

**OCEANSIDE PIER RESORT HOTEL
OCEANSIDE, CALIFORNIA**

ECONOMIC DEVELOPMENT SUBSIDY REPORT

**California Government Code
Section 53083**

**PURSUANT TO PROPOSED DISPOSITION AGREEMENT AND ESCROW INSTRUCTIONS
BETWEEN
S.D. MALKIN PROPERTIES, INC.
AND
SUCCESSOR AGENCY OF THE CITY OF OCEANSIDE**

**Successor Agency of the
City of Oceanside, California**

August 2014

TABLE OF CONTENTS

I.	Introduction	1
II.	Name and Address of Business Entity Receiving Subsidy	5
III.	Description of Economic Subsidy	6
IV.	Start and End Dates of Subsidy	9
V.	Public Purpose of Subsidy	10
VI.	Projected Tax Revenue to City Resulting from the Subsidy	11
VII.	Estimated Number of Jobs Created by the Subsidy	12
VIII.	Limiting Conditions.....	13

I. INTRODUCTION

A. Purpose of Report

This Economic Development Subsidy Report (Report) was prepared in accordance with Section 53083 of the California Government Code in order to inform the City Council of the City of Oceanside (City) and the public of the proposed economic subsidy provided by the City to S.D. Malkin Properties Inc. (Developer) as described in the Disposition Agreement and Escrow Instructions (Agreement) approved by the Oversight Board of the City of Oceanside Successor Agency on July 22, 2014. The proposed subsidy is included in the proposed Transient Occupancy Tax (TOT) Covenant between the City and the Developer.

The Developer intends to construct, develop, and operate a four-star resort hotel development consisting of 360 hotel rooms, retail shops, restaurants, and fitness center totaling approximately 355,000 square feet (SF) of building area (Project). The Project will be constructed in two phases on 2.75 acres located between Pier View Way, Myers Street, Seagaze Drive, and Pacific Street (Property). The first phase will consist of a 225-room full-service resort hotel (Phase I Hotel) and the second phase will consist of a 135-room boutique hotel (Phase II Hotel).

The Report describes and specifies:

- (1) The name and address of the business entity that is the beneficiary of the Economic Development Subsidy;
- (2) The subsidy and the estimated total amount of the expenditure of public funds as result of the subsidy;
- (3) The start and end dates of the subsidy;
- (4) The public purpose of the subsidy;
- (5) The projected tax revenue to the City as a result of the subsidy; and
- (6) The estimated number of jobs created by the subsidy.

B. Summary of Findings

The City engaged its economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the financial terms contained in the Agreement. The principal KMA conclusions are summarized as follows:

- Under the terms of the Agreement, the City will provide an Economic Development Subsidy to the Developer totaling \$13,668,267 (present value).
- The Project is projected to generate \$30,739,000 to the City in Transient Occupancy Tax (TOT), property tax, and sales tax, over the first 15 years of operations of the Phase I Hotel and over the first 14 years of operations of the Phase II Hotel (future dollars, net of TOT contribution to Developer).
- The Project is expected to generate a total of 105 jobs during a two-year construction period and 225 permanent full-time jobs and 55 part-time jobs at Project build-out and stabilization.

C. Description of Area and Proposed Project

Description of Property and Environs

The Property consists of 120,000 SF, and is located on the east side of Pacific Street, between Pier View Way and Seagaze Drive. The Property comprises two blocks divided by Mission Avenue. The block north of Mission Avenue (North Block) is vacant; and the block south of Mission Avenue (South Block) is vacant with the exception of one residential structure. Other uses surrounding the Property include small retail establishments, the Wyndham Oceanside Pier Resort, SpringHill Suites, and public parking lots. The Property benefits from its bluff-top location above the beach and pier, and direct access from Interstate 5 via Mission Avenue. In addition, the Property is within walking distance of the Oceanside Transit Center (bus and rail) and commercial establishments in Downtown Oceanside.

Proposed Project

Table I-1 provides a summary of the physical characteristic of the proposed Project. The proposed Project will consist of a 225-room full-service resort hotel on the South Block (Phase I Hotel) and a 135-room boutique hotel on the North Block (Phase II Hotel). The Project will also include 21,000 SF of meeting space, 13,000 SF of retail/restaurant space, and a 7,000-SF spa and fitness center. The Project will be served by 540 parking spaces located in a two-level subterranean garage on the South Block (and under Mission Avenue) and a one-level subterranean garage on the North Block.

