

ECONOMIC DEVELOPMENT SUBSIDY REPORT  
PURSUANT TO GOVERNMENT CODE SECTION 53083  
FOR A RESTRICTIVE COVENANT AGREEMENT CONTAINING TAX SHARING PROVISIONS  
BY AND BETWEEN THE CITY OF GARDEN GROVE AND GWGG, LLC

Pursuant to Government Code Section 53083, the City Council of the City of Garden Grove (“City”) must hold a noticed public hearing and, prior to the public hearing, provide certain information in written form and available to the public through the City’s website regarding a proposed economic development subsidy to the benefit of the City and GWGG, LLC, a Delaware limited liability company “Owner”. In 2010 the former Redevelopment Agency of the City of Garden Grove entered into the First Amended and Restated Disposition and Development Agreement (“DDA”) with GMXD, LLC, a Colorado Corporation, an affiliate of the Owner (“Owner’s Affiliate”), to cause the Owner’s Affiliate to develop a 603 room waterpark hotel resort in Garden Grove at 12681 Harbor Boulevard (“Waterpark Hotel”). The Owner’s Affiliate entered into a franchise and management agreement with Great Wolf Resorts (“GWR”) dba Great Wolf Lodge So Cal (“GWL So Cal”) to brand and operate the Waterpark Hotel as a Great Wolf Lodge.

In 2016, the Waterpark Hotel opened as a GWL and generated significant revenue for the City, mainly through Transient Occupancy Tax (“TOT”). To date, 2019 was the Waterpark Hotel’s best performing year, after which revenues started to decline. The decline in revenue can primarily be attributed to three factors; 1) GWR opened a lodge in Manteca, CA which diverted the Bay Area trade area, the third largest market area for the GWL So Cal, to the Manteca lodge, 2) the COVID-19 pandemic which resulted in the GWL So Cal being shut down or with significantly reduced capacity for approximately 18 months, and 3) GWR significantly changed their brand standard shortly after the opening of GWL So Cal causing a competitive advantage to the newer properties in the GWR portfolio, including the Manteca property. To mitigate these challenges, a proposed Restrictive Covenant Agreement “Agreement” is being considered by the Garden Grove City Council to provide, among other things (as further described in Number 3 below), a major renovation to bring the Waterpark Hotel up to current GWR brand standards and a 200 mile restrictive radius covenant recorded against the property, to the benefit of the City, to protect the GWL So Cal market share until 2041 (approximately 15 years) from another GWR being built in the trade area. The renovation includes adding new food and beverage dining options, enhanced resort pool and entertainment activities including new “dry attractions”, updated rooms, and updated common facilities throughout the resort. In order to induce GWGG, LLC and GWR, a

minority owner, to invest \$40 million to enhance the Waterpark Hotel, the proposed Agreement includes a provision to share 40% of TOT for a period of 10 years.

<b>Estimated Renovation Costs</b>	
Estimated Hard Costs	\$ 19,233,000.00
Estimated Soft Costs	\$ 18,643,000.00
Contingency	\$ 2,124,000.00
<b>Total Estimated Renovation Costs</b>	<b>\$ 40,000,000.00</b>

Notice was published on the City's website for a public hearing to be held on November 26, 2024.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy, as further described in Number 2 below.

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

The Agreement is with GWGG, LLC, 1800 Wazee Street, Suite 200, Denver, CO 80202

While GGMXD, LLC, a Colorado Corporation, 2725 Rocky Mountain Avenue, Suite 200, Loveland, Colorado 80538 is not a party to the Agreement, they are an affiliate of GWGG, LLC and an indirect beneficiary of the economic development subsidy as they are a majority owner of the Waterpark Hotel.

While Great Wolf Resorts, Inc. 350 N. Orleans Street, Suite 10000B, Chicago, IL 60654 is not a party to the Agreement, they are an indirect beneficiary of the economic development subsidy as they are a minority owner and manager of the Waterpark Hotel.

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

The economic development subsidy, TOT tax sharing, will commence at the completion of the renovation which is anticipated to be around July 1, 2026 and will continue for 10 years after commencement.

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

The Agreement involves sharing an amount equivalent to 40% of TOT generated for 10 years. Based on certain projected Average Daily Rates (“ADRs”), the 40% share is estimated to generate a subsidy of \$27.7 million over the 10 year sharing term.

Estimated TOT Shared Over 10 Year Sharing Term	
TOT to Developer (40%)	\$ 27,719,660.00

Critical to the analysis to justify sharing 40% of TOT is the likely outcome that if the Waterpark Hotel is not brought up to brand standards it is likely to lose the GWR brand and associated marketing and booking platforms resulting in an independent, limited service hotel with a separate waterpark. Projections and industry data indicate that an independent hotel will generate significantly less revenues than a GWR branded waterpark hotel.

*A waterpark hotel is a resort with waterparks constructed as their primary amenity, with the defining feature that access to the waterpark is limited to those staying at the resort. Waterpark resorts work using the principle of bundling. Bundling is a pricing decision by which a group of products are grouped together. A consumer pays one price for a group of products or services that is lower than the total price of each product or service, taken separately or a la carte.<sup>1</sup>*

This model results in much higher ADR’s and occupancy effectively increasing revenue and corresponding TOT for the City. Preserving the GWR brand and corresponding revenue is in

<sup>1</sup> Source: <https://www.theparkdb.com/blog/the-attraction-resort-model-part-i-how-a-waterpark-hotel-works/>

the best interest of the public to ensure the City maintains resources to provide public services and amenities.

