

CITY OF SANTA CLARITA

ECONOMIC DEVELOPMENT SUBSIDY REPORT

Pursuant to Government Code Section 53083



Prepared By:



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1.0 Introduction

1.1 Economic Development Subsidy Overview

With the adoption of Assembly Bill 562 (“AB 562”), adding Government Code Section 53083, the Governor and Legislature acknowledged the need for cities, counties and the State, to encourage economic development in order to increase employment, maintain its existing tax base, and attract and retain certain businesses, by allowing for the provision of economic development subsidies. To that end, the City of Santa Clarita (“City”) and Laemmle Theatres, LLC, a California Limited Liability Corporation (“Laemmle”) propose to enter an Agreement (the “Agreement”) as it relates to the property located at the southwest corner of Railroad Avenue and Lyons Avenue in the Old Town Newhall community of the City (“Property”). The Property encompasses portions of Los Angeles County (“County”) Assessor Parcel Numbers (“APN”) 2831-007-900, 2831-007-901, 2831-007-902, and 2831-007-903.

Government Code Section 53083 provides that on and after January 1, 2014, each local agency shall, before approving any economic development subsidy in an amount of \$100,000 or more within its jurisdiction, conduct a public hearing and provide specific information in written form to the public prior to approving an economic development subsidy. The preparation of this Report is meant to satisfy the aforementioned requirements under Government Code Section 53083, which is to be made available to the public prior to the approval of the proposed Agreement and economic development subsidy.

A. Background & Purpose

Redevelopment was a powerful local economic development program that was eliminated in California in 2012 with the adoption of ABx1 26 and the decision of the California Supreme Court in CRA v. Matosantos. In response to the loss of redevelopment, the City finds it necessary to develop alternative strategies for economic development, which includes, but is not limited to, entering into certain operating and restrictive covenants that serve to retain and attract growing businesses, create jobs, and promote a sustainable and growing tax base in the City applying, as appropriate, certain tax and revenue reimbursement methods based on performance once operations are installed as required.

B. Description of Agreement & Related Requirements

The provisions in the Agreement between Laemmle and the City require Laemmle to adhere to certain Theatre Operating Covenants (“Covenant Requirements”). The Covenant Requirements generally stipulate that Laemmle operate at least six movie screens in the City for a period of fifteen (15) years (2018 to 2032) (“Operating Period”). After year seven (7), the Covenant Requirements allow Laemmle to convert a portion of its improvements into either retail or office space. Additionally, there are a number of uses identified, which are not allowed. In the case that this option is exercised, Laemmle is required to maintain operation of a minimum of four (4)

Theatre screens. Laemmle must also comply with applicable prevailing wage requirements in the construction of the improvements as a result of the City subsidy.

In exchange for satisfying the aforementioned Covenant Requirements, the City shall make a one-time payment of \$1,980,000 (“Covenants Consideration”) to be deposited into escrow at the time that the sale of the theatre property closes, and then provided to Laemmle at the time the project is deemed by the City to be complete.

Apart from the Covenants Consideration delineated above, the City shall contribute the Property to Laemmle at an appraised fair market value of approximately \$440,525. As a result, the City will pay the Successor Agency \$440,525 at close of escrow for the Property. The City will additionally contribute payment on Laemmle’s behalf for permit and development fees for entitlement and construction of the project at the time they are required to be paid, up to an amount of \$400,000. To the extent that any portion of the \$400,000 sum remains unexpended as of completion of the Project, up to \$80,000 may be applied to eligible site preparation costs discussed next. Laemmle is additionally eligible for reimbursement of up to \$600,000 for site preparation costs, including site clearance, grading, relocation of utilities, and required off-site improvements. The total value of City contributions referenced above is estimated at up to \$3,420,525 (“Economic Development Subsidy”).

