

**GARDEN GROVE REDEVELOPMENT PROJECT  
GARDEN GROVE, CALIFORNIA**

**SUMMARY REPORT  
PERTAINING TO THE DISPOSITION  
OF CERTAIN PROPERTY WITHIN THE  
GARDEN GROVE COMMUNITY  
PROJECT AREA**

**California Community Redevelopment Law  
Section 33433**

**PURSUANT TO PROPOSED FIRST AMENDED AND RESTATED  
DISPOSITION AND DEVELOPMENT AGREEMENT  
BETWEEN  
GARDEN GROVE AGENCY FOR  
COMMUNITY DEVELOPMENT  
AND  
GARDEN GROVE MXD, LLC**

**Garden Grove Agency for Community Development  
Garden Grove, California**

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**SUMMARY REPORT PURSUANT TO  
SECTION 33433  
OF THE  
CALIFORNIA COMMUNITY REDEVELOPMENT LAW**

**FIRST AMENDED AND RESTATED DISPOSITION  
AND DEVELOPMENT AGREEMENT  
BY AND BETWEEN THE  
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT  
AND  
GARDEN GROVE MXD, LLC.**

**A. INTRODUCTION**

The Garden Grove Agency for Community Development (Agency) entered into a Disposition and Development Agreement (Original Agreement) with Garden Grove MXD, LLC (Developer) on May 12, 2009 for the project described in Section I.A., Summary Report (Summary Report). The Agency is now entering into a First Amended and Restated Agreement (Agreement).

Before property acquired by a Redevelopment Agency can be conveyed to the Developer, the City Council and the Redevelopment Agency Board must approve such transaction after a joint public hearing in accordance with Section 33433 of the California Health and Safety Code. Section 33433 provides that a copy of the Agreement and the Summary Report, which describes and specifies certain information, must be available for public inspection prior to the public hearing.

A Summary Report has been prepared in accordance with the requirements of Section 33433. In addition to providing a general description of the project, this Summary Report describes the following:

- I. **Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the Agency by the Agreement.
- II. **Cost of the Agreement to the Agency:** This section details the total cost to the Agency associated with implementing the Agreement.
- III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted for the Site and the requirements imposed by the Redevelopment Plan.
- IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Site based on the required scope of development and other conditions and covenants required by the Agreement.

- V. **Consideration Received and Comparison with the Established Value:** This section describes the compensation to be received by the Agency and explains any difference between the compensation to be received and the estimated value based on the highest and best use of the Site.
- VI. **Blight Elimination:** This section describes the existing blighting conditions on the Site, and explains how the Agreement will assist in alleviating the blighting influence.
- VII. **Conformation with the AB1290 Implementation Plan:** This section describes how the Agreement achieves the goals identified in the Agency's adopted AB 1290 Implementation Plan.

## **I. SALIENT POINTS OF THE AGREEMENT**

### **A. Project Description**

The proposed development includes a Hotel with a minimum of six hundred (600) rooms with a possible expansion of up to two hundred (200) additional rooms (Hotel Expansion), an approximately three (3) acre indoor/outdoor water park, approximately eighteen thousand (18,000) square feet of retail, including one (1) or more restaurants and an approximately one thousand two hundred (1,200) space Parking Structure (collectively, the "Project") to be developed on an approximately 11.7-acre property (the "Site"). The Project shall include water elements, hardscape/streetscape, monument signage, and lighting. All square footage and room counts are approximate and may be adjusted based on current market conditions subject to approval by both parties. The terms of the phasing of the Project are to be determined.

The Agreement requires the Agency to acquire and convey the Site, relocate the existing tenants/businesses, demolish the existing improvements, and rough grade the Site at no cost to the Developer. In return, the Developer must construct the Project.

The Agreement imposes extraordinary development restrictions on the Project, which impact the proposed Hotel's feasibility. As such, the Agreement requires the Agency to provide financial assistance to the Developer to mitigate the economic impact caused by the controls.

### **B. Developer Responsibilities Under the Agreement**

In addition to the Developer responsibilities outlined in the summary of the Salient Points of the Agreement summary, the Agreement requires the Developer to accept the following responsibilities as well as all previous responsibilities mentioned in the Summary Report prepared in connection with the Original Agreement:

1. Hotel Expansion. If the Developer commences construction of all or a part of the two hundred (200) rooms Hotel Expansion prior to the fifth (5th)

anniversary date of the date of the Agreement, the Developer shall be entitled to an amount equal to the following : (i) Fifty percent (50%) of the tax increment revenue generated from the Hotel Expansion, (ii) plus fifty percent (50%) of the net increase in transient occupancy tax revenues generated by the Hotel after the opening of the Hotel Expansion (iii) plus fifty percent (50%) of the net increase in sales tax generated by the Developer Improvements after the opening of the Hotel Expansion.

2. Time Extension. The schedule of performance allows for two (2) six month extensions, the first to occur on April 12, 2012 and the second on October 12, 2012 upon the happening of certain events.

### **C. Agency Responsibilities Under the Agreement**

In addition to the Agency responsibilities outlined in the Salient Points of the Agreement summary, the Agency must accept the following responsibilities:

1. Covenant Consideration. The Agency shall pay the Developer all cash sum of forty-seven million dollars (\$47,000,000) as follows: (a) five million dollars (\$5,000,000) concurrently with the commencement of construction of the parking structure, and (b) forty-two million dollars (\$42,000,000) thirty (30) days after the later of the date on which (i) the Hotel opens for business or (ii) the certificate of occupancy for the Hotel.
2. Non-Compete. The Agency shall not enter into a Disposition and Development Agreement and/or assist another Hotel for a period of six (6) years beginning January 1, 2010.
3. Additional Property. The Agency acquired additional property located at 12601 and 12602 Leda Lane to be conveyed to the Developer for the proposed Project.