**4. A statement of the public purposes for the economic development subsidy.**

Investment in the Waterpark Hotel is essential to solidifying its role as a Garden Grove icon and ensuring it remains a top-tier, competitive attraction. Originally developed as a flagship property, GWL So Cal was designed to enhance Garden Grove's appeal as a family-friendly destination, drawing visitors not only for lodging but for a fully immersive resort experience. GWL is a major revenue generator through TOT, local spending, and business patronage. GWL has been the City's highest TOT generator compared to the other City hotels by a large margin.

The City's primary goal for negotiating the Agreement is to protect the portion of TOT revenue generated at the Waterpark Hotel. Without the subsidy, the GWL So Cal is likely to transition to an independent hotel, which will severely impact TOT generation. It is estimated that the impact of losing the GWR brand and bundling model would be as much as a 45% – 50% drop in TOT.

The renovation brings modern amenities and additional attractions and amenities to enhance the guest experience, enabling guests a true full-service resort experience. This investment, to bring the GWL So Cal to current brand standards, would help Garden Grove keep pace with evolving guest demands, securing repeat visits and strengthening the city's reputation as a standout family destination in Southern California.

With its upgraded facilities and attractions, GWL would continue to draw large numbers of visitors from its primary markets of Orange County, San Diego, and Los Angeles, benefitting local businesses in the Grove District. An enhanced product and experience will attract a broader range of guests, who are more likely to explore nearby restaurants, retail, and entertainment venues, which contributes to Garden Grove's wider economic ecosystem.

In exchange for the 40% share of TOT for 10 years, the City and GWL have negotiated a set of covenants designed to protect the TOT generated from the Waterpark Hotel for a period of 15 years. The covenants are described below.

GWGG, LLC is providing the following Covenants, Conditions and Restrictions (CCR's):

- Maintain a Great Wolf Lodge Water Park themed hotel under the registered trade mark of the Great Wolf Lodge and hotel Flag until February 2041;
- Continuously operate, maintain and operate the water park under all the prescribed requirements of the Franchisor, Great Wolk Lodge Water Park, and Franchisee GWGG, LLC;
- Provide a 200 mile restrictive radius that prohibits a GWR waterpark hotel from operating within 200 miles of the GWL So Cal to preserve market share until February 2041;
- Utilize Prevailing wages as required under Labor Code Section 1720 with local hire preference;
- A Garden Grove resident discount will be provided at least once per year.

In exchange for the subsidy, one of the covenants (identified above) will protect the City from GWL opening another resort in a closer City, such as Bakersfield or San Diego. If a resort opened in a nearby City, TOT revenue to the City would be severely impacted. The Agreement provides for a 200 mile radius restriction, which will eliminate the opportunity for GWR to expand south towards San Diego, East to the California Border and north of Bakersfield.

The proposed economic development subsidy is necessary to maintain, expand and effectuate further economic development, increased tax generation, and job retention in the City of Garden Grove. The renovation is expected to generate increased tourism and tax revenue due to refreshed rooms, enhanced common areas, and upgrades and additions to the entertainment for families. The City recognizes that renovation of the GWL So Cal will enable the Waterpark Hotel to continue contribution to the economic vitality of the City, continue to provide additional jobs in the City, continue to expand the City's tax base, and otherwise improve economic and physical conditions in the City.

#### **5. Projected tax revenue to the local agency as a result of the economic development subsidy.**

A comparison of the City and Owner revenue sharing over a 15 year period (revenue share is only 10 years but restrictive covenant guaranteeing a GWR waterpark hotel is 15 years whereby City receives 100% of TOT after 10 years) shows the City will receive an estimated \$94 million in

net TOT, with Owner receiving approximately \$27 million<sup>2</sup>. The City's revenue share exceeds the Developer assistance by nearly \$67 million, supportive of the economic development subsidy. The net TOT received by the City under this Agreement is approximately \$22 million more than it would be under an independent "deflagged" hotel.

<b>Generated Revenues Over 15 Year Term of Agreement</b>		
Total TOT	\$	122,204,754.00
<b>Estimated TOT Shared Over 10 Year Sharing Term</b>		
TOT to Developer (40%)	\$	27,719,660.00
<b>Net TOT to City</b>	<b>\$</b>	<b>94,485,094.00</b>
<b>Difference in TOT under Agreement or as Independent Hotel</b>		
Total TOT - Independent Hotel	\$	72,410,221.00
<b>TOT Differential</b>	<b>\$</b>	<b>22,074,873.00</b>

**6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time and temporary positions.**

The Project will create temporary jobs during the renovation and full-time and part-time jobs during operation. It is estimated that 100 temporary jobs will be created during the renovation period. It is estimated that upon completion of the renovation, 20 – 50 new full time equivalent jobs will be created. At least 50 full time equivalent jobs will be retained that would otherwise be lost if the property were to convert to an independent hotel. Including new temporary and permanent jobs, the project will lead to an estimated total job impact of 170 - 200 jobs.

<b>Job Creation Estimation (Direct, indirect, and induced jobs)</b>	
<b>Full Time Equivalent</b>	
<b>Temporary</b>	
Renovation Construction	100
<b>Total Temporary</b>	<b>100</b>
<b>Permanent</b>	
Full Time Equivalent	20 - 50
<b>Total Permanent</b>	<b>20 - 50</b>
<b>Project Total</b>	<b>120 - 150</b>
<b>Project Related Job Retention</b>	
Retained Jobs	50
<b>TOTAL IMPACT</b>	<b>170 - 200</b>

<sup>2</sup> These numbers are based on projected revenues assuming certain ADR's and occupancy rates

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