MINUTE ITEM

This Calendar Item No. 16 was approved as Minute Item No. 16 by the State Lands Commission by a vote of 3 to 0 at its 4-7-81 meeting.

MINUTE ITEM

4/7/81
RW 22289
Grimes
Wylie
Horn

16. UNDER SECTION 6702(b) OF THE P.R.C. DETERMINATIONS RELATING TO A GROUND LEASE AND SUBLEASE BETWEEN THE CITY OF LONG BEACH (GRANTEE/LANDLORD) AND HYATT LONG BEACH CORPORATION (TENANT).

During consideration of Calendar Item 16 attached, Mr. Gary Horn, Senior Land Agent, summarized the transaction. Mr. William F. Northrop, Executive Officer, submitted for the record 27 letters of support. He also included in the record a letter of opposition from Mr. Lester Denevan who felt, among other things, that the Commission should hold a public hearing in Long Beach. In answer to Mr. Denevan, City Manager John Dever stated that three hearings had been held in the City of Long Beach regarding this proposal.

The following appearances were made in support of the staff recommendation:

Senator Ollie Speraw, 31st District
Assemblyman Dave Elder, 57th District
Assemblyman Dennis Brown, 58th District

Commission-Alternate Susanne Morgan stated that because she had had some concerns with the State's obligations in the event the grant should revert back to the State during the term of this lease, she indicated the provision on page 29 of the staff report concerning the annual review and appropriation by the State Legislature was a necessary one.

Commission-Alternate David Ackerman questioned what would happen if the grant should revert and the Legislature refused to make an appropriation. In essence, he was advised that Hyatt could be substituted for the State in the sublease and that litigation might result.

At the conclusion of the discussion, Mr. Ackerman extended his gratitude to the staffs of the Commission, the City and Hyatt for putting together a very good project and an excellent staff report. Mr. Dever also thanked the staffs of the Commission and the Office of the Attorney General for their cooperation.

Upon motion duly made and carried, the resolution as presented in Calendar Item 16 was approved as presented by a vote of 3-0.

Attachment: Calendar Item 16

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S 27, 31

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CALENDAR ITEM

3/81
RW 22289
Grimes
Wylie
Horn

16

UNDER SECTION 6702(b) OF THE P.R.C.
DETERMINATIONS RELATING TO A
GROUND LEASE AND SUBLEASE BETWEEN
THE CITY OF LONG BEACH (GRANTEE/LANDLORD)
AND HYATT LONG BEACH CORPORATION (TENANT)

The City of Long Beach has requested the Commission to make the determinations set forth in Section 6702(b) of the P.R.C. with respect to the Ground Lease and subleases between the City of Long Beach and Hyatt Long Beach Corporation described in the report attached hereto and by reference made a part hereof. Briefly, the determinations relate to:

a. project conformance with the granting statutes;

b. proceeds of the lease and subleases shall be expended for statewide purposes as authorized by such granting statutes; and

c. that the lease is in the best interests of the State.

Inasmuch as the staff report attached hereto and by reference made a part hereof explains the project in detail, provides an analysis of the agreements, addresses project feasibility, financibility and environmental impact together with staff conclusion and recommendations, additional description and discussion of the project is not necessary here.

Staff, based upon the above-referenced report, the City's application and supporting materials and many meetings with the City and the Commission's contract consultant, Peat, Marwick, Mitchell and Company, is recommending that the Commission make the following findings and determinations that the Commission make the City's/Hyatt's application:

EXHIBIT: Staff Report.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE CITY OF LONG BEACH, THROUGH ITS REDEVELOPMENT AGENCY PREPARED AND CERTIFIED A FINAL ENVIRONMENTAL IMPACT REPORT FOR THE PROJECT ON NOVEMBER 7, 1977;

A 57, 58

S 27, 31

AND THEREAFTER, SAID AGENCY CERTIFIED A NEGATIVE DECLARATION FOR A REVISED PORTION OF THE PROJECT ON DECEMBER 11, 1977; AND THAT THE LONG BEACH CITY COUNCIL AGAIN CERTIFIED THE FINAL EIR ON DECEMBER 11, 1979 AND RECERTIFIED IT ON MARCH 10, 1981.

2. MAKE THE FOLLOWING DETERMINATIONS, REQUIRED BY SECTION 6702 OF THE P.R.C., AS APPLYING TO THAT CERTAIN AMENDED AND RESTATED GROUND LEASE AND SUBLEASE DATED MARCH 10, 1981, BETWEEN THE CITY OF LONG BEACH AND HYATT LONG BEACH CORPORATION, ON FILE IN THE PRINCIPAL OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF:

   A. THAT SAID AMENDED AND RESTATED GROUND LEASE AND SUBLEASE IS IN ACCORDANCE WITH THE TERMS OF GRANTS UNDER WHICH TITLE TO THE LANDS IN QUESTIONS ARE HELD BY THE CITY OF LONG BEACH.

   B. THAT, PURSUANT TO SECTION 1710 OF THE LONG BEACH CITY CHARTER, ALL REVENUES DERIVED BY THE CITY FROM THE AMENDED AND RESTATED GROUND LEASE AND SUBLEASE SHALL BE DEPOSITED IN THE "TIDELAND OPERATING FUND" AND SHALL BE EXPENDABLE ONLY FOR STATEWIDE PUBLIC PURPOSES AS AUTHORIZED BY THE GRANTING STATUTES.

   C. THAT SAID GROUND LEASE AND SUBLEASE IS IN THE BEST INTERESTS OF THE STATE.

3. MAKE THE FINDINGS ABOVE EXPRESSLY UPON THE PROVISION THAT, IN THE EVENT THAT THE LEGISLATIVE GRANTS TO THE CITY OF LONG BEACH ARE REVOKED AND THE STATE LANDS COMMISSION IS REVESTED WITH TITLE TO THE SUBJECT LANDS AND, IN EFFECT, BECOMES THE LANDLORD UNDER THE GROUND LEASE AND TENANT UNDER THE SUBLEASE, ANY OBLIGATIONS OF THE STATE TO PAY RENT OR ANY OTHER MONETARY CONSIDERATION SHALL BE SUBJECT TO ANNUAL LEGISLATIVE APPROVAL AND APPROPRIATION.

4. AUTHORIZE STAFF AND THE OFFICE OF THE ATTORNEY GENERAL TO TAKE ALL NECESSARY STEPS TO EFFECTUATE THESE FINDINGS AND DETERMINATIONS.

REPORT OF THE STATE LANDS COMMISSION

RELATIVE TO A GROUND LEASE AND SUBLEASE

BETWEEN THE CITY OF LONG BEACH

(TRUST GRANTEE AND LESSOR)

AND HYATT LONG BEACH CORPORATION

(LESSEE)

FOR THE PURPOSE OF HAVING THE PROVISIONS OF

PUBLIC RESOURCES CODE SECTION 6701 APPLY THERETO

PRESENTED AT ITS MEETING APRIL 7, 1981

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PURPOSE: The City of Long Beach, as a legislative grantee of State sovereign lands within the corporate limits of said city, has applied to the State Lands Commission for the determinations set forth in Section 6702(b) of the Public Resources Code relative to a lease and sublease between the City of Long Beach and Hyatt Long Beach Corporation. The purpose of making the determinations in said Section 6702(b) is to have the provisions of Section 6701 apply to the lease and sublease. The effect of making such determinations is to vouchsafe the agreements in the event the City's legislative grant is subsequently amended or revoked.

Briefly, in order for the provisions of Section 6701 to apply, the Commission must determine:

1. That the lease and sublease are in accordance with the specific granting statutes;

2. That the proceeds from the lease and sublease are to be deposited in an appropriate trust fund expendable only for statewide public purposes authorized by the grant;

3. That the lease and sublease are in the best interests of the State.

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EXECUTIVE SUMMARY: The City of Long Beach has entered into a Ground Lease and sublease with Hyatt Long Beach Corporation for the construction and operation of a 542-room "Regency-class" hotel adjacent to the Long Beach Convention and Entertainment Center.

Public Resources Code 6701, et seq., provides a discretionary procedure whereby third parties may obtain approval of the State Lands Commission for a specific instrument to ensure that the provisions of the instrument will be unimpaired in the event of a modification, amendment or revocation of the prior legislative grant of the lands in question. The City of Long Beach has applied to the State Lands Commission to make such determinations relative to the lease and sublease described herein.

The proposal consists of the following major elements:

a) The City will lease to Hyatt an 8.443 acre site under a 50-year ground lease; upon which will be built the hotel, parking structure and public facilities.

b) Hyatt will then sublease the parking structure and the public facilities (banquet and function rooms, kitchen support facilities and public lobby areas in support thereof) to the City for a period co-terminous with the ground lease. The City will reserve for Hyatt 500 parking spaces for hotel patrons.

c) Hyatt will then sub-sublease a portion of the public facilities from the City for a period co-terminous with the ground lease. The area consists of the banquet and function rooms, support kitchens and some lobby areas.

