



February 2009

A Tale of Two Cities

How Long Beach's Investment in Downtown Tourism
has Contributed to Poverty Next Door



Prepared by the Los Angeles Alliance for a New Economy
On behalf of the Long Beach Coalition for Good Jobs & a Healthy Community

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LOS ANGELES ALLIANCE FOR A NEW ECONOMY

464 LUCAS AVENUE, SUITE 202 LOS ANGELES, CA 90065

WWW.LAANE.ORG

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Acknowledgements

Lead Author: Jasleen Kohli

This report could not have been possible without the assistance and support of many individuals and organizations. Stephen Huie, Researcher at UNITE HERE Local 11, contributed much valuable research regarding subsidies to the tourism and hospitality industry. Many thanks also go to Professor Gary Hytrek of Cal State University Long Beach, who in addition to writing the Foreword, also offered his considerable expertise and feedback. We are also grateful to Kai Filion and his colleagues at the Economic Policy Institute for their data regarding hotel workers in Los Angeles County. Additionally, Ernesto Cuevas of Maynard Consulting Services was responsible for the cover design of this report.

Many individuals at LAANE were crucial to the completion of this report. Research Director, Jessica Goodheart, was an indispensable source of guidance and expertise in the analysis of data and conceptualization of this report, as were the rest of the LAANE research team. Chad Sells lent us his talent and patience in the formatting and design of this report. Intern Anna Joo Kim constructed the GIS map used herein. Intern Emily Tamanaha helped with data collection and analysis. Laura Joseph lent her keen eye in the copyediting of this report. Nadia Afghani and Dolores Bernal provided many of the photos used in the cover and throughout. Additionally, Nadia Afghani was exceptionally helpful in the framing and dissemination of this report.

Finally, this report owes significantly to the hotel workers in Long Beach who answered questionnaires, lent us their stories, and were the inspiration behind this report. ☸

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Business and pleasure tourism was intended to strengthen the city's fiscal health, increase the number of Long Beach residents who work in the city, and generate jobs capable of sustaining those families.

Foreword

A Tale of Two Cities: Tourism and Shared Opportunity in Long Beach

By Gary Hytrek

*Associate Professor, Department of Sociology
 California State University, Long Beach*

In 1978, Long Beach was ranked by a Federal Government report as among the most socially, economically, and financially distressed cities in the country; yet by 2007 the Urban Land Institute listed Long Beach as having "one of the top 10 revived downtowns in the United States." This dramatic turnaround is notable for a city that shed thousands of well-paying jobs in the industrial, aerospace, military, and related sectors during the same period.

The transition from a manufacturing-based economy to a service-based one has been neither easy nor inclusive. Most in Long Beach agree that the shift engendered an erosion of the middle class and a growing chasm between the wealthy and the poor. In this respect, Long Beach exemplifies the broader structural and distributional trends that characterize U.S. society.

Long Beach officials responded to the hollowing out of the local economy with a redevelopment plan based on trade, tourism, technology and retail as the new economic drivers. Today, trade and tourism are significant sectors of the local economy, but it is tourism that arguably has the most intense and direct effects on the city. Since the mid-nineties, city officials have concentrated on reinventing and branding Long Beach as a tourist and convention destination. Business and pleasure tourism was intended to strengthen the city's fiscal health, increase the number of Long Beach residents who work in the city, and generate jobs capable of sustaining those families.

Several factors are behind the renewed emphasis on tourism. In 1998, a report by the Southern California Association of Governments concluded that successful redevelopment efforts should "capitalize on the natural assets of an area." For Long Beach, this meant taking advantage of its coastal location, pleasant climate,

and recreational opportunities. The tourism and hospitality industry has also been a fast growing sector of the U.S. economy.

Tying the city's economic fortunes to tourism is neither uncomplicated, nor a new strategy for Long Beach. From 1900 to 1920, city leaders sought to transform Long Beach into the "Coney Island of the West." The dream of making Long Beach the premier tourist resort on the Pacific Coast never quite materialized; rather than a tourist destination, Long Beach became a military, industrial, port, and aerospace town. Today, with revitalization of the industrial and aerospace sectors unlikely, the central question is whether the tourism-based strategy, as presently conceptualized, can halt the erosion of the middle class by replacing outsourced jobs and downsized sectors with good jobs.

An inherent danger of any development strategy is to assume that "any job is a good job." While some well-paid jobs with benefits are being created in the tourism and hospitality sector, low-wage jobs with few or no benefits are projected to grow the most rapidly. If we look at downtown Long Beach as a whole, over 30 percent of the downtown jobs have an average payroll in excess of \$75,000 annually¹, yet the average hotel worker earns roughly \$19,000 per year². Nor does economic growth easily translate into higher incomes. In 2006, for instance, inner-city job growth in Long Beach ranked number three nationally, yet wages actually declined.

This report takes up these critical development issues. As the first systematic evaluation of the city's substantial investment in tourism in the form of subsidies, complex land deals, loans, and direct expenditures, the report raises serious questions about the sustainability of the city's strategy. Area hotels have been highly successful in terms of occupancy rates and revenues per available room, yet workers in these hotels earn much less than their counterparts in comparable hotel markets. Low wages are not limited to the budget tourist sector, but endemic in the high-end sector as well, resulting in these hotels receiving additional indirect subsidies as their low-wage employees qualify for various forms of public assistance. The punch line? Even if a large percentage of those working in the tourism and hospitality sector live in Long Beach, the average annual income of \$19,000 cannot sustain these families. Thus, as the city invested millions of public funds to successfully rebuild the tourist industry, just behind the sparkling façade are high rates of poverty, declining wages, and unmet community needs.

Although these challenges are not uncommon in the tourism and hospitality industry, they are by no means an inescapable fact of destiny. The old industrial jobs we now consider good jobs were not by nature "good," but were transformed into middle-class jobs by the efforts of ordinary women and men organized in unions working with far-sighted business leaders and government officials. A similar transformation is taking place in tourism and hospitality jobs in communities across the country—from New York to Las Vegas—where tens of

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The recommendations in this report provide a basis upon which to generate the kind of inclusive conversations essential to achieving the goal of creating a Long Beach that is an attractive place to live, work, and visit.

thousands of hotel workers have succeeded in raising job standards and winning improvements for their communities. Much of this is the result of labor, business, and public officials working together. We can see this in Los Angeles, where living-wage agreements have been passed to address inadequate wages and benefits in the hotel and other sectors, and where workers secured commitments from hotels that they reopen the industry to African Americans.

"A Tale of Two Cities" offers a positive vision of how to make this happen in Long Beach, and presents a convincing analysis of why moving in that direction is necessary. It is clear that everyone in Long Beach will benefit from a more equitable sharing of the costs and benefits of growth: *Directly*, by generating renewed dedication and commitment to the industry on the part of fairly compensated workers that will enhance guest-satisfaction levels and reduce employee turnover and *indirectly*, by reducing the level of poverty. With city officials and hospitality leaders intent on opening more boutique hotels and attracting higher-end visitors, it is imperative that the Long Beach beyond the Ocean Boulevard business community is included in this effort and the high levels of poverty are addressed.

This report represents a compelling examination of the city's record thus far and offers a realistic plan to engender a more sustainable development process. We cannot hope to develop sustainable communities without an inclusive and comprehensive strategy that involves all stakeholders—workers, community residents, religious leaders, business leaders, city government officials—in a dialogue that takes seriously the values and needs of each participant. The recommendations in this report provide a basis upon which to generate the kind of inclusive conversations essential to achieving the goal of creating a Long Beach that is an attractive place to live, work, and visit. ☸

Executive Summary

This report tells a "Tale of Two Cities:" the vibrant, revitalized Downtown Long Beach, which in April 2007 was listed as "one of the top 10 revived downtowns in the United States" by the Urban Land Institute,³ and the second less-discussed Long Beach, consisting of the surrounding working-class neighborhoods where poverty concentration is listed as 6th highest in the nation by the Brookings Institution.⁴

According to a review of tourism-related expenditures, Long Beach has invested an estimated \$750 million since the early 1980s to reinvent its Downtown area as an attractive destination for tourists and convention attendees.* Hotels have received at least an estimated \$114 million in direct subsidies since 1981.

Estimated and Projected Spending on Tourism Development from 1981 to 2008	
Long Beach Hotels	
Long Beach Renaissance	Not Available
Long Beach Hyatt	\$ (76,844,308)
Long Beach Westin	(36,425,352)
Long Beach Esterel	<u>(718,651)</u>
Total Spent on Hotels	\$ (113,988,311)
Long Beach Attractions	
Shuttles & Water Taxis	\$ (9,914,985)
Aquarium of the Pacific	(53,414,783)
Pike and Queensway Project	(104,747,945)
Convention Center Remodel	(168,744,496)
Downtown Infrastructure	<u>(298,906,058)</u>
Total Spent on Attractions and Infrastructure	<u>(635,728,267)</u>
Total	\$ (749,716,578)

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Attempts to transform Long Beach into a tourist and convention destination came in response to the loss of tens of thousands of aerospace jobs in the late 1970s and the closure of the Long Beach naval base. City officials hoped their investment in tourism would bring new jobs and a new source of revenue that would revitalize the city.

* Unless otherwise stated, all amounts are listed in 2008 dollars.

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Assuming that all Long Beach's hotel workers resemble those interviewed, the public cost of covering all eligible workers' public assistance needs would be \$6.4 million per year.



Although the city has succeeded in attracting an increased numbers of visitors, it is clear that these investments have not paid off for that second, neglected Long Beach. Today, more than 18% of Long Beach residents live below the federal poverty line, a measure of extreme poverty. The median family income in Long Beach is 10% lower than the median family income for Los Angeles County.⁵ And in a 2005 study by the Initiative for a Competitive Inner City (ICIC), Long Beach ranked No. 5 as having one of the 10 Worst Performing Inner City Economies.⁶

The tourism and hospitality jobs created by the city's investments have contributed to these rates of poverty. In 2006, tourism, arts, and hospitality jobs paid an average of \$19,000 a year, according to a city study.⁷ This is 65% less than the \$54,078 that the Economic Policy Institute stated was the self sufficiency threshold to meet the basic needs for a family of four in the Los Angeles and Long Beach area in 2007.⁸ Hotel and motel workers in Long Beach make 12.2% less than their counterparts in the LAX area, 13.6% less than their counterparts in Anaheim, 25.4% less than hotel workers in Santa Monica and 26.9% less than those in Downtown Los Angeles, according to numbers from California's Employment Development Department.

