

CITY COUNCIL MEETING AGENDA STAFF REPORT

Agenda Item No. 8. A. (1)

Department: Elected/Administrative Offices

Meeting Date: 04/24/2018

AGENDA TITLE: **PUBLIC HEARING: SECOND AMENDMENT TO THE ECONOMIC ASSISTANCE AGREEMENT WITH CASINO, LLC (LARRY FLYNT'S LUCKY LADY CASINO)**

RECOMMENDATION:

Staff respectfully recommends that the City Council conduct a Public Hearing; approve the Second Amendment to the Economic Assistance Agreement with Larry Flynt's Lucky Lady Casino (Casino, LLC); and authorize the City Manager to sign.

BACKGROUND:

On July 20, 2016, the City Council approved an Economic Assistance Agreement (Agreement) with Larry Flynt's Lucky Lady Casino (Casino, LLC). That agreement provided economic assistance starting on August 1, 2016, and running through July 31, 2024, a total of eight (8) years. The City agreed to reimburse one-half (50%) of the twelve percent (12%) gross revenue fee on monthly gross revenue in excess of \$2,000,000 per month, provided that the reimbursement returned did not exceed eligible promotional expenditures.

Eighty percent (80%) of the reimbursement payments were a grant to support the Company's promotional activities and twenty percent (20%) constituted a loan. The interest-free loan was to be repaid commencing on the eighth (8th) anniversary of the Agreement. Repayment was to be made in a monthly amount equal to one percent (1.0%) of the monthly gross gaming revenues of the Card Club in excess of \$2,000,000.

To-date, the total economic assistance that the City has provided to the Company is approximately \$27,159.00. The total accrued City loan amount to date is \$5,431.77.

There currently exists approximately six and four-tenths (6.4) acres of "excess land" surrounding the Casino which is controlled by the Casino. Casino, LLC intends to put the excess land to good and valuable use. One of the options that the Company has considered is the construction of new hotel with a minimum of seventy (70) rooms. Casino is also considering alternate options including a chain grocery store, a full-service drugstore, a department store, a chain office supply store, a full-service bank, a full-service sit-down restaurant, a national quick service restaurant or a strip retail center.

In order for Casino, LLC to be in a viable financial position to realize the uses preferred by the City the Company has proposed a revision of the current Agreement.

The proposed amendment to the Agreement would:

- Effective April 1, 2018, lower the gross revenue threshold from \$2,000,000 to \$1,000,000;
- Extend the reimbursement period 18 months to January 31, 2026; and
- Eliminate the City loan feature so that only the \$5,431.77 accrued to date will be repaid to the City.

Based on 2017 calendar year gross receipts this proposal will reduce the City's card club revenues by approximately \$498,000 per year, with an aggregate reduction of \$3,984,000 over the 7-year 9-month extended term of the agreement.

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A new hotel within the Lucky Lady Casino complex hosts a number of advantageous financial opportunities for the City. The new hotel is anticipated to have a minimum of 70 rooms, up to approximately 100 rooms with a prevailing rate of \$200 per night. Approximately \$800,000 per year in additional Transient Occupancy Tax (TOT) at 100 rooms is forecasted as a result of building a new hotel within the casino property. The TOT rate is 11% per night which yields a TOT revenue of approximately \$800,000 per year.

Casino, LLC has already agreed to sell a portion of the property to a major real estate developer to be developed into a new residential area. It is anticipated that approximately 100 homes will be built as a result of a partial sale of the Lucky Lady Casino property with a valuation of \$500,000 per home. The total additional property tax revenues for 100 homes valued at \$500,000 is \$55,600 per year.

The construction of the hotel and residential project will likely realize one-time revenues from building and plan check fees and permits. It is estimated that the hotel project would likely yield approximately \$250,000 in fees and permits and the residential project would likely yield another \$250,000 in fees and permits, bringing the total one-time fees revenues to \$500,000. In the event that a mixed retail/shopping complex is built in lieu of a hotel, the estimated building and plan check fees would be approximately \$70,000 to \$140,000 based on a valuation between \$5 million to \$10 million.