Hyatt will construct all the improvements on the lease area. The City will construct various improvements outside the lease area which will be integrated with the hotel and center and provide pedestrian access from Ocean Boulevard to Shoreline Aquatic Park. See plats and architectural renderings for the project.

The City's participation in the project consists of expending approximately $5,500,000 of tidelands trust money for improvements outside of, but integrated with the lease site; obtaining a $3,000,000 HUD-UDAG grant; and the entering into of a sublease and a sub-sublease

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for the purpose of securing financing. The City will receive minimum rents of $200,000 annually (escalated by 10% at 5-year intervals), 5% of gross operating income in a preferred position together with 15% of net revenues. The 5% of gross income begins with the 3rd lease year and continues for a period of 20 years only.

Hyatt will provide $3,000,000 of equity funds; obtain adequate construction and take-out financing, and build and operate the hotel through a management agreement with Hyatt Hotels, Inc. Hyatt has secured financing through the First National Bank of Chicago at 13% for the first 5 years of the loan, with various alternatives for extending the loan. The City has used this rate in projecting revenues and expenses for the hotel project.

The State Lands Commission contractor, Peat, Marwick, Mitchell & Co. (PMM & Co.) has reviewed the materials submitted by the City in support of its application and has concluded that room-demand in Long Beach exists to support the City's (and its contractors - A. D. Little Co. and Harris, Kerr, Forster & Co.) demand analysis and revenue projections. Assuming room occupancy rates of 63% the first year (@ $74.25 per room average) and escalating to 81% for years 4 through 10 (@ $93.75 to $148/night) the City is expected to receive net revenues averaging 3.0+ million per year (including room tax revenues). All revenues derived by the City from the lease and sublease must be deposited in a tidelands trust fund and expended only for trust purposes.

The City's environmental review has concluded that there will be no significant environmental impacts associated with this project. In addition, the City has obtained all necessary coastal development permits.

Inasmuch as the ground lease/sublease require the City to make periodic lease and other payments, the effect of grant reversion/modification must be addressed. If the granted lands were to revert to the State for any reason and the State Lands Commission in effect stepped into the position of the City as Lessor/Sublessee, the State's obligations to make any payments would be subject to annual review and appropriation by the State Legislature.

A staff analysis of the project concludes that a sufficient market exists for supporting a "regency class" hotel at the site. The hotel should generate sufficient revenues so as to enchance the City's tidelands trust funds. There will be no significant environmental impacts associated with the lease and it is consistent with local coastal

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plans. The lease package appears to be consistent with prudent land management practice. The developer (Hyatt) has obtained very attactive financing for the first 5 year period of the lease; with the remaining financing subject to specific maximum limits. While the lease back arrangements are novel to typical trust grantee land management practices, sufficient safeguards have been included in the lease to ensure that the City receives a reasonable return on the trust lands. Construction of the hotel should reduce the continuing operating dificits incurred by the convention center and enhance the tidelands in general.

Based upon its own analysis and that of PMM & Co. Staff is recommending that the Commission make the findings set forth in Public Resources Code section 6702 relative to the lease between the City of Long Beach and Hyatt Long Beach subject to the limitations set forth in the previous paragraph on grant reversion.

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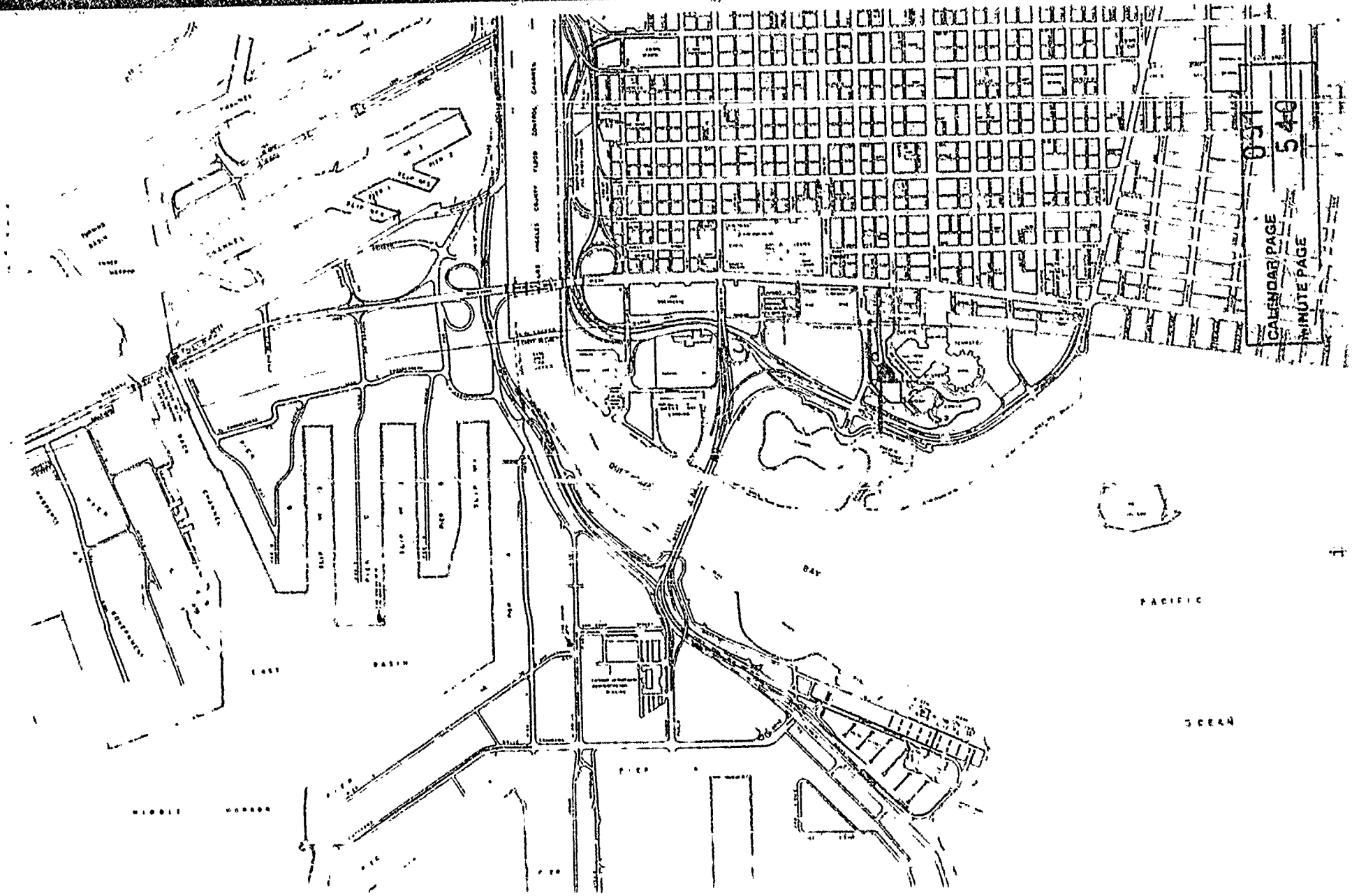
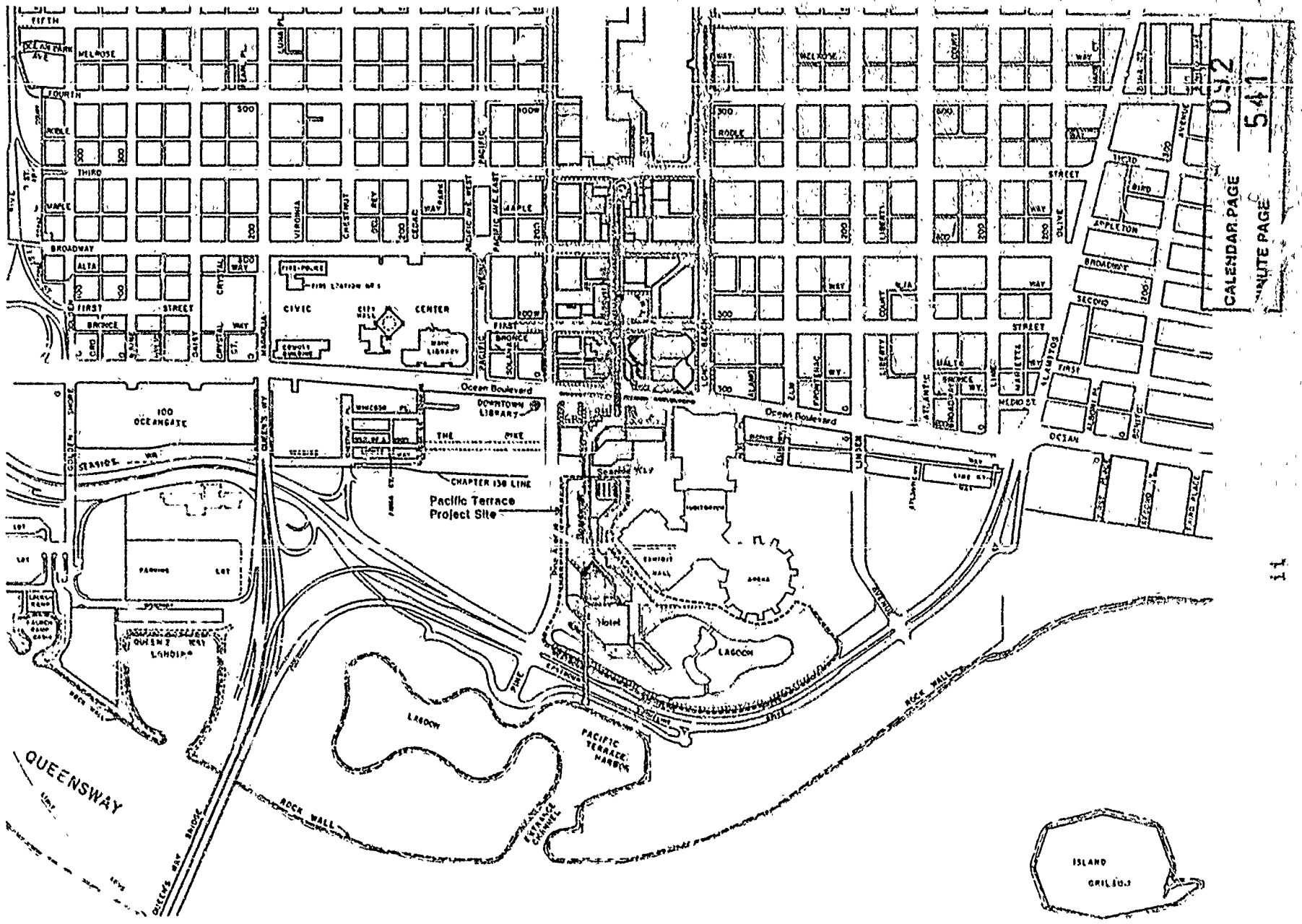