A Los Angeles Alliance for a New Economy (LAANE) survey of workers employed at one prominent Long Beach Hotel found that 82.8% of workers surveyed live in the city of Long Beach, suggesting that the economic situation of these workers has a direct impact on the city. The survey also found that:

- The median yearly earnings of the workers interviewed were \$19,240.
- 41.4% of surveyed workers utilized some form of public assistance in order to meet their basic needs.
- Half of those who said they used public assistance used more than one program.
- The average surveyed worker is eligible for an estimated \$2,375 in public assistance per year.

Assuming that all Long Beach's hotel workers resemble those interviewed, the public cost of covering all eligible workers' public assistance needs would be \$6.4 million per year.

Yet the hotels in the First Long Beach have been thriving, according to key indicators of industry health. According to Smith Travel Research:

- Long Beach hotels' Average Daily Room Rate jumped 77.5% from 1993 to 2007.
- Long Beach's 2007 occupancy rate was higher than the Los Angeles region as a whole. When compared to the 26 largest U.S. hotel markets, only New York City and Oahu, Hawaii had higher occupancy rates.

- In 2007, Long Beach hotels also surpassed most hotel markets in Revenues per Available Room (RevPAR), a standard measure of profit in the hospitality industry. Long Beach hotel RevPAR was \$88.37, which is higher than 18 of the 26 largest U.S. hotel markets, including Atlanta, Chicago, Dallas, Houston, Orlando, Phoenix and Seattle.

Of course, the hotels generate tax revenue for the city. However, Long Beach invested twice the percentage of its transient occupancy tax revenue to promote tourism in comparison to other nearby cities. This means that the city keeps proportionally less of its transient occupancy tax revenue than comparable cities.

City officials and hospitality industry leaders are now hoping to move to the next stage of development and attract higher-end visitors. But in order to succeed as a tourist destination, the city and the tourism industry need to consider the effects of low-wage tourism jobs on the community at large. The city should ensure a public return on their investment in tourism in the form of good jobs and tax revenue. In order to achieve these goals, we make the following recommendations for both the city and for the hospitality industry:

City Leaders Should:

- **Conduct a Full Audit of Hotel Leases and Redevelopment Agreements.** The city and its residents deserve to know the full story behind the agreements that built its hospitality industry.
- **Hold City Hearings on the Costs and Benefits of the Tourism Industry to Long Beach residents.** The Long Beach City Council should hold public hearings to discuss the costs of subsidizing the hospitality industry for over 25 years.
- **Require Community Benefits Review.** Future city agreements to assist in hotel development should require a Community Benefits Impact Study to examine the impact of hotel development, subsidies, job creation, and compensation on the Long Beach community and its worker/residents.
- **Explore Policy Options for Raising Standards at Hotels and Ensuring Community Benefits.** The city, hotel workers, and residents deserve to benefit from city largesse provided to hotel developments.

Industry Leaders Should:

- **Provide Safeguards to Hotel Workers During Difficult Economic Times.** Once the economy improves, laid off employees should have the first chance to return to work without loss of seniority.

City officials and hospitality industry leaders are now hoping to move to the next stage of development and attract higher-end visitors. But in order to succeed as a tourist destination, the city and the tourism industry need to consider the effects of low-wage tourism jobs on the community at large.

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- **Provide Affordable Family Health Insurance.** As shown in this report, the cost of low-paying jobs is steep for the public. Lack of affordable health insurance means that workers must rely on either public assistance or go without.
- **Create Job Access for Community Members.** The industry should partner with the city and the local community to provide job access and job training programs for local residents.
- **Honor Workers' Rights to Organize.** By agreeing to remain neutral, Long Beach hotels will provide workers with the security of knowing that they are able to exercise their basic right to organize without fear of reprisal.
- **Invest in Environmentally-Conscious Practices.** The industry should take steps to make sure that they are making environmentally sound decisions in building construction, improvements, and operations. The industry should make a concerted effort to reduce or eliminate the use of toxic chemicals, especially in cleaning agents.

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Introduction

"There are two Long Beaches. One's the Long Beach we live in every day and we have to make it a better one. All the issues we're concerned about, we have to address. But the second Long Beach is up and running."⁹

— Former Long Beach Conventions and Visitors Bureau President Linda Howell, 1995

After thirty years and more than \$2 billion of private and public investment in the hospitality and tourism industries, the city of Long Beach has reinvented itself. The process began in the late 1970s when the Long Beach economy was faced with major employment losses as cuts in defense spending eviscerated the city's aerospace industry. By 1980, the city lost over 100,000 jobs from the closure of the naval base and aerospace plants.¹⁰ The downtown economy faced collapse and middle class residents began an exodus to the suburbs. According to Robert L. Alperin, then Vice President of the commercial real estate company Matlow-Kennedy Corp., "development just skipped downtown Long Beach for many years and it became seedy."¹¹

Furthermore, the passage of Proposition 13 in 1978 "severely limited the city's ability to fund itself." In 1978, property taxes accounted for 28% of the general fund, which provides for basic services like public works, fire, and police. By 1998, property taxes were only 14% of the general fund.¹²

During this period, the city invested heavily in the tourism and hospitality industry. Its goal was to transform Long Beach into an "engaging and eclectic destination city" in order to create a job and revenue base to replace the one it had lost.¹³ Attracting higher-income residents was also a goal, according to some officials. Long Beach's economic development specialist in the 1970s said, "We want to include upper and middle class people into the downtown area if the downtown is going to resemble what it once was."¹⁴ Another Redevelopment Agency official said in 1994 that "moving low-income people out of downtown was 'definitely' a conscious goal of redevelopment."¹⁵

From 1975 to 1981, the city spent \$45 million to develop downtown and helped secure \$55 million for the projects from the state and federal governments.¹⁶ During this time period, the city used eminent domain to acquire hundreds of acres of "blighted" downtown parcels and gave residents 90 days and \$500 to relocate.¹⁷ Since the 1980s, the city has dramatically expanded its investment in hotels and tourism-related infrastructure.

This study examines the public cost of developing the tourism industry, and the industry's impact on the economic well-being of the city. While investment in



† The dollar amounts listed in this paragraph have not been adjusted for inflation.

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tourism dates back to the 1970s, this study focuses on investment that has taken place since the early 1980s.

In Chapter 1, we conduct a thorough review of city subsidies to the Long Beach hotels that have been key to the city's downtown revitalization efforts. We also attempt to quantify the city's investment in attractions and infrastructure that supports the hospitality and tourism industry. Furthermore, we examine the city's marketing of itself as a tourist destination.

In Chapter 2, we highlight the persistence of poverty in Long Beach amid the growth of the hospitality industry. In addition, we examine the extent to which jobs in the hospitality industry contribute to poverty in Long Beach through an analysis of government data and findings from an original survey of hotel employees at one downtown Long Beach hotel.

In Chapter 3, we examine the industry's performance and we offer our conclusions and policy recommendations that we hope will guide Long Beach in its efforts to ensure that city residents truly benefit from the public investment in this vital industry. ☼

1. Long Beach Invests Heavily in Hospitality and Tourism

There have been three main components to Long Beach's investment in tourism: subsidies to lure new hotels, investment in infrastructure and attractions, and the marketing of Long Beach as a destination for tourists and conventioners. In this section, we attempt to quantify the city's investment in these three areas.

Luring First Class Hotels

At the forefront of Long Beach's revival was the hospitality industry. The city of Long Beach entered into four agreements with hotel developers in the 1980s and one more in 2003. The agreements of the early 1980s were attempts to attract first class hotel brands to the city to make it more attractive to conventioners and tourists. In this section, we analyze three downtown hotels developed in the 1980s: the Hyatt, the Westin, and the Renaissance. We focus on these three because they are Long Beach's largest hotels, and the city's top three sources of transient occupancy tax revenue or "bed tax."¹⁸

We did not examine other hotels that are also important players in the city's tourism industry because they are not located downtown, the focus of this study. Nonetheless, it is worth mentioning that the Long Beach Marriott, which opened in 1987, and the Coast Long Beach Hotel, which opened in 1976, lease their land from the city.¹⁹ The Hilton Long Beach, located downtown, did not receive direct subsidies from the city, but has benefited from the city's substantial investment in tourist attractions and infrastructure.

We also examine the city's agreement with the Hotel Esterel, which is emblematic of the city's more recent effort to attract boutique hotels to downtown.

We conducted a detailed analysis of the four development deals, and, where possible, attempted to value the subsidies to the hotels. Unless otherwise indicated, past dollar amounts were inflated to present values using the Consumer Price Index for All Urban Consumers in Los Angeles-Riverside-Orange County, CA. Future dollar amounts were discounted to Present Values using a discount rate of 10%.²⁰ The straight-line method was used to spread cost over periods whose exact cash flow dates were unknown.

A Mounting Subsidy: The Hyatt Regency Long Beach

The Hyatt Regency Long Beach was completed in 1983 and was the first major hotel



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† A discount rate of 10% was determined as a reasonable standard because it was the most conservative rate used in an analysis by another Los Angeles County municipality in 2006 to value the sale of hotel assets.



The Hyatt Regency Long Beach... and the agreements that led up to it were the culmination of twelve years of city effort to obtain a first rate hotel that could accommodate the needs of the Convention Center and "make a statement that Long Beach had not succumbed to urban decay."

franchise to enter the Long Beach market. Its construction and the agreements that led up to it were the culmination of twelve years of city effort to obtain a first rate hotel that could accommodate the needs of the Convention Center and "make a statement that Long Beach had not succumbed to urban decay."²¹

Former Deputy City Manager Henry Taboada said that the city's lease with the Hyatt was an "inducement to get them here" because "the area was just dirt when we wanted them to come in."²² Then-Congressman Glenn M. Anderson of the 32nd Congressional District said that "this project was the 'missing link' in the redevelopment of Long Beach."²³

The agreements between Hyatt and the city were complex and initially involved two pieces:

1. Long Beach would lease city land to the Hyatt for \$200,000[§] per year and 15% of the hotel's yearly net cash flow.
2. Once the hotel was built, the Hyatt would lease the parking lot and public facilities that include ballrooms and banquet rooms to the city for \$3,172,000 per year.[§] The city would then sublease a portion of the parking lot and the public facilities to the Hyatt for \$529,407 and \$1,781,078 per year,[§] respectively. This resulted in an annual net transfer of \$861,515[§] from the city to the Hyatt.

