair reuse value based at the use and with the covenants and conditions and development costs authorized by the sale or lease.

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CONCLUSIONS FOR ECONOMIC DEVELOPMENT REPORT FOR

AB 562- §53083 and AB 806 - §52201

The proposed AAA Four Diamond Nickelodeon Resort Hotel will provide a significant financial revenue generator and job creation for the City.

- Over the 30-year study period the City is anticipated to receive over \$236.4 million in related tax revenues from TOT, Sales, and Property Taxes.
- During this period the Project will provide 1,000 jobs through construction and direct jobs at the Resort.
 - Indirect and induced jobs as a result of the Resort Hotel is anticipated to exceed 1,800 jobs in the region.
- The City is receiving the fair reuse value for the land involved in the transaction due to the gap in development and operational costs.
- The public assistance provided through the TOT sharing agreement in the DDA is appropriate for this project and consistent with public agencies and hotel developments.
- The proposed public assistance to financially support the Project is based on and subject to the Developer and Project completion
- Public Assistance in these formats is common practice, especially involving full Service AAA Four Diamond resort hotels such as the proposed Nickelodeon Resort Hotel in Garden Grove.