Table I-1: Project Description			
	South Block Phase I Hotel	North Block Phase II Hotel	Total
Rooms	225 Rooms	135 Rooms	360 Rooms
Gross Building Area (GBA)			
Hotel Room	100,000 SF	54,000 SF	154,000 SF
Meeting Space	16,000 SF	5,000 SF	21,000 SF
Retail/Restaurant	5,000 SF	8,000 SF	13,000 SF
Spa	5,500 SF	1,500 SF	7,000 SF
Lobbies & Circulation	<u>111,000 SF</u>	<u>49,000 SF</u>	<u>160,000 SF</u>
Total GBA	238,000 SF	117,000 SF	355,000 SF
Parking	391 Spaces	149 Spaces	540 Spaces

D. Proposed Transaction Terms

This section summarizes the salient aspects of the business terms contained in the Agreement.

- The City will convey fee simple title to the Property to the Developer. The Property will be conveyed in two phases. Phase I, consisting of the South Block, will be conveyed to the Developer for a Purchase Price of \$750,000. Phase II, consisting of the North Block, will be conveyed to the Developer for a Purchase Price of \$750,000.
- The Developer will construct and operate 360 hotel rooms in two phases, as follows:
 - The Phase I Hotel will consist of a 225-room full service Westin Resort (or its equivalent) of four-star quality, consistent in quality and amenities to the Sheraton Carlsbad, Marriott Del Mar, Hilton Huntington Beach, and Marriott Coronado.
 - The Phase II Hotel will consist of 135 rooms, consistent in quality and amenities to the Indigo Hotel in San Diego, the Shorebreak Hotel in Huntington Beach, and the Pacific Terrace Hotel in San Diego.
- The Developer will also construct 18,500 SF of visitor commercial space; a 6,400-SF ballroom in the Phase I Hotel; 20,000 SF of pre-function, function, and meeting space (inclusive of the Phase I Hotel ballroom); and at least 36,000 SF of open space in both Phases, including interior public amenities.
- The Project will be developed at one time or in phases, with the Phase I Hotel developed first.

- If the Phase I Hotel is developed first, the Phase II Hotel must be under construction two years following completion of the Phase I Hotel.
- Prevailing wages will be paid to all contractors and subcontractors employed by the Developer in connection with the first major construction of the Project pursuant to California Labor Code Section 1770.
- Restrictive covenants on the use of the Project as a hotel will have a term of 75 years.

II. NAME AND ADDRESS OF BUSINESS ENTITY RECEIVING SUBSIDY

The Economic Development Subsidy provided under the Agreement will be paid, or otherwise credited, to the Developer, under the name:

**S.D. Malkin Properties Inc.
835 Fifth Avenue, Suite 401
San Diego, CA 92101**

S.D. Malkin Properties was selected by the City to develop the Project in a response to a Request for Qualifications issued by the City's Community Development Commission in Spring 2004.

III. DESCRIPTION OF ECONOMIC DEVELOPMENT SUBSIDY

The City will provide the Developer a subsidy totaling \$13,668,267, broken out as follows:

Table III-1: Economic Development Subsidy	
Transient Occupancy Tax (TOT) Payments to Developer	\$11,335,250
Off-site Mitigation	\$609,750
Development Impact Fee (DIF) Credit	<u>\$1,743,267</u>
Total Economic Development Subsidy	\$13,688,267

A. TOT Payments to the Developer

As indicated in Table III-1, \$11,335,250 of the subsidy will be derived from Transient Occupancy Tax (TOT) revenues paid to the Developer from the operation of the Phase I and Phase II Hotels. Of this amount, \$9,075,250 (Net Present Value)¹ will be attributed to the Phase I Hotel and \$2,260,000 (Net Present Value)² will be attributed to the Phase II Hotel.

Allocation of TOT Revenues between the City and Developer during the first 15 years of operations of the Phase I Hotel, and the first 14 years of operations of the Phase II Hotel, will be as follows:

Phase I Hotel

Table III-2: Allocation of TOT Revenues – Phase I Hotel		
Operating Year	Share to City	Share to Developer
Years 1 - 3	0%	100%
Years 4 – 15 – Based on TOT Revenue Thresholds (1)		
\$1 - \$200,000	75%	25%
\$200,001 - \$400,000	50%	50%
\$400,001 - \$600,000	20%	80%
\$600,001 and above	0%	100%
(1) The revenue thresholds will increase by 3.0% per year beginning in Operating Year 2.		