In addition, the city agreed to provide \$17.4 million in Tidelands Funds to support the project. Public funding from the project also came from a \$3 million[§] Federal Urban Development Action Grant which the developers would repay.

The city anticipated that the Hyatt Regency Long Beach would generate \$513,000[§] in Transient Occupancy Taxes (TOT) in its first year of operations. Congressman Anderson predicted the project would "result in a net profit to the city of \$4 million to \$5 million per year."^{§24} Combined with projections of parking structure and boardwalk income, the city expected to gain more than \$21 million[§] in the first 10 years of operations.²⁵

However, the ground lease and public facilities sublease were subordinate to other obligations, including operating expenses, real estate taxes, reserve for replacement of furniture and fixtures, and to debt service.²⁶ Out of Hyatt's thirteen obligations, the city was the last to be repaid.²⁷ Thus, if the hotel failed to earn enough cash, the city would not be paid. By 1995, the Hyatt owed Long Beach over an estimated \$40.4 million in back rent.²⁸

In October 1994, the Hyatt Regency Long Beach defaulted on its \$54 million[§]

[§] Nominal Dollars (not adjusted for inflation)

loan with Mitsubishi Bank. However, the large size of the debt was an incentive for Mitsubishi not to foreclose.²⁹

In January 1995, the city of Long Beach negotiated with Mitsubishi Bank to restructure the ground lease agreements with the Hyatt Regency Long Beach. Under the revised agreement, Hyatt would pay the city an estimated \$4 million and the city would forgive the remaining \$36.4 million in ground lease payments, or 90% of the outstanding debt. In exchange, the Hyatt promised to increase its ground lease payment by 10% every 5 years, resulting in a gain for the city of \$2.4 million. The new lease agreement also charged Hyatt a 2.5% percentage rent on gross operating profits, resulting in a gain for the city of an estimated \$4.6 million. In total, the revised ground lease caused the city to lose an estimated \$29.5 million.

The city also renegotiated its public facility and parking lot lease and sublease with the Hyatt so that the city would pay \$2,855,263 per year[§] for both premises rather than the original \$3,172,000 per year.[§] The Hyatt would not pay anything for the public facilities and would pay \$476,543 per year** for the parking lot sublease instead of the original rates of \$1,781,078 and \$529,407 per year,[§] respectively. This effectively increased the annual net transfer from the city to the Hyatt from \$861,515 to \$2,378,720 per year.[§] This renegotiated public facility and parking lot agreement resulted in a further \$27 million loss to the city compared to what the city would have been paid under the original agreement.³⁰

In addition, "the Hyatt billed the city" for at least \$3 million in compensation "under a city agreement to reimburse the hotel for any loss of business due to the construction project"³¹ to renovate and expand the city's Convention Center.



§ Nominal Dollars (not adjusted for inflation)

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Far from the \$21 million revenue per year (in nominal dollars) the city originally expected, the city has subsidized the Hyatt with an estimated \$77 million.

Table 1: Estimated City Subsidy of the Long Beach Hyatt in 2008 Dollars

Subsidy from Tidelands Fund (1981)		\$ (17,403,799)
City Money Lost from 1995 Revised Agreement		
Foregone Ground, Public Facility, and Parking Lease Revenue (1983-1995)		
Cash Received from Hyatt	\$ 4,046,233	
Less: Cash Owed by Hyatt	<u>40,462,333</u>	
Absorption of Hyatt's Deficiency		\$ (36,416,100)
Future Ground Lease Payments from Hyatt (1995-2033)		
Cash to be Received from Hyatt under 1995 Revised Agreement	\$ 7,741,597	
Less: Cash to be Received from Hyatt under Original 1983 Agreement	<u>5,348,257</u>	2,393,340
Future Percentage Rent Payments from Hyatt (1995-2007)		<u>4,600,939</u>
Total Cost to the City of 1995 Revised Ground Lease Agreement		(29,421,821)
Cost to the City of the Revised 1995 Parking and Public Facility Lease and Sublease (1995-2007)		(26,991,881)
Compensation to the Hyatt for Convention Center Renovation (1993)		(3,026,807)
Total City Subsidy of the Long Beach Hyatt		<u>\$ (76,844,308)</u>

Only three years after the opening of the Hyatt, the City Auditor reported that "projections show this negative cash flow will continue through 1994."³² Yet by 1994, the Hyatt defaulted on its payments altogether. Far from the \$21 million⁸ revenue the city originally expected in the first 10 years of operation, the city has subsidized the Hyatt with an estimated \$77 million.

A Lengthy Legal Battle: The Westin Long Beach

In July 1985, the city entered into a Disposition and Development Agreement (DDA) with Shoreline Square Associates to build the Westin Long Beach, which was completed in 1988. Through a complex series of transactions, the city subsidized the development of the hotel by an estimated \$40 million. The subsidy took the form of a series of financial transactions between the hotel developer and the city that put the city in the position of owing principal and interest on notes payable to the developer.

On Dec. 29, 1994 and Dec. 13, 1996, Taisei (the succeeding interest to Shoreline)

filed two complaints against the city of Long Beach over whether the Redevelopment Agency owed Taisei unpaid monies from notes that the city issued to the Westin's developer. The city denied the allegations and filed a cross complaint, which the judge denied, determining that it had no legal basis.³³

On June 27, 1997, Taisei and the city reached a settlement agreement in which the parties agreed that the city still owed Taisei an estimated \$11.4 million in remaining principal and an estimated \$10.3 million in unpaid interest. In exchange for an immediate cash payment, Taisei reduced the interest rate on the notes to 7%. On the day the city signed the agreement, Long Beach had already paid the hotel developer an estimated \$8.2 million toward the principal. In addition, the city owed the developer another \$6.4 million in interest that had yet to be accrued. (See Table 2.)

Table 2: Estimated City Subsidy of the Long Beach Westin in 2008 Dollars

Principal		
Principal Paid by 1997	\$ (8,267,617)	
Principal Still Owed in 1997	(11,431,817)	\$ (19,699,434)
Interest		
Accrued Interest Owed in 1997	\$ (10,335,962)	
Interest Yet to Be Accrued after 1997	(6,389,956)	(16,725,918)
Total Estimated Subsidy of the Long Beach Westin		\$ (36,425,352)

By 1997, developing the Westin had cost Long Beach more than an estimated \$36.4 million in cash and liabilities, not counting legal fees. Furthermore, the city ended up engaging in costly legal proceedings that lasted three years.

Using Eminent Domain: The Renaissance Long Beach

While we were unable to value the subsidy, it is clear that the Redevelopment Agency expended significant resources on land assembly and was instrumental in the development of the 360-room Renaissance Hotel.

On September, 19, 1983, the city entered into a Disposition and Development Agreement with LBR Hotel LP to construct the hotel.

The city agreed that it would acquire the necessary parcels and relocate the residents, business tenants, and owners already present. The city moved the stakeholders of at least twelve lots of property, which in at least one case was against the wishes of the owner. The owner wrote, "we wish to go on record that we are willing to improve our property. We do not want to sell the property [underlines original]."³⁴ In response, the city wrote that the owner was "afforded an opportunity to submit a competing proposal" with a seven point development



According to Long Beach Convention and Visitors Bureau President and CEO Steve Goodling, developers "are looking to capture some of the more sophisticated properties that have been found in other cities and introduce that lodging concept here in our city."



plan including: scope of development, square footage, totals, usage, parking spaces, financial proforma, and number of persons estimated to be employed by the development.

The city was responsible for providing the displaced with "monetary and advisory relocation assistance."³⁵ The cost of compensating these residents, tenants, and owners is not available. According to the DDA, the city was also to remove all paving, public utility lines, and above- and sub-surface structures at the cost of \$135,410.

The city would lease and later sell the site to LBR Hotel LP for a total \$2,520,622 at 10% interest, to be paid over five years.

The city spent resources acquiring the site for development, relocating residents, and clearing the site for construction. In order to break even on the Renaissance Hotel project, the city would have had to spend less than \$2,385,212 to acquire the site. It is unknown how much the city spent to acquire the site because the requested information was not provided by the city in response to an information act request. The Renaissance was completed in 1986.³⁶

Going Upscale: The Hotel Esterel

The Hotel Esterel is one of several "upscale boutique hotels coming online in the next few years to fill a niche that hasn't yet been addressed by the city."³⁷ According to Long Beach Convention and Visitors Bureau President and CEO Steve Goodling, developers "are looking to capture some of the more sophisticated properties that have been found in other cities and introduce that lodging concept here in our city."³⁸

On October 31, 2003, the city entered into an Owner Participation Agreement with Long Beach Plaza Associates to build a 165-room hotel that is scheduled for completion in 2009.³⁹ As part of the deal, the city sold Redevelopment Agency parcels, a piece of The Promenade street, and rights to 56 parking spaces for \$767,511 at 10% interest per year. However, the developer has the option of repaying the city in kind by constructing improvements upon the privately-owned section of The Promenade up to a value of \$718,651 and by reserving 20 parking spaces for Redevelopment Agency use, which are valued at \$48,860. Although the city maintains an easement to access the hotel's underground parking lot to conduct subterranean repairs, it vacated the surface of The Promenade parcel it sold to Long Beach Plaza Associates.

As long as Plaza Associates improves its own land (the Promenade area that it purchased was vacated and disclaimed by the city), it owes nothing more to the city than access to the reserved parking spaces. The estimated subsidy to the hotel will be more than \$718,000.

Table 3: The Projected Subsidy of the Long Beach Esterel in 2008 Dollars

Purchase Price and Note Principal		
Agency and Vacation (Promenade) Parcels	\$ 562,300	
56 Parking Spaces	205,211	
Total Purchase Price		\$ 767,511
Payment of Note		
Reservation of 20 Parking Spaces		48,860
Value of Subsidy		\$ 718,651

The Value of the Promenade Improvements (\$718,651) is not included in the offset of the subsidy because the surface land was "vacated" by the city and transferred to the Developer.