The City’s obligation to provide the aforementioned assistance is conditioned on:

- Laemmle not being in default under the Agreement
- Laemmle having complied with all the terms and conditions of the Project that are applicable at the time of the payment
- Laemmle having commenced construction of the Project and continuing to diligently execute construction of the Project (as related to the site preparation grant)
- Laemmle having completed construction of the Project (as to the Covenants Consideration)
- The representations and warrants made by Laemmle continuing to be true and correct (i.e. qualified to do business in California; obligation under the Agreement do not conflict with any other obligation of Laemmle; no knowledge of litigation that will impair ability to perform obligations under the Agreement; Laemmle not subject of any bankruptcy proceeding).

C. Additional Considerations

Laemmle represents a potentially catalytic, entertainment-oriented project in the historically under-vitalized neighborhood of the City in Old Town Newhall. A Theatre such as Laemmle has the potential to serve as an “anchor” along Main Street, which, in addition to generating direct fiscal impacts (e.g. sales tax, property tax) and economic benefits (e.g. job creation), can produce indirect impacts for nearby businesses in Old Town Newhall. These fiscal impacts enable the City to fund vital public services and infrastructure improvements, thereby further assisting in the retention and attraction of businesses to further enhance the City’s employment base advance the City’s economic development goals and objectives.

1.2 Legal Requirements

Pursuant to Government Code Section 53083, all of the following information must be provided in written form available to the public, and through its Internet website, if applicable, prior to the approval of the Economic Development Subsidy:

- A. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable;
- B. The start and end dates and schedule, if applicable, for the economic development subsidy;
- C. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenues lost to, the local agency as a result of the economic development subsidy;
- D. A statement of the public purpose for the economic development subsidy;
- E. Projected tax revenue to the local agency as a result of the economic development subsidy; and
- F. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

In compliance with Government Code Section 53083, the following sections of this Report provide the aforementioned required information, which detail the aspects of the Agreement by and between the City and Laemmle and the analysis necessary to determine the projected revenue generated by Laemmle to the City as part of its ongoing economic development goals and objectives. Exhibit 1, which follows, provides an aerial of the location of the subject Property.

Exhibit 1: Site Aerial Map



Note: Property boundaries are approximated.
Sources: Bing Maps, Los Angeles County Assessor (2015)

2.0 Economic Development Subsidy Report

2.1 Reporting Requirements

In accordance with Government Code Section 53083, the following subsections provide the information and details of the Agreement by and between the City and Laemmle. The Report shall remain available to the public and posted on the City's website until the end date of the Agreement, which is more fully described herein.

A. Name and Address of Corporation

The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.

Corporation Name: Laemmle Newhall, LLC, a California limited liability company

Corporation Address: 11523 Santa Monica Boulevard, Los Angeles, CA 90025

B. Subsidy Schedule

The start and end dates and schedule, if applicable, for the economic development subsidy.

Pursuant to the Agreement, if approved, the City shall contribute the Property to Laemmle (estimated first quarter of 2017) for construction of the project. The City will contribute payment on Laemmle's behalf for permit and development fees for entitlement and construction of the project at the time they are required to be paid (anticipated during entitlement and construction period 2017-2018). Reimbursement of site preparation costs will occur following the corresponding expenditures (anticipated during construction period 2017-2018). The City shall deposit the Covenants Consideration into escrow at the close of escrow for conveyance of the Property to Laemmle, which will be provided to Laemmle at the time the project is deemed by the City to be complete (estimated 2018). The Economic Development Subsidy will conclude with the distribution of the Covenants Consideration upon completion of the Project, followed by reimbursement of final site preparation costs within sixty (60) days following completion of the Project. In no event shall the total subsidy exceed \$3,420,525.

C. Subsidy Description

A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenues lost to, the local agency as a result of the economic development subsidy.