## **II. COST OF THE AGREEMENT TO THE AGENCY**

The estimated costs incurred by the Agency to implement the Agreement are Sixty-Nine Million Two Hundred Ninety-Nine Thousand Dollars (\$69,299,000), and include the following:

Agency costs to acquire the Site (relocation costs, demolition costs, and costs for hazardous materials abatement), CEQA documentation, site preparation, administrative costs, and the Agency costs for other public improvement's \$22,299,000. Agency to provide direct financial assistance to the Developer for the Project is \$47,000,000.

## **III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN**

This section presents an analysis of the fair market value of the Site at its highest and best use.

In appraisal terminology, the highest and best use is that use of the Site that generates the highest property value and is physically possible, financially feasible, and legally permitted. Therefore, value at highest and best use is based solely on the value created and not whether or not that use carries out the redevelopment goals and policies for the City of Garden Grove. By definition, the highest and best use is that use which is physically possible, financially feasible, and legally permitted. The subject property is located in a Land Use District, the Harbor Corridor Specific Plan HCSP. The district allows for tourist related land uses including hotels, retail and entertainment land uses.

Horwath undertook a review of available appraisals and comparable land sales in order to determine the fair market value of Site. The appraisal was conducted by Lidgard and Associates, Inc. (Lidgard) with a date of value of November 13, 2009. Lidgard appraisal methodology relied on the comparable sales approach to value, with a conclusion range of value from \$36.15 to \$50.35 per SF of land. Horwath concluded the value of the Site (10.3 acres) as of April 23, 2009, to be \$22,400,000, or \$50 per SF of land.

#### **IV. ESTIMATED REUSE VALUE OF INTERESTS TO BE CONVEYED**

In an "Estimated Reuse Value Report" dated March 23, 2010, Horwath HTL Hospitality and Leisure, LLC ("Horwath"), the Agency's economic consultant, prepared a reuse valuation analysis of the proposed Project. Based upon the financial terms and conditions imposed by the Agreement, Horwath analysis concluded that the Project generates a negative reuse value inclusive of the Agency Assistance, of Forty-One Million Dollars (\$41,000,000).

#### **V. CONSIDERATION RECEIVED AND COMPARISON WITH THE ESTABLISHED VALUE**

The Agreement requires the Agency to convey the Agency Properties to the Developer at no cost and to provide the Developer with direct financial assistance. The Developer is required to provide public parking in a structure on the Site, develop a Water Park Hotel with a minimum of six hundred (600) rooms with a possible expansion of up to two hundred (200) additional rooms (Hotel Expansion), an approximately three (3) acre indoor/outdoor water park, approximately eighteen thousand (18,000) square feet of retail, including one (1) or more restaurants and an approximately one thousand two hundred (1,200) space Parking Structure, all on approximately 11.7-acres.

The Agency is also imposing extraordinary land use controls on the Site, i.e., the quality of the Project must be comparable to noted upper up-scale Great Wolf Lodge hotel (Grapevine, Texas). As indicated previously, the Horwath analysis concluded that the Agency Property has a negative land value. Thus, Horwath

concluded that the consideration to be received is equal to or greater than the established fair use value.

## **VI. BLIGHT ELIMINATION**

The Redevelopment Plan (Plan) for the Garden Grove Community Project Area governs the Site. In accordance with Section 33490 of the California Community Redevelopment Law, the Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area.

The Site, approximately 11.7 acres, which will be used to develop the Project, is currently occupied with one (1) non-fixed recreational vehicle park, one (1) retail store, one (1) vacant parcel, and two (2) single-family homes. The development of the proposed Project on the Site will eliminate blight at this location by replacing substandard uses, underutilized land, uneconomic land uses, and obsolete structures with defective design in character and physical condition with a new high quality, mixed-use development. The Project will facilitate land assembly to prevent piecemeal development that would leave economic potential underachieved, re-plan, redesign and develop underdeveloped areas that are stagnant or improperly utilized, encourage private sector investment in development of the project areas, and strengthen hospitality, entertainment, retail and other commercial functions in the project areas

## **VII. CONFORMANCE WITH THE AB 1290 IMPLEMENTATION PLAN**

The primary AB 1290 Implementation Plan program objective for the Garden Grove Community Project is to eliminate conditions, which negatively impact economic development of the community by acquiring, removing, consolidating and rehabilitating substandard properties. To that end, the Agency plans to convey the Site to the Developer for the development of the Project.

Furthermore, the Agency's Implementation Plan 2010 through 2014 (Implementation Plan) also establishes a priority objective of increasing the community's economic base by encouraging new investment in the redevelopment project area. The Implementation Plan explicitly lists ensuring that optimum generation of sales tax revenues by facilitating the reuse, rehabilitation and development of commercial properties as an Agency goal. The Project, which will provide new commercial development and the subsequent transient occupancy and sales tax revenues, and property tax increment within the redevelopment project area, conforms to the Implementation Plan, and will achieve goals specifically defined in the Implementation Plan.

The Project is identified in the Implementation Plan as a potential project and program for the project area. As such the completion of the Project will be in conformance with the Implementation Plan.