The city of Long Beach built its hospitality industry to stem urban blight, rebuild the city's dwindling tax base, and create new jobs. Toward this goal, the city has spent an estimated \$114 million in direct hotel subsidies alone. This is a conservative estimate because the cost of relocating residents and acquiring land to build the Long Beach Renaissance is not available.

Table 4: Estimated City Spending on Hotel Subsidies in 2008 Dollars

Year Completed	Hotel	Amount
1983	Long Beach Renaissance	Not Available
1981	Long Beach Hyatt	\$ (76,844,308)
1985	Long Beach Westin	\$ (36,425,352)
2003	Long Beach Esterel	\$ (718,651)
Total Spent on Hotels		\$ (113,988,311)

"With the addition of the Queensway Bay Project and the aquarium to Pine Avenue and Anaheim Street and other attractions, once you start that kind of critical mass, people can vacation here for days," said former Convention and Visitors Bureau President Linda Howell.

Building a "Critical Mass"

Beyond subsidies, the hospitality industry has benefited from Long Beach's investment in attractions and infrastructure. Tourism officials have sought to build a downtown that allows vacationers to spend significant time in Long Beach. "In the tourism industry what we look for is critical mass," said former Convention and Visitors Bureau President Linda Howell. "With the addition of the Queensway Bay Project and the aquarium to Pine Avenue and Anaheim Street and other attractions, once you start that kind of critical mass, people can vacation here for days."⁴⁰ Based on a review of press reports and city documents, we have attempted to estimate the magnitude of the city's investment in key attractions and infrastructure. These estimates—while by no means comprehensive—illustrate the importance of tourism as an economic development strategy for the city and

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the significant resources it has been willing to devote to its development.

The Convention Center Remodel

To increase the capacity of conventions and drive more visitors to Long Beach hotels, the city spent an estimated \$168.7 million to renovate the Convention Center, according to press reports. That figure excludes the estimated \$3 million that the adjacent Hyatt charged the city for the loss of business due to construction.⁴¹

Aquarium of the Pacific

Long Beach has dedicated significant resources to fund the Aquarium of the Pacific, an important educational resource for the region. The Aquarium is also a critical component of the revitalization of the downtown area as an attractive, cultural destination. Former Mayor Beverly O'Neil said that "the aquarium will help us turn things around."⁴² The city guaranteed \$174.7 million dollars of revenue bonds to pay for the aquarium's construction and initially promised the aquarium an additional \$1.5 million per year (in nominal dollars) in profits from a city-owned garage.⁴³

However, by April 2001, the aquarium's revenues were insufficient to make payments on the bonds, and the city restructured them to take on more of the aquarium's debt payments.⁴⁴ Between 2001 and 2004, the city supported the aquarium's debt with an estimated \$8.7 million in transient occupancy tax, the revenue it receives from hotels.⁴⁵ By 2005, the city agreed to pay an estimated \$5.2 million per year to offset the aquarium's bond deficiency.⁴⁶ Then in 2007, the city agreed to pay an additional estimated \$250,000 per year to the aquarium for capital reinvestment.⁴⁷

To date, the city has spent more than an estimated \$53 million to pay off the Aquarium's bond debt, payments that will continue through 2030.⁴⁸

The Pike at Rainbow Harbor and The Queensway Bay

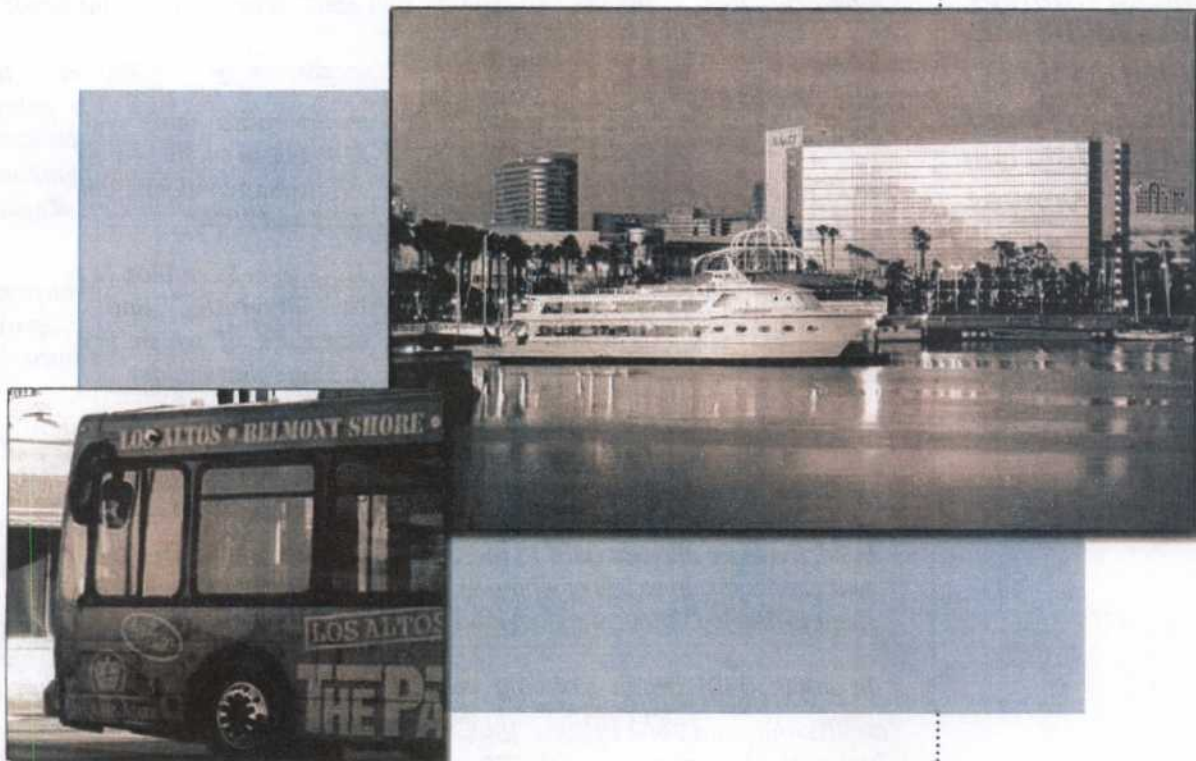
To develop the Pike at Rainbow Harbor, a retail and entertainment complex, the city spent an estimated \$21.7 million and issued a \$43 million bond (in nominal dollars) to support the nearby garage.⁴⁹ The city also took out a \$40 million loan (in nominal dollars) to pay for the Queensway dredging project to beautify the waterfront and construct esplanades. In total, the city spent an estimated \$105 million to finance the Pike, not including interest.⁵⁰ Under the city's contract with the developer, Developers Diversified Realty, the city promised it would forgive the developers \$1.45 million dollars of annual lease payments if the developer and its builder subsidiary did not make \$13.5 million profit during the first seven years of operation.⁵¹ Lease payments may also be cut by 50% during years 7

through 12.⁵² It is unknown if the city has yet to make any revenue from this deal. The Pike opened in 2003.

Shuttles and Water Taxis

Since 1985, the city-owned Long Beach Transit has purchased and operated water taxis and land shuttles as "tourist-oriented services" designed to transport visitors around Long Beach and to "become a tourist attraction" themselves.⁵³ Fares have been heavily subsidized by the city, presently costing visitors only \$1 per ride, the same as in 1985.⁵⁴

The city also implemented the Passport shuttle buses to allow visitors to cheaply "enjoy many of the best sites Long Beach has to offer."⁵⁵ In 1998, the city owned 28 transit shuttles, which it purchased for an estimated \$9.9 million.⁵⁶





Recent legal and financial troubles turned the ship into a symbol of failed oversight and lost tourism revenues.

The Queen Mary: A Cautionary Tale of Investment

Since the city's purchase of the iconic ship in 1967, the Queen Mary has become an enduring symbol of Long Beach and its efforts to revitalize the landscape and transform the city into a vibrant, exciting destination. However, recent legal and financial troubles turned the ship into a symbol of failed oversight and lost tourism revenues.

The city purchased the Queen Mary for \$3.45 million and spent an additional \$77 million converting it into a hotel and building the surrounding infrastructure.⁵⁷ In the 40 years since, the hotel has shuffled through a series of leaseholders and numerous attempts to develop the surrounding area, none of which has succeeded.

In 1993, the city leased the hotel and the surrounding land to Queen's Seaport Development Inc., which also planned to build hotels, a science fiction museum and an ice rink on the adjacent land.⁵⁸ The result was financial disaster.

The terms of QSDI's lease with the city required \$25,000 in monthly rent and up to 5% of the project's gross revenue, to be paid annually. As an incentive to build, the lease allowed QSDI to receive rent credits for up to 9% of whatever it spent to develop the surrounding land.⁵⁹

In 2000, QSDI began claiming rent credits and from 2002 to 2004, Joseph Prevratil, the President and CEO of QSDI, claimed that the credits offset all percentage rent the company would otherwise have owed.⁶⁰

As the losses mounted, the city initiated an audit which concluded that the credits were inappropriate and that Prevratil and QSDI owed the city up to \$4.4 million in back rent.⁶¹ In response, QSDI declared bankruptcy in March 2005.⁶²

After failing to recover its money, the city conducted a second audit and determined that Prevratil and his management company were paid nearly \$8 million in salaries, benefits and other disbursements between 2000 and 2007. The payments included:

- Approximately \$300,000 to purchase a life insurance policy in Prevratil's name and another \$100,000 to purchase and maintain a Hawaiian condominium between 2002 and 2004;
- More than \$1 million in transfers to Prevratil, and Leisure Horizons, of which Prevratil is the lone shareholder,
- An estimated \$1.5 million in salaries to family members.^{63 64}

A settlement between QSDI and the Bankruptcy Trustee that the city believed was inadequate was approved by the bankruptcy court over the city's objections. The city has not received funds from Prevratil and may never receive payment as the terms of the settlement subordinates Long Beach's debt to all other debts. ☹

Infrastructure

The hotel industry has also received indirect subsidies through Long Beach's investment in the downtown tourist environment. Between 1990 and 1998, Long Beach spent more than an estimated \$268 million in capital expenditures to redevelop the Downtown area.⁶⁵ That was 62% of all capital expenditures throughout the period.¹ From 2000 to 2006, the city's largest council district, District 5, had only 17% of its sidewalks repaired compared to downtown Districts 1 and 2, which had more than 40% of their sidewalks fixed.⁶⁶

In Table 4, we add up all the available information on city spending on tourism attractions and infrastructure. The total is likely an underestimate since it does not account for debt service on the garage that serves the Pike, the cost of operating the water taxis and shuttles, or investment in the city's airport. Although the city will begin to receive revenue from its investment in the Pike development after the first seven years of operation, it is fair to say that, since the 1980s, the city has spent more than an estimated \$635.7 million to build attractions and infrastructure to support the hospitality industry and promote tourism.