LONG BEACH MAP

HYATT REGENCY HOTEL
PACIFIC TERRACE CENTER Long Beach, California

ARCHISYSTEMS



LOCUST MALL TO BOARDWALK URBAN DESIGN PLAN

HYATT REGENCY HOTEL
PACIFIC TERRACE CENTER Long Beach, California

ARCHISYSTEMS

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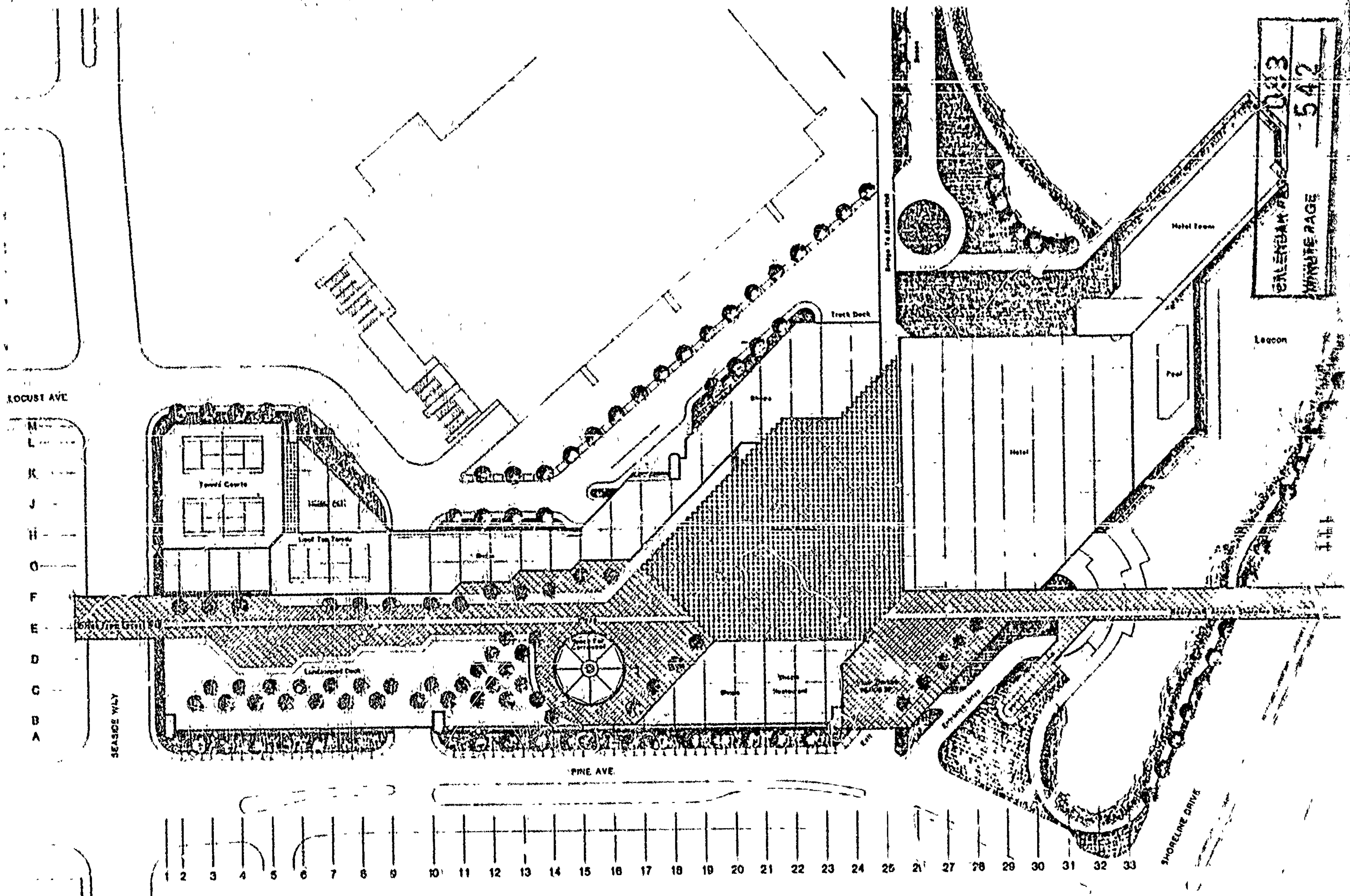

ROOF PLAN

HYATT REGENCY HOTEL
P[illegible]FIC TERRACE CENTER Long Beach California

ARCHISYSTEMS

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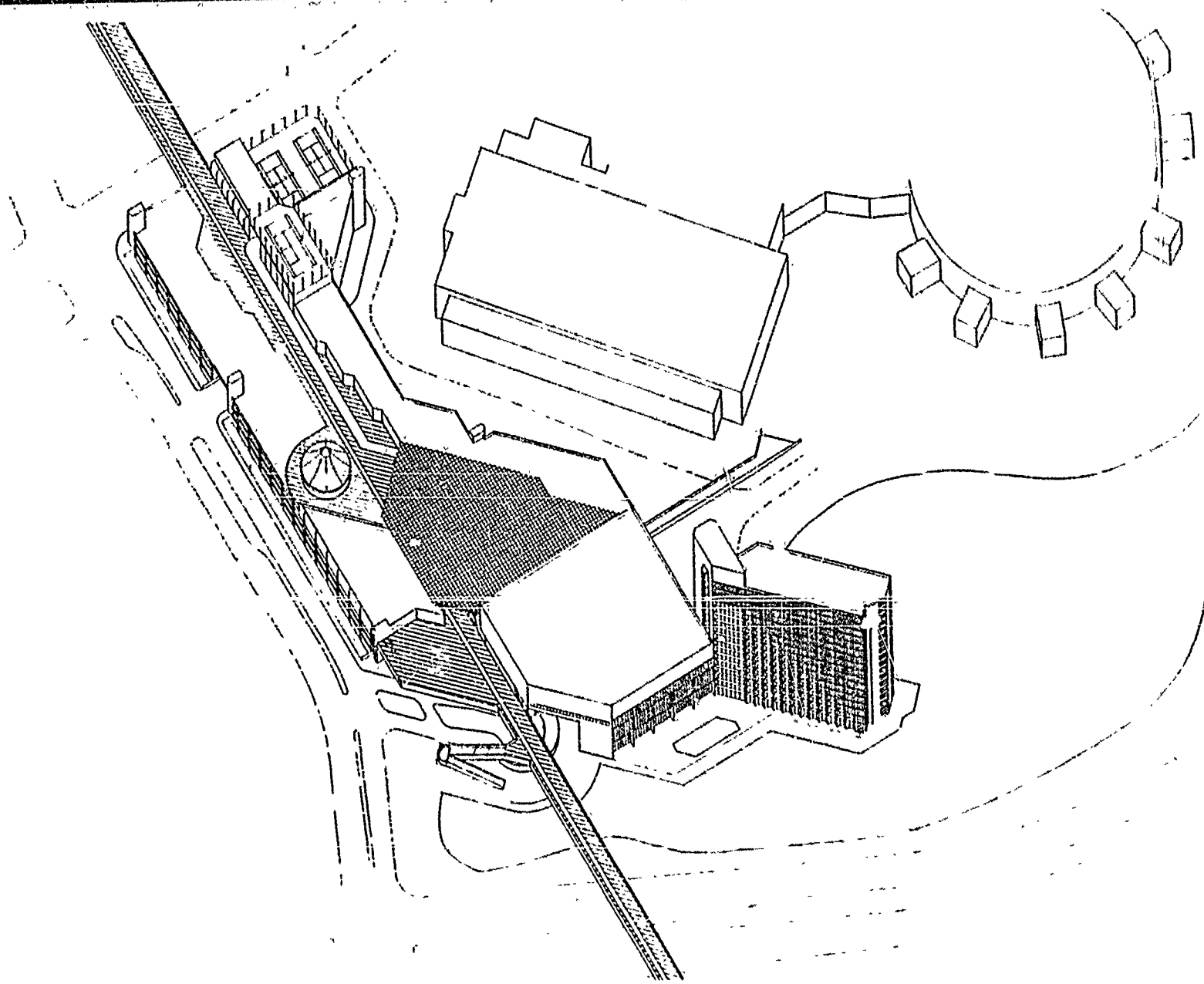