¹ Present value at 12% discount rate at Close of Escrow for Phase I Hotel, i.e., assumed to be start of fiscal year 2017.

² Present value at 12% discount rate at Close of Escrow for Phase II Hotel, i.e., assumed to be start of calendar year 2019.

Phase II Hotel

Table III-3: Allocation of TOT Revenues – Phase II Hotel		
Operating Year	Share to City	Share to Developer
Years 1 - 3	0%	100%
Years 4 – 14 – Based on TOT Revenue Thresholds (1)		
\$1 - \$250,000	100%	0%
\$250,001 - \$500,000	50%	50%
\$500,001 - \$750,000	15%	85%
\$750,001 and above	0%	100%
(1) The revenue thresholds will increase by 3.0% per year beginning in Operating Year 2.		

TOT revenues up to \$1,124,100 from the first three (3) years of Phase II Hotel operations will be transferred to the Phase I Hotel and allocated toward the \$9,075,250 (present value) in subsidy provided to the Developer for the Phase I Hotel.

B. Off-site Mitigation

The City will provide \$609,750 toward the Project’s traffic mitigation costs as part of its Mission Avenue Improvement program. As shown in Table III-4, these costs include the following:

Table III-4: Off-site Mitigation	
Traffic Signal at Clementine and Mission	\$72,000
Traffic Signal at Cleveland and Mission	\$62,000
Traffic Signal at Myers and Mission	\$100,000
Rail Safety Improvements at Mission and RR tracks	\$200,000
Improve Home and Mission	\$50,750
Myers St. Improvements	\$100,000
Pedestrian Access	<u>\$25,000</u>
Total Off-site Mitigation	\$609,750

C. Development Impact Fee Credit

On January 21, 2014, the Oversight Board authorized the expenditure of \$1,743,267 of former Redevelopment bond proceeds for downtown improvements. These bond proceeds were previously set-aside for hotel off-site improvements. Because these downtown improvements are supplemental to the Project, a direct credit against the Project's Development Impact Fees (DIFs) will be provided. As shown in Table III-5, these DIFs include the following:

Table III-5: Development Impact Fee Credit	
Drainage	\$19,400
Public Facilities	\$402,000
Traffic Signal Fees	\$75,911
Thoroughfare Fees	\$308,040
Water Connection Fees	\$684,444
Sewer Buy-In Fees	<u>\$253,472</u>
Total Development Impact Fee Credit	\$1,743,267

IV. START AND END DATES OF SUBSIDY

A. TOT Payments to Developer

The economic subsidy associated with the TOT payments to the Developer will commence during Year 1 of operations for the Phase I Hotel and Year 1 of operations for the Phase II Hotel, respectively.

TOT revenues from the Phase I Hotel paid to the Developer will end at the earlier of: (a) the payment of \$9,075,250 (present value); or (b) fifteen (15) years from the opening of the Phase I Hotel.

TOT revenues from the Phase II Hotel paid to the Developer will end at the earlier of: (a) the payment of \$2,260,000 (present value); or (b) fourteen (14) years from the opening of the Phase II Hotel.

B. Off-site Mitigation

This benefit will be applied to the Project upon Close of Escrow for the Phase I Hotel.

C. Development Impact Fee Credit

The Oversight Board approved expenditure of former Redevelopment tax-exempt bond proceeds on January 21, 2014. Expenditure of this portion of the City's subsidy will occur upon issuance of the building permit for the Phase I Hotel.

V. PUBLIC PURPOSE OF SUBSIDY

Implementation of the proposed Agreement, allowing for the Economic Development Subsidy, can be expected to assist the City in the achieving its economic development goals and objectives, including the following:

- Increasing tourism market share principally through new hotels and to market Oceanside as a tourism destination;
- Creating new quality jobs through business retention and expansion of existing businesses. Recruiting and assisting new prospective businesses to the City;
- Assisting new prospective retail stores and restaurants;
- Enhancing the aesthetics of the Downtown district;
- Providing pedestrian connectivity with the surrounding streets; and
- Implementing a development that is consistent with the City's Nine Block Pier Area Master Plan and Local Coastal Program.