Overview

The Agreement by and between the City and Laemmle describes the Economic Development Subsidy as an amount not to exceed \$3,420,525, the eligibility for which is partially premised (as related to Covenants Payment) on the execution of the Covenant Requirements described herein. The composition of the Economic Development Subsidy due to Laemmle is illustrated below (“Economic Development Subsidy Description”):

Covenant Requirements

Pursuant to the provisions in the Agreement, Laemmle must adhere to the Covenant Requirements, which generally require the continuous use and operation of Laemmle’s business (“Business”) throughout the duration of the Operating Period.

After year seven (7) of the Operating Period, the Covenant Requirements allow Laemmle to convert a portion of its improvements into either retail or office space. Additionally, there are a number of uses identified, which are not allowed. In the case that this option is exercised, Laemmle is required to maintain operation of a minimum of four (4) Theatre screens. Laemmle must also comply with applicable prevailing wage requirements in the construction of the improvements as a result of the City subsidy.

Conditions Precedent

The City’s obligation to provide the aforementioned assistance is conditioned on:

- Laemmle not being in default under the Agreement
- Laemmle having complied with all the terms and conditions of the Project that are applicable at the time of the payment
- Laemmle having commenced construction of the Project and continuing to diligently execute construction of the Project (as related to the site preparation grant)
- Laemmle having completed construction of the Project (as to the Covenants Consideration)
- The representations and warrants made by Laemmle continuing to be true and correct (i.e. qualified to do business in California; obligation under the Agreement do not conflict with any other obligation of Laemmle; no knowledge of litigation that will impair ability to perform obligations under the Agreement; Laemmle not subject of any bankruptcy proceeding).

Economic Development Subsidy Description

The Economic Development Subsidy pursuant to the Agreement includes four (4) primary components, as outlined below:

Subsidy Component	Estimated Amount	Estimated Schedule
Land Contribution	\$440,525	Prior to Construction
Development Fee Contribution	Up to \$400,000	Based on City Fee Requirements
Site Preparation Cost Reimbursement	Up to \$600,000	During Construction Period
Covenants Consideration	\$1,980,000	Upon Completion of Construction
Estimated Total	Up to \$3,420,525	

Land Contribution: The City shall contribute the Property to Laemmle (estimated first quarter of 2017) at an appraised value of approximately \$440,525 for construction of the project.

Development Fee Contribution: The City will contribute payment on Laemmle's behalf for permit and development fees for entitlement and construction of the project at the time they are required to be paid (anticipated during construction period 2017-2018), up to an amount of \$400,000. To the extent that any portion of the \$400,000 sum remains unexpended as of completion of the Project, up to \$80,000 may be applied to eligible site preparation costs discussed next.

Site Preparation Cost Reimbursement: Laemmle is eligible for reimbursement of up to \$600,000 for site preparation costs, including site clearance, grading, relocation of utilities, and required off-site improvements following the corresponding expenditures (payment anticipated during construction period 2017-2018).

Covenants Consideration: In exchange for satisfying the Covenant Requirements, the City shall make a Covenants Consideration payment of \$1,980,000 to be deposited into escrow, and then provided to Laemmle at the time the project is deemed by the City to be complete (estimated 2018).

The total value of the Economic Development Subsidy is estimated at up to \$3,420,525.

D. Statement of Public Purpose for Subsidy

The Economic Development Subsidy that the City intends to provide to Laemmle, pursuant to the terms of the Agreement, constitutes a valid public purpose that is consistent with the City's economic development goals and objectives as expressed in the Economic Development Element of the City's General Plan, including tax revenue generation, business attraction, and employment creation within one of the City's targeted industries, entertainment.