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AXONOMETRIC VIEW

HYATT REGENCY HOTEL
PACIFIC TERRACE CENTER Long Beach California

ARCHISYSTEMS

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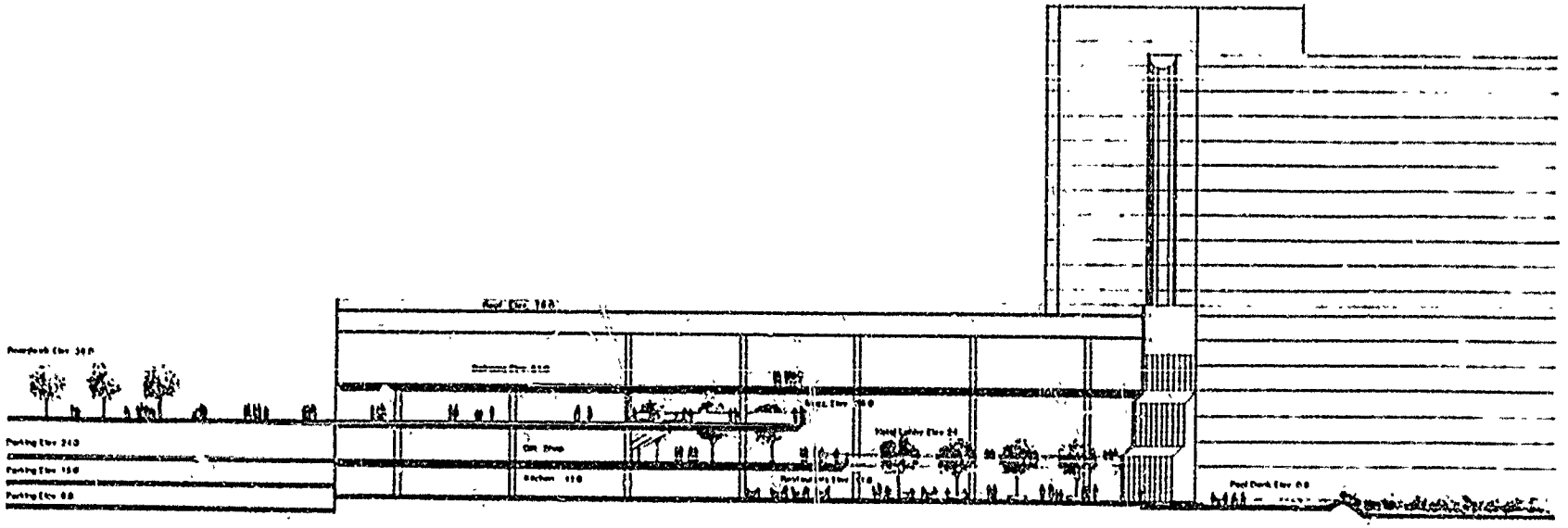

SECTION AT HOTEL LOBBY

HYATT REGENCY HOTEL
PACIFIC TERRACE CENTER Long Beach, California

ARCHISYSTEMS

DESCRIPTION OF LEASE AND SUBLEASE: The major components of the application include a ground lease and a Parking Structure Public Facilities Sublease. Each of these agreements is summarized below:

(a) Ground Lease

(1) Lessor: City of Long Beach
c/o John E. Dever, City Manager
333 W. Ocean Blvd.
Long Beach, California 90802

(2) Lessee: Hyatt Long Beach Corporation
9701 West Higgins Road
Rosemont, Illinois 60018

Directors: Patrick Foley
Harold S. Handelsman
John Schroeder

Officers: Thomas J. Pritzker
Harold S. Handelsman
William Hartauer
Patrick Foley
James Diethrich
Richard L. Schulze
John Schroeder
Sandra Thomas
Christine Vallos

Hyatt Long Beach Corporation is a wholly owned subsidiary of the H. G. Corporation which was formed by Mr. A. N. Pritzker. The Corporation is principally a family-owned business.

Hyatt Long Beach Corporation has entered into a Management Agreement with Hyatt Hotels to manage the Hyatt Regency Hotel. Staff has reviewed the Management Agreement between Hyatt Long Beach and Hyatt Hotels and finds the document to be one that is in common use in Hyatt Hotel operations. In addition, the Ground Lease provides that if there exists any conflicts between the Management Agreement and the Ground Lease, the provisions of the Ground Lease will control.

(3) Location: An 8.443 acre parcel of filled granted sovereign land westerly of and adjacent to the Long Beach Convention and Entertainment Center.

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(4) Land Use: The leased premises are to be used for the construction and operation of a Hyatt "Regency-class" hotel consisting of a tower structure, containing approximately 542 hotel rooms, an integrated multi-story structure containing the hotel lobby, banquet and function rooms, hotel administrative offices, a public boardwalk and a 1,258 space 3-level parking structure. The City retains the right to operate the parking structure.

It is presently estimated that Hyatt and the City will expend approximately $60,000,000 to develop, construct, and furnish the above-described hotel complex. With the City's $5,500,000 tidelands funds for offsite improvements, total development costs will be $65,500,000.

Within 180 days after submittal of the preliminary plans or the issuance of all required permits, whichever is later, the tenant-developer (Hyatt) is to commence construction which is to be completed within 24 months thereafter.

(5) Basic Terms of the Amended and Restated Ground Lease.

(A) Effective date: March 10, 1981.

(B) Conditions subsequent: The lease will terminate if prior to July 1, 1981 (i) the State Lands Commission has not made the required findings pursuant to Public Resources Code Section 6702; (ii) the State Lands Commission has not determined that certain expenditures for the construction of streets, pedestrian boardwalk, a public park, and relocation of the existing lagoon are in accordance with Chapter 138, Statutes of 1964, First E.S.; (iii) coastal development permits have not been obtained; (iv) the City is unable to obtain a $3,000,000 Urban Development Action Grant; (v) Hyatt is unable to obtain satisfactory construction and permanent financing commitments; (vi) Hyatt is unable to obtain cost estimates establishing feasibility of the Project; (vii) Hyatt and its lender are unable to obtain title insurance; and (viii) the City and Hyatt cannot agree on the rent to be paid by the City under the sublease of the parking structure.

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All of these conditions have been or are in the process of being performed. Based upon the latest available data, the project should not terminate due to the nonperformance of the conditions subsequent.

(C) Term: Fifty (50) years commencing with the date the hotel formally opens for business with Hyatt having the right to extend the term for an additional 25 years if they are not then in fault.

(D) Rent:

1. The City will receive a payment of five percent (5%) of the gross operating profit, generated in a preferred position for use of the $3,000,000 Urban Development Action Grant. The City will receive this amount commencing with the third lease year and continuing thereafter for 20 years. Income from this payment should average $456,000 annually over the first 10 years of the lease, and will continue to increase thereafter. The City, by way of the Amended and Restated Basic Legal Documents for the Hotel project, obtained the aforesaid 5% of gross operating profit, in lieu of Hyatt Hotel manager receiving additional management fees as was originally proposed.

2. Fixed minimum: Two Hundred Thousand Dollars ($200,000) per calendar year commencing with the date of formal opening of the hotel and payable annually subject to adjustment every 5 years. Payment of fixed minimum rent is subordinated to Hyatt's initial debt service, additional loan servicing, landlords preferred return and other fixed expenses, in that any fixed minimum rent not paid when due is accumulated and bears simple interest at the rate of 10% per annum. Upon receipt by Hyatt of sufficient revenues from hotel operations to pay all current obligations, the accumulated sums and accrued interest become payable.