Table 5: Estimated City Spending on Tourism Infrastructure and Attractions in 2008 Dollars (1985-2007)

Purchase cost of shuttles & water taxis	\$ (9,914,985)
Debt service for aquarium bonds & direct support	(53,414,783)
Pike and Queensway Project bonds	(104,747,945)
Convention Center Remodel	(168,744,496)
Downtown Infrastructure (1990-1998)	(298,906,058)
Total	\$ (635,728,267)

Long Beach has reinvested more than twice the percentage of its bed tax revenue to promote tourism than comparable cities in the region.



Marketing the Tourism Industry

The city has also supported tourism and hospitality by funding the Long Beach Convention and Visitors Bureau (CVB), a nonprofit membership organization of businesses which market Long Beach to convention planners, tourist magazines, and travel planners. The largest funder of the CVB is the city, which funds the Bureau out of the revenue from the transient occupancy tax. Select hotels also levy a tax on themselves in order to increase CVB funding almost twofold. Long Beach has reinvested more than twice the percentage of its bed tax revenue to promote tourism than comparable cities in the region. This does not exclude the city's use of hotel bed taxes to absorb the aquarium's bond interest deficiency.

¹ Capital expenditures involve acquisitions and construction for redevelopment projects, including administrative costs and excluding debt service.

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Table 6: City Funding of Tourism Bureaus in 2006 (Nominal Dollars)

City	TOT Rate	TOT Revenue	TOT Revenue that Funds the Tourism Bureau	Percentage of TOT Revenue that Funds the Tourism Bureau
Long Beach	12.0% ⁶⁷	\$18.40 million ⁶⁸	\$3.9 million ⁶⁹	21.2%
Anaheim	15.0% ⁷⁰	\$79.80 million ⁷¹	\$7.5 million	9.6% ⁷²
Santa Monica	14.0% ⁷³	\$32.25 million ⁷⁴	\$2.2 million ⁷⁵	6.8%
San Diego	10.5% ⁷⁶	\$162.60 million ⁷⁷	\$8.8 million ⁷⁸	5.4%

The Cost of a Reinvented Long Beach

From 1983 to 2008, Long Beach spent \$750 million to develop the tourism industry. Hotels have directly received \$114 million. Furthermore, Long Beach has invested twice the percentage of its bed tax revenue to promote tourism than comparable nearby cities. This means that the city keeps proportionally less of its bed tax revenue than comparable cities.

Table 7: Estimated and Projected Spending on Tourism Development from 1983 to 2008

Long Beach Hotels	
Long Beach Renaissance	Not Available
Long Beach Hyatt	(76,844,308)
Long Beach Westin	(36,425,352)
Long Beach Esterel	\$ (718,651)
Total Spent on Hotels	\$ (113,988,311)
Long Beach Attractions	
Shuttles & Water Taxis	\$ (9,914,985)
Aquarium of the Pacific	(53,414,783)
Pike and Queensway Project	(104,747,945)
Convention Center Remodel	(168,744,496)
Downtown Infrastructure	(298,906,058)
Total Spent on Attractions and Infrastructure	(635,728,267)
Total	\$ (749,716,578)

2. Poverty Jobs, Poverty Neighborhoods

While the first Long Beach has prospered and thrived with new developments and investments, the second Long Beach has quietly languished. The city's investment in tourism has created a revitalized downtown, but high rates of poverty and declining wages suggest that the second Long Beach has been left out of this revival, and a number of national reports have highlighted this stunning disparity. The tourism industry has provided salaries that leave workers unable to provide for their basic needs, and Long Beach hotel workers, in particular, must survive on some of the lowest wages in the region. A case study at one local hotel suggests that the hotel industry is contributing to the problem of poverty in Long Beach because many hotel workers live in the city itself.

The level of poverty and deprivation in Long Beach is striking. According to government data:

- *Forty percent of Long Beach residents do not have enough income to meet their basic needs.* These 180,600 Long Beach residents live below twice the federal poverty line, which was \$41,300 for a family of four in 2007. According to the Economic Policy Institute, the self sufficiency threshold for a family of four in the Los Angeles and Long Beach area was \$54,078 in 2007.⁷⁹
- *More than 18% of Long Beach residents lived below the federal poverty line in 2007, a measure of extreme poverty.* ** More than one in four (26.9%) Long Beach children live below the federal poverty line, which was \$20,650 per year in 2007 for a family of four.
- *More than one-fourth of Long Beach residents spend more than half their income on rent, according to Housing Long Beach.*^{††}
- Some 28.5% of full-time workers in Long Beach earned less than \$25,000 a year.
- *The median family income in Long Beach in 2007 was \$48,290, 10% less than the median family income in Los Angeles County, and 19% less than the median family income in California.*⁸⁰

Think tanks have given Long Beach low marks in economic performance in comparison to other cities:

** The 2007 data does not account for the current economic downturn caused by contracting credit markets in 2008.
†† Affordable housing is defined as housing that costs no more than 30% of one's income. (Federal Dept. of Housing and Urban Development. <<http://www.hud.gov/offices/cpd/affordablehousing/index.cfm>> Accessed Sep. 8, 2008)





In a 2005 study by the Initiative for a Competitive Inner City, Long Beach ranked number five among the 10 Worst Performing Inner City Economies.

- In a 2005 study by the Initiative for a Competitive Inner City (ICIC), Long Beach ranked number five in the nation among the 10 Worst Performing Inner City Economies.^{§1} The ICIC ranked the 100 largest cities in the United States according to the inner city poverty rate (37% in Long Beach), unemployment rate (15%), and median income (\$23,969).
- In a 2005 study by the Initiative for a Competitive Inner City, Long Beach ranked number five among the 10 Worst Performing Inner City Economies.
- According to a 2005 Brookings Institution report, Long Beach ranked number 6 in the nation for poverty concentration, among: Fresno, CA; pre-Katrina New Orleans, LA; Louisville, KY; and Cleveland, OH.^{§2} The city has 17 "extreme poverty" census tracts, which are defined as tracts with poverty rates of 40% or more.

An Economic Revival Built On Low Wage Tourism

Developing Long Beach as a tourist destination has been a cornerstone of the city's economic development strategy. Yet even the city acknowledges its failure to create good jobs to replace the ones that were lost when the city's aerospace firms left town. A 2006 white paper by the city reported that tourism, arts, and hospitality jobs pay an average of \$19,000 per year, less than one-third the average manufacturing job (\$63,182) and less than half the median citywide job (\$48,000), making them amongst the lowest paying jobs in the city.^{§3}

The hotel industry is a key part of the city's tourism industry, accounting for 2,341 jobs.^{§4} Yet Long Beach area hotels pay lower wages than those in comparable markets. In 2007, the average wages earned by Long Beach area hotel and motel workers were 26.9% less than what their counterparts in Downtown Los Angeles earned, 25.4% less than what Santa Monica hotel workers earned, 13.6% less than hotel wages in Anaheim, and 12.2 percent less than wages paid in the LAX area, according to California's Employment Development Department.^{§§5}

§1 ICIC defines Inner cities as census tracts with poverty rates greater than 20%.

§§ Anaheim, Santa Monica, and Long Beach wages are averaged from city-wide data. Downtown Los Angeles wages are from zip codes 90017 and 90071. LAX area wages are from zip code 90045. Comparison to LAX area hotels is especially striking since 2007 data is prior to the enactment of a living wage ordinance which affected a significant number of hotel workers in the area. Thus, even at the time of lower wages, workers in the impoverished LAX area were still earning more than Long Beach workers.

Figure 1: Annual Hotel Workers Wages by Sub-Market in 2007¹¹

Source: California Employment Development Department

¹¹ California Employment Department Data (EDD) calculates average wages by averaging those of all employees at an establishment, including managers and higher-paid executives. Therefore, average wages obtained through EDD data are more useful as a comparative tool than for calculating actual wages paid to the workers studied in this report.

Priced Out of Long Beach

Name: Martina de Santiago
Position: Lobby Attendant
Lived in Long Beach: 1981 – 2002
Wage: \$9.70
Hotel: Hilton Long Beach
Medical Insurance: \$96 per Month
Worked at Hotel: 6 Years



In 2002, Maria Santiago moved to Inglewood from Long Beach, her home for the previous 11 years, since she and her family could no longer afford the cost of housing in Long Beach. However, she misses Long Beach and would like to move back there if she could afford it.

Maria has health insurance for herself but none for her husband or three of her four children. Her youngest son qualifies for MediCal. The other children are too old to qualify for MediCal.

Maria does not feel that she gets the respect she deserves from hotel management. "I feel like we don't matter to them for anything. They only want us to work, work, work. And the work that we do is never enough."



The median yearly gross earnings for workers surveyed was \$19,240, well below the annual income needed to afford basic necessities.

Case Study: A Look Inside a Prominent Long Beach Hotel

The effect of low-paying jobs in the tourism industry can be studied more closely by taking an in-depth look into one of the area's most prestigious hotels. In 2008, LAANE conducted a survey of workers at the Long Beach Hilton, a prominent downtown hotel that is also part of a prosperous, world-renowned chain. The survey was not a random sample, but interviewers reached nearly one third of hotel employees and made sure to talk to workers from a range of hotel departments and seniority levels.⁸⁶ The key findings are presented below.