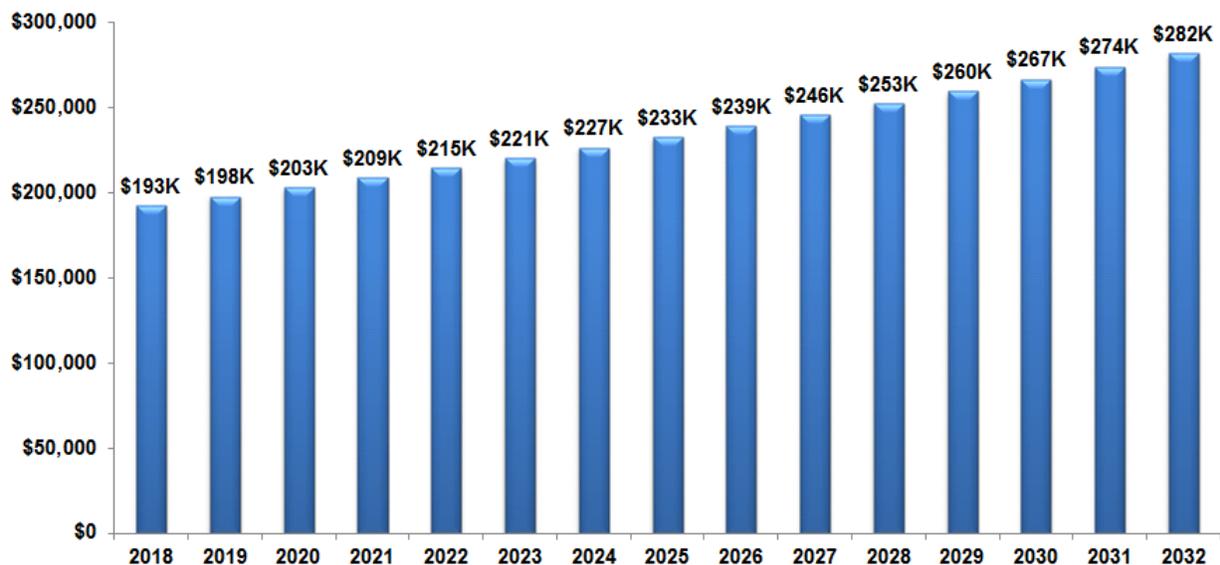
With the dissolution of redevelopment agencies across the State in 2012, a primary economic development tool and stream of revenue to fund the City's revitalization efforts in physically and economically blighted areas within the community was eliminated. The Economic Development Subsidy is a key economic development tool to help facilitate the attraction of Laemmle's operations in the City, thereby creating the potential for increased tax revenues and employment opportunities within the City.

Laemmle represents a potentially catalytic, entertainment-oriented project in the historically under-vitalized neighborhood of the City in Old Town Newhall. A Theatre such as Laemmle has the potential to serve as an "anchor" along Main Street, which, in addition to generating direct fiscal impacts (e.g. sales tax, property tax) and economic benefits (e.g. job creation), can produce indirect impacts for nearby businesses in Old Town Newhall. These fiscal impacts enable the City to fund vital public services and infrastructure improvements, thereby further assisting in the retention and attraction of businesses to further enhance the City's employment base and advance the City's economic development goals and objectives.

E. Projected Tax Revenue to City of Santa Clarita

Separate evaluations prepared by Kosmont Companies and Applied Economics analyzed the fiscal revenue impacts of the proposed Laemmle project and concurrent adjacent mixed-use development. It is estimated that the projects collectively will generate approximately \$3,500,000 in direct and indirect property and sales tax revenue over the term of the Operating Period (by 2032, or year 15 of operation), which correlates to average annual revenues of approximately \$235,000. This amount is sufficient to “pay for” the proposed Economic Development Subsidy, which appears reasonable, considering 15-year term of the Operating Period. Exhibit 2 below provides further detail on estimated annual direct and indirect property and sales tax revenues throughout the duration of the Operating Period.

Exhibit 2: Estimated City Property and Sales Tax Revenue



F. Estimated Number of Jobs

Laemmle estimates 21 on-site employees within the project, comprised of:

- One (1) full-time manager (\$43,000 annual salary)
- Eight (8) full-time employees (\$13 hourly)
- Twelve (12) part-time (20 hours / week) employees (\$11 hourly)