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3. Percentage rent: Fifteen percent (15%) of the sums paid to Hyatt by its hotel manager after payment of operating expenses, real property taxes, property insurance premiums, parking fees, Hyatt's debt service (both initial, subsequent loan and additional loans), fixed minimum rent, Hyatt's sublease rental payments on the Public Facilities/Parking Structure, hotel manager's incentive fees, a preferred return on Hyatt's equity capital invested, and accumulated debts owed City.

(E) Tenant's work: Hyatt has agreed to construct, on the leased premises, all elements of the hotel complex including a 1,258 space parking structure and that portion of the public pedestrian boardwalk linking Ocean Boulevard with Shoreline Aquatic Park which crosses over the leased premises. The total estimated cost of the improvements is $60,000,000. Hyatt will contribute $3,000,000 of its own funds in addition to construction loan proceeds toward the construction of the improvements.

(F) Landlord's work: The City has agreed to construct those portions of the pedestrian boardwalk leading to the leased premises from Ocean Boulevard and away from the leased premises to Shoreline Aquatic Park, the construction of a public park north of Shoreline Drive, the relocation of Rainbow Lagoon, the provision of utilities to the leased premises, and the construction of or reconstruction of streets in the vicinity of the Project, landscaping of areas outside the premises, pedestrian walkway from plaza area on top of the parking structure to the Center and an access way from the boardwalk to the lagoon. The estimated cost of these improvements is $5,500,000.

(G) Title to improvements: Upon expiration of the term, title to all improvements made by Hyatt shall vest in the City.

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(b) Parking Structure/Public Facilities Sublease - Hyatt to City

(1) Commencement date: The date on which construction of parking structure is substantially completed and notice of availability has been given by Hyatt to the City.

(2) Term: 50 years with a renewal of an additional 25 years. (Same as Ground Lease), beginning from the "Commencement date".

(3) Premises: A 1,258 space, three-level parking structure. (200 of the parking spaces will be at grade level outside the walls of the parking structure.)

The public facilities consist of the deck over the the Parking Structure upon which will be located the pedestrian boardwalk and adjacent plaza area, the pedestrian walkway to the Center area, and the banquet and function rooms, kitchen facilities to support banquet and function rooms, and the public lobby areas including stairways and escalators within the multi-story structure adjacent to the Hotel and Parking Structure.

(4) Rent: For purposes of calculating rent, Hyatt and the City have agreed that the cost of the parking facilities and public facilities shall be $24,400,000. For the period beginning on the commencement date and ending December 31, of the fifth lease year, the City shall pay Hyatt annual rental of $3,172,000 (24,400,000 x 13%). Thereafter, until the 25th lease year, rental shall be based on a $24,400,000 loan as amortized over a 20 year period at the then prevailing rate.

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In addition the City shall pay for all utilities used or consumed within the parking structure and the Public Facilities under the City's control. The City shall also pay those property taxes levied and assessed against the parking structure and public facilities under the City's control. The City will also pay 7/12's of the property insurance premiums required by the Ground Lease and attributable to the Parking Structure and Public Facilities under the City's control.

Paragraph 8 of the sublease expressly provides that the City's payments under the agreement are subject to annual review and appropriation by the City Council; in effect it is a year-to-year obligation.

(5) Operation of Parking Structure: City shall operate the parking structure, collect all parking revenues derived therefrom, and deposit such revenues to the credit of the City's Tideland Operating Fund.

(6) Hotel Parking Privileges: City shall reserve and set aside, for use by registered hotel guests, 500 parking spaces. Hyatt shall pay to City monthly, for the direct operating costs attributable to the 500 parking spaces, an amount equal to 16.69% of the base rental paid by the City to Hyatt as annual rental (16.69% x 3,172,000 = $529,406).

(c) Sub-sublease of portion of Public Facilities to Hyatt Long Beach Corporation:

(1) Term: Fifty years commencing with the date the hotel formally opens for business subject to City's right to extend the term for an additional 25 years. (Same as basic Ground Lease).

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(2) Premises: Those areas of the multi-story structure adjacent to the hotel tower consisting of banquet and function rooms, kitchen facilities to support banquet and function rooms, public lobby areas, including stairways and elevators, and areas to be used as restaurants, cocktail lounges, retail shops, hotel administration, and service areas.

(3) Rent: For each lease year that the City makes a base rental payment to Hyatt under the sublease, Hyatt will pay the City an amount equal to 56.15% of the base rental paid by the City to Hyatt ($3,172,000 x 56.15% = $178,108). This payment is paid annually. Hyatt may defer payment of this rental amount; however, any deferred amount shall be paid in accordance with the priorities established under paragraph (3.4) of the ground lease together with interest at 10% (simple). This payment is prioritized 9th under Ground Lease Section 3.4.i.

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SOURCES FROM WHICH CITY'S OBLIGATIONS TO MAKE CAPITAL IMPROVEMENTS, CONTRIBUTIONS, AND RENTAL PAYMENTS UNDER THE GROUND LEASE AND SUBLEASES WILL BE MADE:

(a) Tideland Oil Revenue Fund (Long Beach City Charter Section 1710): City intends to expend approximately $5,500,000 of the City's share of tideland oil revenues deposited to the credit of the Tideland Oil Revenue Fund for planning, engineering, and construction of those portions of the pedestrian boardwalk leading to and away from the leased premises together with a bridge over Shoreline Drive, a public park north of Shoreline Drive, the relocation of Rainbow Lagoon and the provision of utilities to the leased premises and the construction of or reconstruction of streets in the vicinity of the Project. The expenditure of these funds is subject to notice provisions of Section 6(h), Chapter 138, Statutes of 1964, First Extraordinary Session ("Chapter 138").

(b) Urban Development Action Grant: The City has applied for and received a $3,000,000 grant from the Department of Housing and Urban Development to finance a portion of cost of construction of the parking structure and/or public facilities. The City has submitted a copy of the "UDAG Grant Agreement" setting forth the terms and conditions of the grants as part of its application package.

(c) Tideland Operating Fund (Long Beach City Charter Section 1710): The costs of operating and maintaining the parking structure and the public facilities under City's control and fulfilling the City's other obligations under the Parking Structure Sublease and Public Facilities Sublease will be funded from Project revenues deposited to the credit of the City's Tideland Operating Fund. Such revenues shall be applied toward the obligations mentioned above. According to the City's analysis and projection of income and expenses to be borne by the Tideland Operating Fund and Tideland Oil Revenue Fund for all operations and activities now contemplated by the City, there will be sufficient net revenues from other tideland operations and activities for the City to meet its obligations under the subject Ground Lease and Subleases.

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(d) Tax on Transients for Occupancy (Long Beach Municipal Code Section 2450 et seq.): Effective January 18, 1980, the City Council has authorized the encumberance of tax revenues collected from hotel and motel users for occupancy of hotel and motel rooms situated on the granted tide and submerged lands for the purpose of paying obligations of the character recited in the Parking Structure/Public Facilities Sublease. Those obligations were incurred in order to induce Hyatt to develop a "Regency" class hotel on the granted tideland land site. Annually, at the time the City Council approves the City Manager's budget and it adopts an appropriation ordinance, the tax revenues anticipated to be derived from hotels and motels situated on the granted tide and submerged lands will be set aside as a reserve for payment of the City's obligations in the event Hyatt's payments to the City are not sufficient.

(e) Tax Increment Revenues Paid to Redevelopment Agency of the City of Long Beach: The Project is situated within the downtown redevelopment project area of the Redevelopment Agency of the City of Long Beach. Taxes generated from a new development in the project area may be pledged as security for the repayment of bonded indebtedness incurred by the Agency to carry out a project.

The City and the Agency have entered into a Reimbursement and Repayment Agreement relating to the Downtown Redevelopment Project. On October 16, 1979 that agreement was amended to provide:

1. That tax allocations available to the Agency from tax increments generated by the hotel Project after first making provision for required debt service payments on the Agency's bonds shall be paid to the City, after demand by the City, for the purpose of assisting the City in making rental payments under the Public Facilities Sublease and to reimburse the City for costs and expenses incurred by the City in connection with the operation and maintenance of those public facilities under City's control.

2. City is required to budget and apply to its sublease base rental and other obligations under the Public Facilities Sublease all revenues derived from the Project including the City's sublease and

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rental incomes, parking charges, sales tax, and transient occupancy tax revenues. Staff has been advised by the City that efforts are underway to re-prioritize the application of funds prior to receiving the tax increment funds. It is proposed that such funds will be available "as needed" for the tidelands trust fund without regard to having applied the revenues in the priority mentioned above.

(f) Project Revenues: The Public Facilities/Parking Structure sublease provides for the payment by Hyatt to the City of a rental charge for the public facilities under Hyatt's control and for parking privileges. While the rental charge for public facilities is subordinated to operating and certain fixed expenses including debt service as described in paragraph 3.4 of the Ground Lease, payment of the parking charges is not so subordinated. The subordinated rental charge, however, is a fixed obligation subject to payment at a later date. In addition to the fixed minimum rent and percentage rents under the Ground Lease, the City is retaining the right to further develop some commercial retail shop space on an area adjacent to the pedestrian boardwalk. This area will produce a rental income directly to the City. The City does not intend to incur any cost or expense related to the further development of the area mentioned. The cost of such further development will be borne exclusively by the developer of the area.