Low Wages, Inadequate Benefits

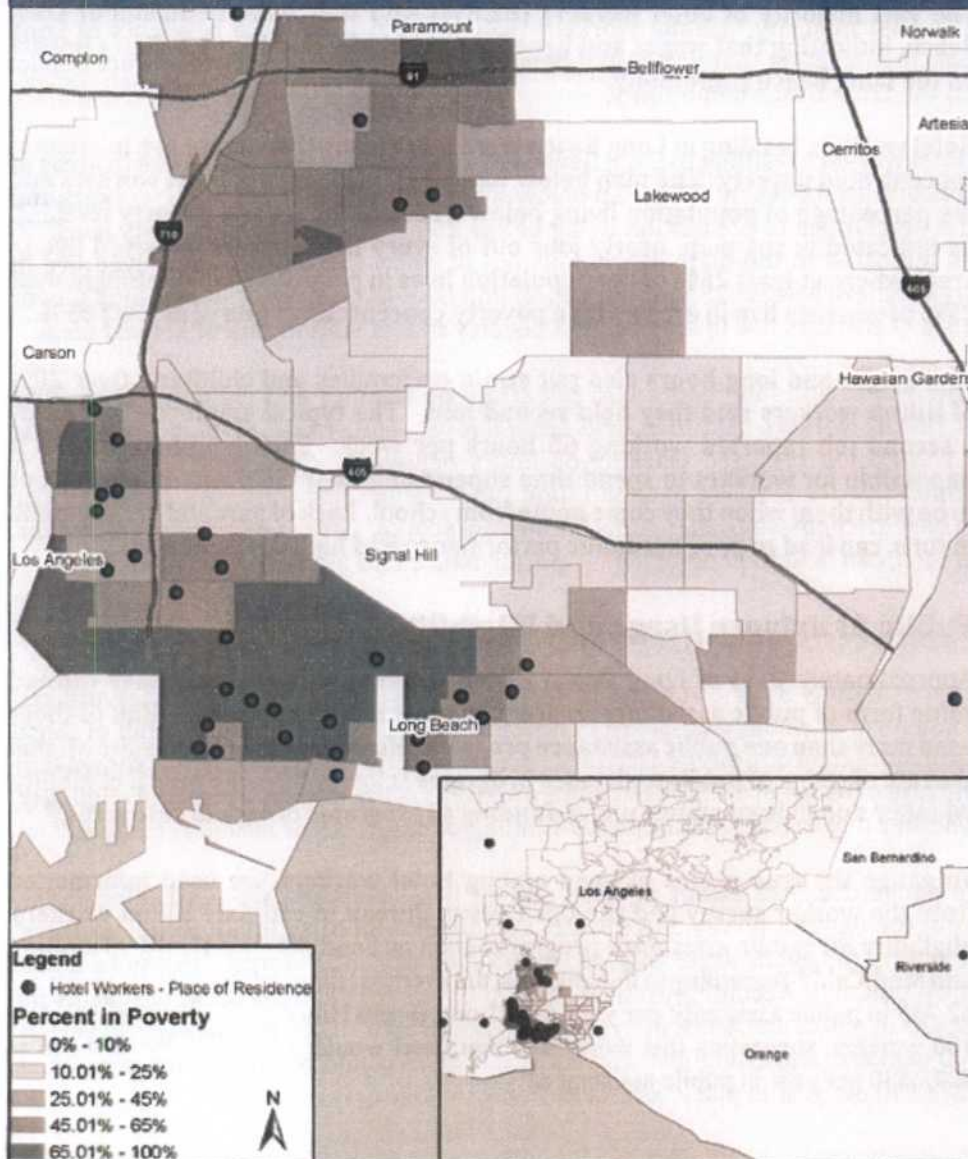
The median yearly gross earnings for workers surveyed were \$19,240, well below the annual income needed to afford basic necessities. This figure includes the combined income of workers who held two jobs. The median wage of workers was \$9.75 per hour, 13 percent below the L.A. City living wage and 62% below the self-sufficiency wage for a two parent family with two children.⁸⁷ The typical workers paid \$10,920 annually in rent or housing costs, making housing costs more than half of surveyed workers' gross yearly earnings.

These low wages existed even though the typical Hilton worker surveyed had been with the hotel for 5.5 years. More than half of workers had been with the hotel for more than 5 years and 21% had been with the hotel for more than 10 years.

Workers say that the cost of health insurance is prohibitive, considering their low salary. Only 55% of workers had health insurance obtained through the hotel. This is below the national average. In the U.S., 63.5% of non-elderly adults and 70.2% of workers receive job-based coverage.⁸⁸ According to our survey, the median cost of insurance to the hotel worker was \$100 per month, and the average was \$146. Those who had family coverage paid up to \$280 per month. These amounts do not take into account any co-pays and deductibles that must be paid. Fully 17% of workers indicated that they relied on MediCal or Medicaid. No workers indicated whether they utilized California's Healthy Families Program, but many would be eligible, although Healthy Families only covers children and not adults.

In a study on low-income uninsured families, the Kaiser Commission on Medicaid and the Uninsured found that being uninsured affects not just a parent's health, but also the well-being of the entire family. Low-income uninsured parents were half as likely to seek preventative care. Preventative care allows patients to be treated in the early stages of a condition, before the condition worsens, possibly leading to more expensive and invasive treatment. The Commission found that going without timely care resulted in a disability in more than 10% of cases, and

Figure 2: Ratio of Income in 1999 to Poverty Level: 2.0 and Over, by Long Beach Census Tract



over 30% reported a loss of time at work or other activities. Additionally, more than one-third of uninsured low-income parents spent less on food, heat or other basic needs in order to pay for health care and about a third stated that medical bills have a major financial impact on their family.⁸⁹

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Assuming that all of Long Beach's 2,341 hotel workers receive similar annual wages, we estimate that the city's hotel workers are eligible for \$6,403,334 in public assistance annually.

Impact on the Community

The vast majority of hotel workers (82.8%) said they were residents of Long Beach, indicating that wages and benefits paid by the hotel have a direct impact on the Long Beach community.

Hotel workers residing in Long Beach were more likely than not to live in areas of concentrated poverty. The map below indicates residences of hotel workers and the percentage of population living below 200% of the federal poverty level.^{***90} As indicated in the map, nearly four out of every five workers surveyed live in areas where at least 25% of the population lives in poverty. And stunningly, over 25% of workers live in areas with a poverty concentration rate of at least 65%.

Low wages and long hours also put strain on families and children. Over 20% of Hilton workers said they held second jobs. The typical employee that holds a second job reported working 65 hours per week. Such long hours make it impossible for workers to spend time supervising their children's homework or to be with them when they come home from school. Lack of parental involvement, in turn, can lead to poor academic performance and high drop out rates.⁹¹

Public Assistance Usage and Eligibility

Approximately 41% of Long Beach Hilton workers surveyed said they utilized some form of public assistance in order to meet their basic needs. Half of those used more than one public assistance program. However, research has shown that the rate of usage of public assistance programs is lower than the rate of eligibility, whether due to legal status, under-funding of programs or lack of resources.⁹²

To gauge the true extent of need among hotel workers, we used information from the worker survey and the U.S. Census Bureau to estimate Hilton workers' eligibility for public assistance programs such as Food Stamps, Healthy Families, and MediCal.^{†††} According to this analysis, the average Hilton worker would qualify for \$2,735 in public assistance per year. The Long Beach Hilton employs approximately 100 workers, suggesting that workers at that hotel would be eligible for as much as \$273,530 per year in public assistance.⁹³

*** Whereas the federal poverty level is a good indicator of extreme poverty, using 200% of the federal poverty level is a more accurate measure of actual poverty.

††† In order to determine public assistance eligibility, we utilized workers' self-reported yearly incomes and divided workers into four quartiles to determine the median wage of workers in each quartile. We then utilized Economic Policy Institute's analysis of 2006 American Community Survey microdata to determine the percentage of workers with families, average family size, and workers' contribution to family income. We then determined eligibility for each quartile in the following public assistance programs: Healthy Families, MediCal, Head Start, reduced or free school meals, food stamps, Earned Income Tax Credit, Section 8 housing vouchers, Low Income Home Energy Assistance Program (LIHEAP), and Women, Infant and Children (WIC). The average cost of each program, other than Healthy Families, is taken from Carol Zabin's study, "The Hidden Costs of Low-Wage Jobs in California." The amounts used in the study are in 2002 dollars and have been inflated to 2008 dollars using the Consumer Price Index. The average cost of Healthy Families is taken from a Managed Risk Medical Insurance Board handout, "California's SCHIP Program: The Healthy Families Program," for a July 27, 2007 presentation to National Health Policy Forum. The cost of MediCal is not included, as families are either eligible for MediCal or for Healthy Families. MediCal expenditures are generally higher; as such, our total calculated cost is a conservative estimate.

We believe that it is reasonable to assume Hilton workers are paid at least as well as workers at most other Long Beach hotels because it is a Class A hotel and workers there received raises after a union organizing campaign began.

Assuming that all of Long Beach's 2,341 hotel workers receive similar annual wages, we estimate that the city's hotel workers are eligible for \$6,403,334 in public assistance annually. ☘

A Mother's Story

Name: Myesia Mimms
Lived in Long Beach: 2.5 Years
Hotel: Hilton Long Beach
Worked at Hotel: 3.5 Years
Position: Guest Services Attendant
Wage: \$11.48 Per Hour
Medical Insurance: None



Myesia Mimms stands up for eight hours to address guest needs and check them in and out of the Hilton Long Beach. "I feel I'm doing the job of two people," she says.

Myesia cannot afford to pay for health insurance to cover herself, let alone her 2 year old son Marion. "Luckily my son gets health insurance through his dad, but what would happen to my child when I am sick or injured? I can't even buy prescription medicines." When she does become ill, she resorts to the emergency room.

In response to whether her working conditions have affected her family life, she states, "I live for my son, so I have no choice." Myesia dreams of having enough money to enroll her son in a Christian school and to buy a house.

Yet, at her wage, "I can't pay my rent on time. I have to put check to check together just to survive."