VI. PROJECTED TAX REVENUE TO CITY RESULTING FROM THE SUBSIDY

Projected tax revenue to the City from the Project consists of Transient Occupancy Tax (TOT), property tax, and sales tax. KMA has estimated these public revenues based on a detailed financial evaluation of the Project.

Table VI-1 provides a summary of the total estimated revenue from each source during the first 15 years of operations of the Phase I Hotel and the first 14 years of operations of the Phase II Hotel. As noted below, TOT to the City is estimated net of the TOT payments received by the Developer.

Table VI-1: Tax Revenue to City ⁽¹⁾			
	South Block Phase I Hotel	North Block Phase II Hotel	Total
Gross TOT	\$30,630,000	\$16,155,000	\$46,785,000
(Less) TOT Payments to Developer	<u>(\$20,304,000)</u>	<u>(\$5,324,000)</u>	<u>(\$25,628,000)</u>
Net TOT to City	\$10,326,000	\$10,831,000	\$21,157,000
Property Tax	\$4,626,000	\$2,091,000	\$6,717,000
Sales Tax	\$1,753,000	\$1,112,000	\$2,865,000
Total, Future Dollars	\$16,705,000	\$14,034,000	\$30,739,000
(1) All estimates are expressed in undiscounted future dollars.			

VII. ESTIMATED NUMBER OF JOBS CREATED BY THE SUBSIDY

A. Temporary Positions

Development of the Project will create temporary construction jobs. The estimates for construction jobs are based on estimated Project construction costs and average construction industry wages for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (MSA). While the Project will be built in phases and some jobs may be part-time and some jobs may be full-time, for the purposes of this analysis, the number of construction jobs has been converted into the number of full-time jobs over a one-year period. As shown in Table VII-1, it is estimated that construction of the Project will directly support approximately 210 new full-time jobs for one year. Assuming each phase of the Project will take two years to build, KMA estimates that the Project will result in the employment of an average of 105 full-time equivalent workers per year during the construction period.

Table VII-1: Construction Jobs			
	South Block Phase I Hotel	North Block Phase II Hotel	Total
Construction Employment Construction Period	120 person-years 2 years	90 person-years 2 years	210 Jobs 2 years
Total Construction Jobs Per Year	60 Jobs	45 Jobs	105 Jobs

B. Permanent Positions

Upon completion, employees will be required to operate the hotel and in-house retail and restaurant uses. As shown in Table VII-2, based on information provided by the Project’s proposed operator, total part-time and full-time positions are estimated to total 280, with 55 of these being part-time positions.

Table VII-2: Permanent Jobs			
	South Block Phase I Hotel	North Block Phase II Hotel	Total
Full-Time Jobs	145 Jobs	80 Jobs	225 Jobs
Part-time Jobs	30 Jobs	25 Jobs	55 Jobs
Total Jobs	145 Jobs	105 Jobs	280 Jobs

VIII. LIMITING CONDITIONS

1. The KMA analysis is based, in part, on data provided by secondary sources such as state and local governments, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. A projection of economic impacts is inherently based on judgment. The projections contained herein are based on the best information available at the time that this document was prepared. However, the actual impacts may vary.
3. The accompanying projections and analyses are based on estimates and assumptions which were developed using currently available economic data, project-specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.
4. Any estimates of revenue or cost projections are based on the best project-specific and fiscal data available at this time as well as experience with comparable projects. They are not intended to be projections of actual future performance of any specific project. Any changes to costs, development program, or project performance may render the conclusions contained herein invalid.
5. Revenue estimates are based on the assumption that sufficient market support exists for the proposed uses and that the project will achieve industry standard productivity levels.
6. KMA assumes that all applicable laws and governmental regulations in place as of the date of this document will remain unchanged throughout the projection period of our analysis. In the event that this does not hold true, i.e., if any tax rates change, the analysis would need to be revised.
7. It has been assumed that the property valuation will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development.
8. Value estimates assume that any necessary entitlements or zoning changes for development can be obtained in a reasonable time frame.
9. Value estimates assume that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership. The value estimates are given without regard to any questions of boundaries, encumbrances, liens or encroachments.

10. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

11. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.