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ENVIRONMENTAL IMPACT OF THE LEASE

On November 7, 1977 the Redevelopment Agency of the City of Long Beach certified a final environmental impact report for the Downtown Convention Hotel Complex. The original project was for a high-rise hotel and parking structure as such was proposed by Perini Land and Development Company. Inasmuch as the instant proposal retains nearly the same elements of the Perini proposal, the final EIR is considered adequate by the City. In addition, the Redevelopment Agency certified an environmental negative declaration for the Boardwalk Parking Garage on December 12, 1977.

On November 30, 1979, the City Council of the City of Long Beach reaffirmed and recertified that the Final Subsequent EIR previously certified by the Redevelopment Agency, was sufficient for the Hyatt Hotel Development and that there were no new environmental impacts associated with this project.

On March 10, 1981 the City Council of the City of Long Beach through Resolution No. C-23116 again reaffirmed the findings and recertification it made at its September 11, 1979 and December 1979 meetings relative to the environmental impacts of the subject project.

Briefly, the environmental documents pointed out that potential significant adverse impacts exist relative to transportation and energy consumption. However, adequate measures for both concerns have been incorporated into the project to mitigate the potential adverse impacts.

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COASTAL ACT REQUIREMENTS

On May 19, 1978, the California Coastal Commission issued permit A-71-78 to the City for the construction of the Hotel complex, proposed by Perini Land Development Company. The permit contains a number of conditions including a requirement that the City submit evidence (to the Executive Director of the Coastal Commission) that the State Lands Commission has reviewed and approved as consistent with State tidelands responsibilities, the plans, documents, operations and financial commitments of the project.

On April 27, 1979, the Coastal Commission approved an amendment to the permit it issued one year earlier. The amendment covered relatively minor changes to the development proposal and retained nearly all the original conditions.

Inasmuch as the Hyatt proposal was not specifically approved by the Coastal Commission, it was necessary to seek an assignment of the permit. Because the Hyatt proposal so closely parallels the Perini proposal, the permit assignment was obtained with some design modifications, but with little other changes. The Coastal Commission approved the assignment on June 18, 1980.

On August 8, 1980 the California Coastal Commission issued an amendment to Permit A 71-78 which set forth the terms and conditions of the development as such is governed by the Coastal Act. The State Commission also approved additional modifications to the permit at its February, 1981 meeting.

The project, as contemplated, is a proper land use under the City's General Plan and Local Coastal Program.

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STATE LANDS COMMISSION STAFF ANALYSIS

Conformance with the terms of the Granting Statutes:

Legislative Acts affecting the leased land include:

Chapter	Year
676	1911
102	1925
158	1935
29	1956, First Extraordinary Session
1560	1959
138	1964, First Extraordinary Session

Staff, with the concurrence of the office of the Attorney General, believes the proposed facilities are allowable under the terms of the above-referenced statutes. This recommendation is not intended to constitute staff's response to the notice provisions of Section 6(h), Chapter 138, Statutes of 1964, First Extraordinary Session ("Chapter 138"), which has been received from the City. Commission action on such notice will be the subject of another agenda item.

Disposition of Lease Proceeds

All revenues payable to the City under the Ground Lease and subleases are required by Long Beach City Charter Section 1710 to be deposited to the credit of the City's "Tideland Operating Fund". Said fund is impressed with the public trust and provides that expenditures from the fund are for the betterment of the granted lands consistent with the granting statutes and general trust provisions.

IS THE RESTATED BASIC GROUND LEASE AND SUBLEASE IN THE BEST INTEREST OF THE STATE?

Land Use: The existing site is currently unimproved filled submerged lands adjacent to the existing Long Beach Convention and Entertainment Center. In arriving at the proposed use for the site, the City was guided by recommendations made by Sasaki-Walker and Associates (1975) and by Gruen-Gruen Associates (1969-70), each of whom recommended the development of a high-rise hotel adjacent to the convention center.

The land use element of the City's General Plan characterizes the area as tourist/commercial recreation. The Hotel project, as presently contemplated, is a proper land use under the City's General Plan and its Local Coastal Program.

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It is the City's belief that development of a luxury-quality hotel on the site will promote increased usage of the Convention Center (a trust asset) by conventions and other associations whose activities and use will promote commerce, navigation, fisheries, marine or aquatic recreational activities. The City believes the proposed hotel project represents the highest and best use for the site and that such alternatives as a) no project; b) no hotel; and c) no boardwalk would be inimical to the tidelands trust.

STATEWIDE PUBLIC BENEFIT

For several years the City of Long Beach has operated its new Convention and Entertainment Center at a substantial deficit (estimated '80-'81 total loss: $2 million+). It is felt by the City that construction of a first-class luxury hotel is essential to the success of the Convention Center. The current unavailability of sufficient first-class hotel rooms in the immediate proximity of the Convention Center leads to its under utilization; which in turn means continued high operating deficits. It is possible that the Convention/Entertainment complex may never become self-supporting; however, the addition of the hotel complex is expected to reduce the annual deficits substantially. In addition, the City should earn a reasonable return on its contribution to the Hotel project.

In an effort to further reduce the operating deficit of the center the City is exploring the possibility of letting the Center be operated by a private entity. The City will only allow the facility to be operated by a private manager if such operator can run the facility at a lower cost than the City currently pays.

By a written agreement dated September 12, 1974 entitled "Pacific Terrace Agreement" the City of Long Beach agreed that the main purpose of the Convention/Entertainment Center is for the promotion and accommodation of the tidelands trust. The City agreed to actively solicit tenants, exhibitors, and trade, shipping and commercial associations whose activities and use of the center would promote or accommodate commerce, navigation, fisheries, and marine or aquatic activities. In addition, the City agreed to give priority for use of the Center to such persons, organizations and groups.

In order to further the beneficial use of the trust asset (Center), it is felt that the addition of a convention center hotel is absolutely necessary. The Center and Hotel complex will serve the state-wide and National/International public through its convention, entertainment activities.

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The Complex with the addition of the hotel will benefit a broader segment of the public and be able to accommodate more user days of the Complex than if the site were left undeveloped or developed for other trust purposes.

In addition, income accruing from the ground lease and sublease will be used for the betterment of the granted lands and aid in promoting related trust uses of the adjacent lands.

RENTAL AND OTHER CONSIDERATION

PERCENTAGE OF GROSS OPERATING INCOME: Beginning in the third lease year, the Hotel Manager (or Hyatt Long Beach Corp-tenant) agrees to pay the City an amount equal to 5% of the gross operating income. As stated earlier, this amount should average over $400,000 annually through 1992.

Staff finds this rental element to be well within prudent land management practices and one which increases the overall net return to the City.

While this rental amount continues for only twenty years the City stands to receive nearly $14,000,000 total for use of the $3,000,000 UDAG Grant.

FIXED MINIMUM RENTAL: In arriving at the basic minimum ground rental for the lease premises the City was guided by an appraisal by Landauer Associates, Inc., dated May 18, 1977 as supplemented by a report dated November 1, 1978. These reports were originally prepared for Perini Corporation who earlier proposed a similar hotel complex for the site. Due to a lack of adequate project financing, Perini was forced to drop its development plans; which plans were subsequently assumed by Hyatt Long Beach Corporation.

The Landauer report concluded that the value of the subject site was $8.00 per square foot. However, in negotiating the minimum annual rental of $200,000, the City did not utilize the appraised land value of $8.00 per square foot and its desired rate of return of 10%. Instead, the City has placed greater emphasis on the present value of the anticipated cash flow from the periodic minimum annual rents it will receive from the project. (The minimum annual rental is subject to 5-year increases of 10% of the previous amount). The City has concluded that the present value of its anticipated income stream yields the equivalent of $11.39 per square foot for the entire site.

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Staff of the Commission has reviewed the Landauer report for the purpose of reviewing the minimum annual rental proposed under the ground lease and finds that land values in the vicinity range significantly due to the controls exercised by the myriad governmental agencies having lawful jurisdiction. Knowledgeable appraisers and real estate brokers in the Long Beach area believe that commercial property values have risen dramatically in the last two years, inspite of these controls and the recent high cost of construction funds. Because the Landauer report (as supplemented) is not current, staff believes that it may not be indicative of today's market value.

A staff estimate of value for the site places the value near $13.00 per square foot. Inasmuch as the hotel tower and public facilities portion of the site occupy only 3.6 acres of the total site, the minimum rental of $200,000 closely follows the staff estimate of value of $13.00 per square foot. ($13.00 X 3.6 X 43,560 X .10 = $203,860.)

The parking garage which is to be constructed by the tenant (Hyatt) will not only service the hotel but will provide an additional 750 spaces for patrons of the Convention/ Entertainment Center. In addition, the City may rent spaces during the day for visitors of nearby and proposed office buildings.