Sales tax revenues from hotel guests and new residents is very difficult to predict, but staff has performed an analysis and projects an annual additional sales tax revenue from hotel guests and new residents to be approximately \$910,000 per year.

If a mixed retail/shopping complex is built on the casino property in lieu of a hotel, the City's sales tax revenue substantially decreases. The City's sales tax consultant estimates the sales tax generated by a retail establishment to be about \$2.25 per square foot. Based on comparable mixed retail/shopping center complexes located within the City, the proposed site would have approximately 50,000 square feet of retail space. Based on these variables, the estimated total net sales tax revenue to the City can be as much as \$112,000 per year. The total projected additional annual revenue to the City without a hotel but with a mixed retail/shopping complex is \$167,000 and approximately \$320,000 to \$390,000 in one-time revenues for building and plan check fees.

If Casino, LLC fails to build a hotel the Company agrees to revise the reimbursement payment retroactively by changing the threshold from \$1,000,000 to \$1,250,000 effective April 1, 2018, and paying the City the back the difference in monthly amounts equal to two percent (2%) of monthly gross gaming revenues of the Company in excess of \$1,000,000: estimated to be approximately \$120,000 per year. However, that modification of the threshold will not take place if, in lieu of developing a hotel on the excess land, a chain grocery store, a full-service drugstore, a department store or a chain office supply store; and a full-service bank, a full service sit down restaurant or a national quick service restaurant are developed. The threshold modification will also not take place if a use is developed that will generate 45% of the TOT generated by the Best Western Hotel.

GOVERNMENT CODE § 53083 REPORT

The report required by Government Code § 53083 is based on the additional costs and benefits to the City if the Agreement is amended as proposed. Government Code § 53083 requires each local agency, before approving any economic subsidy in excess of \$100,000.00, to provide all of the following information in written form available to the public, and through the Internet web site.

- 1) Name of Contracting Party
Casino, LLC, a California Limited Liability Company
Larry Flynt, Manager
8484 Wilshire Boulevard, Suite 900
Beverly Hills, CA 90211

Larry Flynt's Lucky Lady Casino
1045 West Rosecrans Avenue
Gardena, CA 90247
- 2) Economic Assistance Agreement Amendment
Start date: April 1, 2018 to January 31, 2026
- 3) The Economic Assistance Agreement provides public funds to Casino, LLC only from the tax revenue generated by the Company. The Agreement provides that, if City's revenue from Gross License fees from Larry Flynt's Lucky Lady Casino exceeds \$120,000, fifty percent (50%) or one-half (½) of the amount received above that amount will be reimbursed to the Company. It is estimated that the City's net revenue for the term of the agreement years will be reduced by approximately \$3,984,000, or \$498,000 annually.
- 4) Card club revenue represents eighteen percent (18%) of the General Fund revenue. A new Hotel will increase the City's Transient Occupancy Tax (TOT) revenue by approximately \$800,000 per year. The total increase in TOT over eight (8) years is \$6,400,000. In addition to TOT, the City is projected to increase property tax revenue by \$55,600 per year and sales tax revenues from new residents and hotel guests will increase by \$910,000 per year.
- 5) If a mixed retail/shopping complex is built in lieu of a hotel, the projected increase in sales tax is approximately \$112,000 per year.
- 6) Building and plan check fees will likely yield the General Fund between \$320,000 to \$500,000 in one-time revenues due to construction permits and inspections.

The total number of jobs that will be created as a result of construction and operation of the uses under consideration ranges from 195 to 283 temporary jobs and 76 to 101 permanent jobs depending upon which development alternatives are ultimately achieved.

The required Public Hearing has been advertised.

Staff recommends that the City Council approve the Second Amendment to Economic Assistance Agreement with Casino, LLC, as presented.

Submitted by: _____
Edward Medrano, City Manager

Date: _____

Attachment: Second Amendment to Economic Assistance Agreement