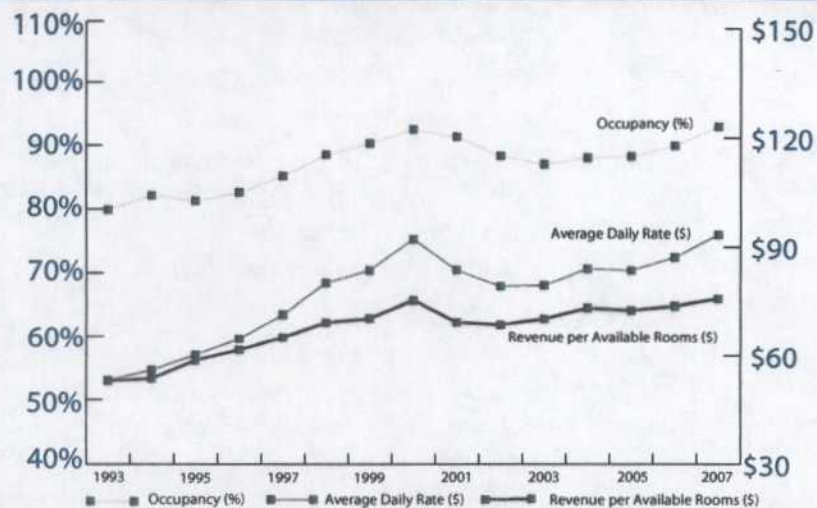
3. The Hospitality Industry's Financial Health

Long Beach hotels have benefited from the city's investment in tourism, and have, in fact, seen a steady improvement in performance in the 15-year period from 1993 to 2007. The graph below measures three widely used benchmarks for hotel performance: Occupancy Rate (rooms sold divided by rooms available), the Average Daily Rate (ADR, room revenue divided by rooms sold), and Revenue per Available Room (RevPAR, occupancy multiplied by ADR).

- In 2007, Long Beach hotels had an average occupancy rate of 75.9%, compared to a 1993 occupancy rate of 53.1%.⁹⁴
- In 2007, Long Beach hotels had an Average Daily Rate (ADR) of \$123.15, compared to a 1993 ADR of \$100.33.⁹⁵
- In 2007, Long Beach hotels had Revenue per Available Room (RevPAR) of \$93.47, compared to a 1993 RevPAR of \$53.28.⁹⁶



Figure 3: Long Beach Hotel Industry Performance in 2008 Dollars: 1993-2007⁹⁷



In addition, Long Beach has done well compared to other cities:

- Long Beach's 2007 occupancy rate was higher than the Los Angeles region as a whole. When compared to the 26 largest U.S. hotel markets, only New York City and Oahu, Hawaii had higher occupancy rates.⁹⁸

- In 2007, Long Beach hotels also surpassed most hotel markets in RevPAR. Long Beach hotel RevPAR was \$93.47, higher than 18 of the 26 largest U.S. hotel markets, including Atlanta, Chicago, Dallas, Houston, Orlando, Phoenix and Seattle.⁹⁹

Whereas Vice President Baltin of PKF Hospitality Research, the leading hospitality research firm, once remarked that Long Beach is "frankly in some respects really a bargain compared to other parts of the region,"¹⁰⁰ now Dorsey International Senior Vice President Alain Sarfatti believes that "with occupancy rates being what they are, it has made it feasible to invest in the market, and it has forced existing hotels to invest in their properties. And to pay for those investments, room rates are going up."¹⁰¹

Long Beach has reached the next stage in its effort to establish itself as a destination for tourism as well as conventions and business. According to CVB President and CEO Steve Goodling, "We're being discovered by planners and attendees who are then returning as visitors, and that's really key. In a marketplace, it's called a maturing product and we're just at the curve where we're ramping up product awareness of Long Beach."¹⁰²

However, given the changing economic environment and pessimistic hospitality forecasts, will Long Beach's hotel industry be able to undergo this evolution? In July 2008, the Long Beach Business Journal reported that transient occupancy tax for 2008 would likely be \$500,000 below the last year's projection.¹⁰³ By December 2008, PKF Research predicted a 7.8% drop in RevPAR and a 2.5 % decrease in occupancy across the nation in 2009.¹⁰⁴

Fortunately, the Long Beach economy is well situated to weather the economic uncertainty. According to Cal State University Long Beach's 2008-2009 Economic Forecast, the city's recent employment growth was "not directly tied to the housing boom."¹⁰⁵ Most of the construction employment for Long Beach development was based outside of the city, whose financial services industry was not dependent upon the mortgage market or homeowners insurance.¹⁰⁶ Moreover, Long Beach retail is not dependent upon home furnishing or building supply sales.¹⁰⁷ In addition, the decrease in imports is propped up by increased exports, resulting from a depreciated dollar.¹⁰⁸

The hospitality industry is particularly well positioned. As has been noted earlier, Long Beach's lower Average Daily Rates attract value visitors. Furthermore, Long Beach's hospitality industry is fueled by conventions, which are booked in advance and will only have a lagged impact on the near future.¹⁰⁹ Convention and Visitors Bureau CEO Steve Goodling adds that the city has "benefited from its positioning as a destination for association conventions and trade shows. Cities that rely heavily on corporate meeting, meanwhile, have seen hotel occupancy



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***-- Long Beach
 Area Convention
 and Visitors
 Bureau
 Spokesman Bob
 Maguglin***

rates shrink because these types of events are more likely to be canceled in a down economy."¹¹⁰ "Long Beach is going to have another good year," said Long Beach Area Convention and Visitors Bureau Spokesman Bob Maguglin at an annual dinner highlighting the city's upcoming convention lineup. "We're holding our own and attracting some lucrative new business, which is especially encouraging given the troubled economic times we're in."¹¹¹ ☿

Conclusions and Recommendations

The city of Long Beach has worked hard to rebuild its local economy after the job losses of the 1970's and 80's. Through its investment in the tourism and hospitality industry, the city achieved its goal of improving its public image in order to attract a stable stream of visitors to become a tourist and convention destination. For its part, Long Beach hotels have benefited from over \$114 million net in lease and subsidy transfers and over \$635.7 million in attraction and infrastructure investment to promote hospitality and tourism.

But many in Long Beach have been left behind. The employees who work in the tourism and hospitality industries are not receiving adequate benefits to justify the massive investments the city has made. They do not earn enough to afford basic necessities, and their wages are sub-par when compared to other regions. The communities in which they live remain impoverished and neglected.

High levels of poverty may be a particular impediment as Long Beach embarks on its next phase of hotel development – attracting boutique hotels. The CVB President and CEO Steve Goodling said that “as with any new product – and Downtown Long Beach is a new product – you want to create trial and you also want to create word-of-mouth endorsement.”¹¹² If visitors with high expectations are put off by the sight of downtown-adjacent impoverished neighborhoods, they may not revisit or recommend the city to others.

The city government of Long Beach and its residents should review how local legislation can be brought to bear so that the residents and the city can get a fair return on their investments and not be taken unawares again. In addition, the hotel industry needs to be a responsible employer and provide livable wages and health benefits to city workers residents. We propose the following for city and industry leaders:

City Leaders Should:

- **Conduct a Full Audit of Hotel Leases and Redevelopment Agreements.** The city and its residents deserve to know the full story behind the agreements that built its hospitality industry. Recently, audits have revealed significant shortfalls, such as with QSDI, the operator of the Queen Mary. A full audit will create the transparency necessary to further discussion about the hospitality industry in Long Beach;
- **Hold City Hearings on the Costs and Benefits of the Tourism Industry to Long Beach Residents.** The Long Beach City Council should hold a public hearing to discuss the costs of subsidizing the hospitality industry for over 25 years. This hearing should be open to city residents to talk about the impact of the hotel industry on their daily work and personal lives;





- **Require Community Benefits Review.** Future city agreements to assist in hotel development should require a Community Benefits Impact Study to examine the impact of hotel development, subsidies, quality job creation, and compensation on the Long Beach community and its worker/residents;
- **Explore Policy Options for Raising Standards at Hotels and Ensuring Community Benefits.** The city, hotel workers, and residents deserve to benefit from city largesse provided to hotel developments. The city of Los Angeles has required hotels near LAX to pay their workers the city's living wage and passed legislation to ensure workers are paid the tips they are owed. Left to themselves, Long Beach hotels have failed to let the workers and the community share in the benefits of growth

Industry Leaders Should:

- **Provide Safeguards to Hotel Workers During Difficult Economic Times.** A case study of one prominent hotel suggests that many hotel workers live in Long Beach. If hotels resort to layoffs, it will further destabilize Long Beach's marginal communities. Once the economy adjusts itself, laid off employees should have the first chance to return to work at the same seniority.
- **Provide Affordable Family Health Insurance.** As shown in this report, the cost of low-paying jobs is steep for the public. Lack of affordable health insurance means that workers must rely on either public assistance or go without.
- **Create Job Access for Community Members.** The industry should partner with the city and the local community to provide job access and job training programs for local residents.
- **Honor Workers' Right to Organize.** Long Beach hotels should agree to be neutral if workers choose to organize for better conditions and should recognize the union if a majority of workers sign cards authorizing union representation. By agreeing to remain neutral, Long Beach hotels will provide workers with the security of knowing that they are able to exercise their basic right to organize without fear of reprisal.
- **Invest in Environmentally-Conscious Practices.** The industry should take steps to ensure environmentally sound decisions in building construction, improvements, and practices. The industry should make a concerted effort to reduce or eliminate the use of toxic chemicals, especially in cleaning agents. ☸

Appendix:

Summary of Agreements between the City of Long Beach and Subsidized Hotels

Appendix I details the agreements between the City of Long Beach and subsidized hotels. It also summarizes how we calculated the subsidies based upon these agreements. This appendix reports the nominal dollar amounts from the referenced documents.

In the body of this study, dollars were inflated to present values using the Consumer Price Index for All Urban Consumers in Los Angeles-Riverside-Orange County, CA. Future amounts were discounted to present values using a discount rate of 10%. The straight-line method was used to spread cost over periods whose exact cash flow dates were unknown.