The City has estimated that annual net revenues from the parking structure will average substantially in excess of its costs. The amount of rental received from this source should provide a substantial return for the site occupied by the parking structure.

The projected overall return to the City for the total tideland site will be greater than 10% of the value estimated by the staff; not including the percentage rental. This return is considered adequate by staff of the Commission.

In addition to the above, the City's Room Night Demand Study by Arthur D. Little, Inc. in 1975 found that the City could anticipate a significant reduction in the annual deficit from Convention Center operations. The Little study estimates that the Convention Center could experience additional revenue of over $500,000 per year with the addition of the Hotel.

In view of the above, staff feels the minimum rents are reasonable.

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PERCENTAGE RENT: The City is to receive a percentage rental of 15% of the sums paid to Hyatt by its hotel manager after payment of operating expenses and those additional items listed in Ground Lease Paragraph 3.4.

Staff has examined this feature of the proposal as well as the Commission's consultant -Peat, Marwick, Mitchell and Company (PMM & Co.). PMM & Co. is of the opinion that while Hyatt appears to have negotiated a beneficial rental posture in this lease, it is within current industry standards.

Staff of the Commission, on the other hand does not favor the use of "percentage of net" rental alternative in negotiating surface use leases because of the problems associated with auditing business operations. It is difficult to define, in sufficient etail, the items that normally need to be taken into account under a "percent of net" agreement. It often leads to strained relations between landlord and tenant and quite frequently auditing disagreements must be litigated even though apparently adequate arbitration procedures a set forth in the lease document. For this reason, staff of the Commission does not favor use of the alternative; however, we do feel that such an alternative is a matter which rests within the discretion of the City. The rate of percentage rental does not appear unreasonable and should provide the City with a reasonable return on the use of the tidelands trust asset.

In support of its use of the "percent of net" concept, the City has developed comprehensive accounting and special audit provisions in the lease. In addition to requiring monthly financial statements and annual statements audited by an independent CPA, the City has retained the right to conduct an annual audit of Hyatt's books through its City Auditor and his designated representative. Procedures have also been developed to settle accounting disputes through arbitration. The City believes that use of these controls will ensure that the tidelands trust funds are properly credited will all monies due.

PROJECT FINANCING:

Hyatt Long Beach Corporation has secured both construction and permanent financing for the project from the First National Bank of Chicago (FNBC). While the City and Hyatt are required to put up $3,000,000 each toward project financing, the permanent loan amount is $54,000,000.

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The loan will be structured as follows:

(a) Loan amount: $54,000,000 - FNBC will serve as agent if the loan is syndicated to other financial institutions.

(b) Maturity: December 31, 1991.

(c) Amortization: Amortization will commence in the sixth year and is to be on a 25-year schedule.

(d) Rate of Interest: Years 1-5: 13% Fixed (Interest only). Years 6-10: On an annual basis the borrower will have one of three options.

Option 1 - A one year loan at a rate equal to the yield to maturity of the August 1990 (10 3/4%s) Treasury Bond plus 3% with a ceiling of 16%;

Option 2 - The effective rate of 90 day FNBC CD s plus 1½% floating averaged monthy; or

Option 3 - Soley at FNBC's discretion Option 1 with maturity of longer than one year but not to exceed the maturity of the loan facility.

(e) Prepayment: Prepayment prohibited in years 1-5. If the fixed rate option is selected in years 6-10, prepayment is permitted only on the renewal of the rate.

(f) Fees: (1) 3/4% at closing.

(2) Fee of 3/4% on total loan payable December 31, 1981. Fee to be reduced by 3/4 of 1% times the average outstandings from date of commitment to December 31, 1981.

(g) Collateral: 1st mortgage on leasehold and all improvements thereon.

(h) City Commitment: The City of Long Beach, California through its tidelands funds has obligated itself to the repayment of $23.4 million of the loan plus accrued interest. (See Note No. 1)

Note No. 1: Staff has repeatedly been assured by the City that this provision is not a guarantee by the City to pay $23.4 million of the loan

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plus accrued interest. This provision is merely a summation of the annual sublease payments to be made by the City during the life of the loan and does not constitute a lien on the tidelands trust funds. The obligations of the City are yearly which are subject to annual appropriation of funds by the City Council.

A FNBC letter dated September 29, 1980 clarified the above matter. In essence the FNBC acknowledges that the $23.4 million amount represents annual rental obligations of this City.

In support of its application the City has provided the Commission with a ten-year statement of estimated annual operating results for the Hyatt Hotel project. These financial projections were also reviewed by the Commission's consultant, PMM & Co.; who found the projections to be reasonable.

Staff on the otherhand does not take such an optomistic view as the City in projecting debt service interest rates. The City has limited the amount which may be refinanced by Hyatt once the initial loan is fully serviced. In addition the City has limited the term over which such refinancing would occur. The only variable left which will affect debt service payments in the future is the prevailing rate at the time of such refinancing. However, this variable can, and, in staff's opinion, will significantly affect future net income to the City. The difference in the variance possible under the existing financial schedule is shown below:

Based upon the 13% loan interest rate Hyatt will have debt service in excess of $7 million annually during the first increment of the loan period (5 years). In 1986 when the loan interest rate is subject to change the City has still calculated debt service using the 13% rate. If the ceiling rate of 16% were used instead of the 13% rate, annually debt service would exceed $8.5 million. This increase in debt service could easily be met by anticipated project revenues, however, it does effect the City's ability to receive its percentage of "net income". At the (13%) projected rates of income, expenses and capital expenses the City will not receive its 15% of net income until year 10 of the lease. By increasing debt interest to 16%, the City will not receive its share of net income until year 12 or beyond.

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While the above analysis shows the impact of changing rates of interest on the City's anticipated net return; the city nevertheless will still receive substantial revenues from the project. These revenues are in the form of parking structure net income, commercial/retail space rentals, land rental, preferred City percentage rentals (UDAG return) and room occupancy taxes (the latter does not flow into the tidelands trust fund).

Using the City's projections of net revenues from the project (less room taxes) the City in year 5 will receive an amount equal to 4.2% of gross (hotel) revenues. In year 10 of the lease the City will recieve the equivalent of 6% of gross (hotel) revenues. A return of this magnitude is well within prudent land management practices and one which the staff feels is adequate for this project. Over the first 10 years of the project the tidelands trust funds will receive income of over $15 million dollars.

PROJECT FEASIBILITY

In April 1980, the State Lands Commission retained the firm of Peat, Marwick, Mitchell & Company (PMM & Co.) to update, where applicable, the findings of previous market and financial feasibility studies. In addition, PMM & Co. was to review the various lease agreements between the City and Hyatt Long Beach Corporation and comment on their reasonableness in light of prevailing industry standards and practices.

PMM & Co. has found that the current and future outlook for Long Beach is positive, with a rapidly growing economic base. The City's redevelopment efforts are the key to the revitalization of the region. Planned and proposed development could add 1.78 million gross square feet of other space in downtown Long Beach by the end of 1982. Another .5 million square feet have preliminary concept approval. A number of other commercial activities including major condominium and apartment projects together with the regional shopping mall now under construction support previous study findings that the economy is growing.

PMM & Co. conducted a number of interviews and reviewed available data to determine that sufficient demand exists to support the additional hotel rooms generated by the Hyatt Hotel. In fact, the consensus of those interviewed was that the existing inventory of hotel rooms is inadequate to respond to corporate and convention-related demand. According to PMM & Co. that consensus is also supported by market data.

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PMM & Co. also reviewed the financial projections contained in the City's application (Harris, Kerr, Forster & Co. (HKF), May 1977) and subsequent update (October 30, 1979), the major components of the forecasts including room demand, food revenue, beverage revenue, telephone revenue, rentals and other revenue all appear reasonable. Administrative and general expenses, management fees, and marketing expenses all appeared reasonable. Expense figures for property operations and maintenance likely contain some computational errors, but do not alter overall projections. Energy costs were inflated at perhaps an overly conservative rate; but will not alter overall projections. Fire insurance costs were estimated low but the figures will not significantly alter overall projections.

The City's net operating income projections from the parking structure were also analyzed. PMM & Co.'s major concern with the City's projection evolved around a very low first year operating and maintenance cost versus total revenue ratio. First year profit margin of 85% appears high; but when discussed with appropriate City Staff members, it appears that the high margin is in line with experience of other comparable facilities in Long Beach. Sensitivity analysis by PMM & Co. shows that adequate revenues exist to cover debt service even when O & M increases by a factor of 2.2. PMM & Co. believes the projections to be reasonable.

PMM & Co. also reviewed the lease and subleases for the Hyatt project to examine their reasonableness relative to prevailing industry standards and practices. PMM & Co.'s conclusion on the lease package is: "while it seems clear that Hyatt was successfull in negotiating an attractive package of leases, the terms do not appear to be so out of line with prevailing industry practices that the leases could be considered unreasonable."