The Long Beach Hyatt

March 10, 1981 Agreement with the Hyatt Long Beach

- **Basic Ground Lease and Land Rental:** The Hyatt Corporation agreed to lease the land, which sits on public Tidelands property, for \$200,000 per year. This lease was based on a 50 year non-cancelable ground lease with a renewable term of 25 years, beginning in 1983;
- **Hotel Percentage Rent:** The City would receive a percentage rent of 15% of the hotel's net cash flow;
- **Tidelands Trust Subsidies:** The City would provide \$6.7 million in subsidies for the construction of site improvements;
- **UDAG:** The City would secure \$3 million of Federal Urban Development Action Grant money for the construction;
- **Public Facilities & Parking Lease:** Hyatt would construct all public area improvements including ballrooms and banquet rooms that would serve as extensions to the Long Beach Convention Center. Hyatt would also construct a 1,137 space three level parking structure. The City was

to lease the public facility and parking improvements from the Hyatt Long Beach for \$3,172,000 per year for 50 years after the opening of the hotel.

- **Public Facilities & Parking Sublease:** Hyatt would pay the City \$1,781,078 million per year for a portion of the public area improvements constructed for the benefit of the City for 50 years after the opening of the hotel. Hyatt would also pay \$529,407 per year for 50 years for the use of 500 parking structure spaces.

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The Long Beach Hyatt

January 27, 1995 Revised Agreement with the Hyatt Long Beach

- **Additional Equity Investment:** Hyatt would invest \$8 million in equity to upgrade the hotel;
- **Debt Reduction:** Mitsubishi would reduce the hotel mortgage by \$24 million;
- **Debt Reduction:** The City canceled its \$27 million of deferred rent in exchange for an immediate cash payment of \$2.7 million to the Tidelands Fund;
- **Revised Ground Lease Minimum Rent Payment:** The amended ground lease would expire May 31, 2033 and the City would extend the lease until May 31, 2058 as long as Hyatt is not in default. Hyatt would pay to the City a fixed minimum rent of \$242,000 per year, which would increase by 10% every five years; and
- **Revised Hotel Percentage Rent:** Hyatt Long Beach would pay the City 2.5% of operating profit before debt service, interest, taxes, depreciation, amortization, or insurance premiums. The lease also capped the Hotel Management Fee at 4% of gross receipts.
- **Revised Public Facility & Parking Structure Lease:** The City would continue to lease the public facilities and parking structure from Hyatt for \$2,855,263 per year until December 31, 2008. Until the lease expires, the City would pay an "additional rent" of seven-twelfths of property insurance premiums and all utilities and property taxes. The amended public facility & parking structure lease would expire May 31, 2033 and the City would extend the lease until May 31, 2058 as long as Hyatt is not in default.

- **Revised Public Facility & Parking Structure Sublease:** Hyatt would sublease 500 parking spaces from the City for \$476,543, which is the lease cost and operating cost attributed to those spaces. The public facilities would be subleased rent free.

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The Long Beach Hyatt

Calculating the Subsidy

To calculate the subsidy to the Long Beach Hyatt, we summed:

1. The present value of \$6.7 million appropriated from the Tidelands Fund in the 1981 Lease Agreement;
2. The money lost from the Revision of the Ground Lease, which is the sum of:
 - a. The difference between what the Hyatt owed the City under the 1981 Ground Lease Agreement (\$27,000,000) and what it actually paid the City under the 1995 Ground Lease Agreement (\$2.7 million) and
 - b. The difference between the present value of future Ground Lease payments under the 1981 Ground Lease (\$200,000 per year) and the present value of future Ground Lease payments under the 1995 Ground Lease Agreement (\$242,000 per year to be increased by 10% every 5 years) for the years 1995-2033, which is the end of the lease term;
 - c. Future percentage rent of gross operating income. The Hyatt's income statements were not available for analysis. The amount was estimated using the average gross operating income per available room for Long Beach full service hotels in 2007 and multiplying by the number of rooms in the Hyatt. The appropriate percentage rent of 2.5% on gross operating income was applied and then multiplied for the thirteen years from 1995 through 2007. The city submarket data suggest that this revenue would reduce the city's subsidy to the Hyatt by 5.6% percent.
3. The money lost during the period of 1995-2008 from the Revision of the Public Facility and Parking Lease and Sublease, which is the difference between the net present value of future public facility and parking lease and sublease payments under the 1981 Agreements [\$3,172,000 - (\$1,781,078 + \$529,407)] and the net present value of public facility and parking lease and sublease payments under the 1995 Agreement

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[\$2,855,263 - (\$0.00 + \$476,543)]; and

4. The \$2,000,000 compensation to the Hyatt for Convention Center renovation.

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The Long Beach Westin

July 16, 1985 Agreement with Shoreline Square Associates

- **Acquisition:** The City would acquire the development site and sell it to Shoreline Square Associates for \$6 million on the condition that Shoreline build: a 500 room hotel; a 400,000 square foot office building; between 10,000 and 15,000 square feet of retail space; and approximately 1,400 subterranean parking spaces. The parcels would be sold as is.
- **Financing:** To finance the acquisition, Shoreline would advance \$12.4 million to the City. In return the City would owe Shoreline two promissory notes:
 - **Note I:** An amount not to exceed the purchase price of the site from the City to Shoreline (\$6 million) at 10% interest per year and
 - **Note II:** The amount advanced by Shoreline to the City for acquisition (\$12.4 million) at 12% interest per year. If more than \$12.4 million was needed, then Shoreline would advance up to \$2.4 million more at 12% interest.
 - The notes were secured by the site parcels themselves and would be paid from tax increment revenue from the site. Both notes were payable by the thirteenth anniversary of the project's completion

Sources

Disposition and Development Agreement By and Between Redevelopment Agency of the City of Long Beach and Shoreline Square Associates. July 16, 1985. p4-5, 12, 23

The Long Beach Westin

June 27, 1997 Agreement with Taisei

- **Agreement on the Situation:** It was agreed that at the time of settlement:
 - The current principal balance of the second promissory note was \$7,926,675;
 - Previous to the 1997 Agreement, the first note was paid off with the conveyance of the site from the City to Taisei in 1986.

Interest from the first note was added to the principal of the second note and

- **The accrued and unpaid interest was \$7,166,823.64**
- **Interest Rate Reduction:** Taisei would reduce the interest rate from 12% to 7%;
- **Revised Payment Schedule:** The City would make a cash payment to Taisei of \$3.2 million, which would be credited against the second promissory note. Thereafter, the remaining principal owed by the City would be \$4,726,675; and
- **Revised Payment Schedule:** Repayment of the note would terminate on the earlier of: a) the payment of all interest and principle or b) April 30, 2050.

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The Long Beach Westin

Calculating the Subsidy

To calculate the subsidy to the Long Beach Westin, we summed:

1. The present value of the principal of Note II that had been paid as of June 27, 1997, according to the 1997 Agreement with Taisei (\$12,400,000 - \$7,926,675);
2. The present value of the remaining principal as of June 27, 1997 (\$7,926,675), according to the 1997 Agreement with Taisei;
3. The present value of the unpaid interest that had been accrued as of June 27, 1997 according to the 1997 Agreement with Taisei (\$7,166,823.64); and
4. The present value of 7% interest on the remaining \$4,726,675 that would be accrued over the remaining 53 years of the note's term

The Long Beach Renaissance

September 19, 1983 Agreement with LBR Hotel LP

- **Acquisition and Clearing:** The City would acquire the necessary parcels and relocate the occupants. The City would also remove all paving, public utility lines, and above- and sub-surface structures at the cost of \$135,410. Otherwise, the site would be conveyed as is;
- **Lease:** The City would lease the site to LBR for \$1.00 for a term of

55 years. (This lease was a nominal formality in order to establish the commencement of LBR's obligations under the Schedule of Performance);

- **Sale and Purchase:** The City would sell the site to LBR for a total of \$2,520,621, including interest at 10%, to be paid over five years. The payments would be made to a "good faith deposit fund" over the course of five years. The City would draw down the good faith fund and credit LBR for the purchase price. Upon successful conveyance of the property, both parties would terminate the lease.

The Long Beach Renaissance

Calculating the Subsidy

We are unable to calculate the subsidy for developing the Long Beach Renaissance. If the City spent more than \$2,385,212, which is the difference between the lease & sale prices (\$1.00 + \$2520,621) and the cost of clearing the site (\$135,410), to acquire the site then there would be a clear subsidy.

Furthermore, the use of eminent domain indicates that there is a premium on the coercive force available to the City. In other words, the City is able to coerce the sale of property at a lower reservation price than what stakeholders would accept in an open market. This unknown premium should be added to whatever it cost the city to relocate stakeholders of the site.

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First Amendment to Disposition and Development Agreement. Oct. 31, 1984. p Exhibit C
First Amendment to Agency Agreement. Dec. 21, 1984. p1

The Long Beach Esterel

October 31, 2003 Agreement with Long Beach Plaza Associates

- **Sale and Purchase:** The City sold Redevelopment Agency parcels adjacent to those owned by Plaza Associates to Plaza Associates for \$359,000. The City also sold contiguous portions of the public parcels on the Promenade to Plaza Associates for \$101,336. This was a section of the promenade that was 23 feet wide out of the 30 foot wide street at its widest point. The total purchase price was \$460,336. The parcels were sold as is.
- **Parking Management Agreement:** Plaza Associates will acquire the rights to 56 parking spaces from the City for \$168,000;

- **Payment Terms:** Plaza Associates will issue a promissory note to the City in the value of \$628,336 (the combined cost of the parcels and the parking space rights). Interest on the note is 10%. The note may be repaid through "in-kind contributions" by: 1) constructing improvements on the purchased Promenade parcels up to a value of \$588,336 and 2) reserving 20 identified parking spaces for Agency use, which are valued at \$40,000.
- Plaza Associates will improve the Promenade Area up to costs of \$588,336. Thereafter, the Redevelopment Agency will bear any additional costs to improving the Promenade.

The Long Beach Esterel

Calculating the Subsidy

To calculate the subsidy to the Long Beach Esterel, we found the difference between:

1. The purchase price of the site and the 56 parking spaces (\$460,336 + \$168,000) and
2. The value of the 20 parking spaces reserved for the Redevelopment Agency (\$40,000)

The value of the Promenade improvements is not included in this calculation because the Redevelopment Agency vacated the parcels to the Developer.

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464 Lucas Avenue, Suite 202
Los Angeles, CA 90017-2074
Phone: 213-977-9400 Fax: 213-977-9666
www.laane.org