In conclusion, PMM & Co. found "... that there exists strong demand for additional hotel rooms in Long Beach. In particular, demand exists to service convention-oriented business." PMM & Co. also places strong emphasis on the viability of the hotel due to the proposed operator. According to PMM & Co: "The Hyatt Corporation is an excellent operator with a well-established record and proven ability to attract convention business, as well as the commercial and tourist traveler."

Finally, PMM & Co. states, "All projections of future market conditions and financial results are based on assumptions which are subject to change. Therefore, while the projected results contained in the HKF study may or may not be achieved, PMM & Co. is satisfied that the assumptions employed by HKF were reasonable."

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Subsequent to PMM & Co.'s report on the market and financial feasibility of the project, the City provided staff with revised market analysis (prepared for Hyatt by Laventhol and Horwath) and a commitment to financing the hotel project. This additional material was reviewed by the State's contractor PMM & Co.

The Laventhol update indicated that the convention hotel could sustain a level average room occupancy of 81% compared to previous occupancy rates of 75%. PMM & Co. has reviewed the methodology used by the Laventhol people and conducted updated field investigations and has concluded that while the 81% may be somewhat aggressive, it is a figure that Hyatt may reasonably be assured of achieving. Many of the larger hotel/motel complexes in the area (except the Queen Mary) are projecting rates from 80-90% for current year operations. These operators also feel that the addition of the Hyatt Hotel will result in some spin off that will result in further increases in room occupancy rates.

PMM & Co. also has advised the staff that even if the 81% occupancy rate were not achieved on a sustained basis, the difference in revenue levels would be made up by increasing room rates caused by inflationary factors.

Based upon the latest available data it appears that the revised occupancy rate of 81% is not unreasonable and will aid in providing additional revenues to meet the obligations of Hyatt and the City.

PMM & Co. also reviewed the financing c[illegible]ent by FNBC and on the whole finds it to be one wh[illegible]becoming the industry standard. PMM & Co. was conce[illegible]s was staff) with the commitment by the City to g[illegible]ee $23.4 million in loan payments. This provision has been clarified and does not represent a guarantee. PMM & Co. finds the financing to be quite competitive. Support for PMM & Co.'s conclusion is based in part with conversations with institutiona[illegible] lenders who traditionally fund hotel projects and brokers who specialize in packaging hotel financing projects. These sources felt that given existing market conditions, the proposed committment, while not only competitive, represents a departure from traditional lending practices for a bank. It appears that traditional sources of funds for hotel projects have virtually disappeared. Hyatt appears to have successfully obtained funds on a competitive basis.

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Staff of the Commission has carefully reviewed the PMM & Co. report (and supplemental analysis) together with information supplied by the City of Long Beach (and its consultants) and information derived from internal sources in order to form its own opinion as to the likelihood of success of the City/Hyatt venture.

In the beginning, staff had serious reservations concerning the hotel project. Among staff's greatest concerns were, (a) the appropriateness of constructing a "regency class" luxury hotel on the site; (b) the ability of Long Beach to attract sufficient business at the projected room rates; (c) the seemingly very favorable lease terms to Hyatt; (d) the sublease arrangements wherein the City is obligated to make periodic lease, tax and other payments; and (e) whether the City had indeed obligated itself to repay $23.4 million in loan funds, thereby placing a lien for that amount on the tidelands trust fund.

It has been the City's contention that construction of a first-class, luxury hotel was the key to the success of the new Long Beach Convention and Entertainment Center. Staff of the Commission questioned the necessity for such a luxury hotel, especially in light of the past history of Long Beach not being able to support such facilities. It appears however, that with the construction of the Convention/Entertainment Center, the new regional shopping mall, planned and proposed commercial and residential development in the downtown area, together with the City's concerted effort toward revitalization of the downtown and shoreline area, a luxury class hotel appears appropriate. The Commission's consultant, PMM & Co., has corroborated the City's analysis that demand now exists for such a hotel and that it will be able to support the projected room occupany rates. Staff of the Commission believes a luxury class hotel in Long Beach is not an unreasonable use for the granted tideland.

In reviewing the basic lease documents, staff of the Commission found areas that needed explanation, especially as to their future impact if the legislative grants were amended or revoked. Staff also felt that a "percent of net" lease was not the most appropriate vehicle to use in negotiating a lease for a hotel site. However, the City's inability to find a qualified lessee for the proposal required them to negotiate such a deal. The Commission's consultant, PMM & Co. reviewed the basic lease documents and found them to be within current industry practices. And since the ground lease now provides that the City will receive 3% of gross operating income in a preferred position, it appears that many of the staff's concerns that the City would not receive an adequate return have been assuaged.

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It is the staff's opinion that while the lease package favors Hyatt, it does represent a lease which could be beneficial to both parties and one which does not violate prudent land management practices.

Of perhaps the greatest concern to the staff was the innovative provision of subleasing and sub-subleasing of the public facilities to be built as part of the hotel complex. As explained earlier in this report, the public facilities will be built by Hyatt, leased to Hyatt under the ground lease, subleased to the City under a sublease, and sub-subleased back to Hyatt for operation. The first sublease requires the City to make annual rental payments sufficient to amortize the cost to construct the facilities. The annual rental payment is estimated to be $1,781,000. This rental amount is also the rental figure that Hyatt will pay the City for its sub-sublease of the site. However, the Hyatt to City rental payment is subordinate to other payments and may even be deferred (any deferred payments shall accrue interest of 10% per annum) pending receipt of sufficient operating revenues to make such payments. The City is also obligated to make property tax and other payments under the ground lease and subleases.

It is the City's obligation to make periodic payments under the agreements that has caused staff it's greatest concern. It has been the staff's position that in the event the grant reverts to the State, and the State Lands Commission becomes revested with title to the land, the State would be limited in its ability to perform under the lease package. The Commission cannot obligate the State to make rental or other payments without prior review and appropriation by the Legislature.

This problem is to be resolved by the inclusion of the limiting language set forth in the section of this report on grant reversion.

As mentioned previously in this report was the provision in the FNBC commitment letter that the City was guaranteeing repayment of $23.4 million in loan funds plus accrued interest. Staff has relied upon assurances from the City that this is not the case and has proceeded accordingly.

In sum, staff believes that the finally agreed upon Ground Lease, sublease, management agreement and other supporting documents adequately respond to the issues of special concern.

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EFFECT OF GRANT REVERSION

The Lands under the proposed hotel complex are State sovereign lands which have been granted by the legislature to the City of Long Beach for general administration purposes. The Legislature may, if it so chooses, elect to revoke all or a part of these grants and return administrative authority over the lands to the State Lands Commission.

Inasmuch as the ground lease and subleases created by the City and Hyatt require the City to make periodic rental and other payments, the effect of such contract obligations must be addressed in the event the lands revert to and revest in the State Lands Commission.

In the event of such reversion the State Lands Commission (or some successor agency) would likely step into the former position of the City as ground lease lessor and sublessor/ sublessee for the public facilities and parking structure. In such event, the State may be contracturally bound to perform as the City, and make its periodic lease and other payments. Any rental monies received by the State from operations under the ground and subleases would go to the general fund. Without annual legislative review and appropriation, the State, through the State Lands Commission cannot have available to it, monies which will be needed to make periodic lease and other payments.

Staff is recommending that all parties be placed on notice that, if the Commission makes all of the findings under 6702(b) of the P.R.C. relative to this lease and subleases; that it does so under the express provision that, in the event of grant reversion, requirements of the State to make rental or other payments, shall be subject to annual review and appropriation by the State Legislature.

This requirement in effect places the State in a position similar to that of the city in the Amended and restated Parking Structure/Public Facilities Sublease (Paragraph 8) in the event the State steps into the City's position under a grant revocation or amendment.

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STAFF CONCLUSIONS AND RECOMMENDATIONS

The hotel lease appears to be consistent with the granting statutes and general public trust.

The City of Long Beach pursuant to charter section 1710 is required to deposit all revenues derived from the lease package into a Tideland Operating Fund (which fund is impressed with the Public Trust) which is to be used for the betterment of the granted lands and the statewide public benefit.

The City's environmental documentation for the project found that the project, as mitigated, will not have a significant effect on the environment.

In addition the hotel project comports with existing land use plans including the area's local coastal plan.

The hotel complex, in conjunction with the adjacent Convention and Entertainment Center will provide greater statewide public benefits than if the lands were left undeveloped or developed to other trust purposes. The project appears to be financially feasible according to several independent consultant reports. A market currently exists in Long Beach to support a luxury hotel complex. The City will receive annual minimum and percentage rental payments which, in the aggregate, will provide a substantial return on the lands in question. With the inclusion of the limiting language relative to the State's obligation in the event of grant reversion, the lease package appears to be in the State's best interest.

Staff is recommending that the Commission make the findings set forth in Public Resources Code Section 6702 relative to the leases and sublease between the City of Long Beach and Hyatt Long Beach Corporation.