

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE  
**GUAM ECONOMIC DEVELOPMENT AUTHORITY**

January 21, 2016

***Call to Order***

§1. The regular meeting of the Board of Directors of the **Guam Economic Development Authority** (referred to as “GEDA” or the “Authority”) was held on Thursday, January 21, 2016 at the hour of 1:30 p.m. at the Guam Economic Development Authority conference room, Fifth Floor Suite 511, ITC Building, Tamuning, Guam. The meeting was called to order by Vice Chairman David John to consider several items on the agenda.

***Attendance and Quorum***

§2. Roll Call. As determined by the roll call, the following directors were present:

***Directors:***

***Offices or Positions:***

David J. John

Vice Chairman

Ernesto V. Espaldon, Jr.

Director

Monte Mesa

Director

George Chiu

Director

Vera Wu

Secretary

***Absent and excused was:***

Edward J Calvo

Chairman

Vera Wu

Secretary

***Also present were:***

***GEDA Officials:***

Jay Rojas  
Mana Silva Tajeron  
Terry Brooks

Claire Cruz  
Larry Toves  
Diego Mendiola  
Ed Camacho  
Mike Cruz  
Therese Santos  
Matt Sgro  
Jha'Aunie Leon Guerrero  
Mark Mendiola  
Antoinette Leon Guerrero  
Henry Cruz  
Sydney Leon Guerrero  
Anthony Arriola  
Nico Fujikawa  
Matthew Baza  
Gloria Molo  
Mark Mendiola  
Therese Ybarra

GEDA Administrator  
GEDA Deputy Administrator  
GEDA Legal Counsel  
  
Loans & Compliance Manager  
Real Property Manager  
Real Property Assistant Manager  
Business Development Manager  
Project Director  
Loans & Compliance Servicing Specialist  
Industry Development Specialist  
Program Coordinator  
Special Assistant Inter-Agency Support  
Public Finance Officer  
Economist  
Financial Analyst  
Program Coordinator  
Financial Analyst  
Industry Development Specialist  
Administrative Service Officer  
Special Assistant Inter-Agency Support  
Commerce & Economic Specialist

***Approval of Agenda***

**§3.** The first item considered was approval of the agenda. Motion to move New Business to after the approval of the agenda by Director Chiu was unanimously approved by the board.

***Communications***

**§4.** The next item on the agenda was Communications. Administrator, Jay Rojas mentioned that Ms. Gail Fujita will be on island in March to train some of the GEDA staff on grant writing.

### ***Old Business***

§5. The next item on the agenda was Old Business. Hagatna Chamorro Village & Tumon DFS Galleria Crosswalks update by Mr. Larry Toves of GEDA's Real Property Division.

### ***New Business***

§6. The next item on the agenda was New Business.  
Joint MOU – Use of Vacant Lot for ITC Parking.

January 21, 2016

To: GEDA Board of Directors

From: Administrator

RE: Memorandum of Understanding (MOU) re: Lot 1, Block 5, Tract 259 (Vacant Lot)

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#### **BACKGROUND:**

Currently Lot No. 1, Block 5, Tract 259 (the property or Vacant Lot) is being used by Fujita Property Guam (FPG), GITC, as additional parking for its tenants and customers. GEDA has an agreement with FPG for the use of the property, where FPG will not increase the currently office lease rate of \$2/sf or \$29,056 per month, for the use of the Vacant Lot.

The proposed MOU intends to further utilize the property as a parking lot to be specifically used by the Office of the Attorney General (OAG) employees that work in the Guam International Trade Center (GITC) building. The movement of OAG employee parking into the Vacant Lot will free up parking spaces that is currently being occupied by OAG employees on Lot Nos. 1 and 2, Block 6, Tract 259 (the current outdoor ITC Parking) for other GITC tenants and customers.

#### **ANALYSIS:**

Without this agreement the office lease rate was scheduled to increase by \$0.37/sf or over \$5K per month. The Vacant Lot was appraised at \$17.13 per square meter per year. The Property is 1 acre which at this appraisal values at \$69,325 per year or \$5,777 per month. The offset in office lease and the potential revenue generated from leasing the property at Fair Market Value (FMV) is identical.

GITC's current parking condition is directly affecting the businesses and government operations in the building. We have received notices from FPG that current tenants are not renewing leases due to the lack of parking stalls available.

**RECOMMENDATION:**

GEDA staff recommends that the Board authorize the Acting Administrator execute the proposed MOU with the AG's Office and Fujita Properties provided that:

- GEDA will not incur any cost under this MOU.
- FPG agrees to keep and maintain the Property in good order, clean and healthful conditions.
- GEDA shall not be liable at any time for any loss, damage, or injury to the property or person
- FPG shall indemnify and hold GEDA harmless from any and all claims, demands, expenses (including attorneys' fees and court cost) or damage for any personal injury or injuries, death(s), damages, or losses to any person(s) or property that may be suffered or sustained by FPG or any of its agents, servants, employees, patrons, customers, invitees, visitors, licensees, departments, and concessionaires or by any other person or persons in, on or about the Property or any part thereof, arising from any and all causes whatsoever.
- FPG agrees to pay promptly for all labor done or materials furnished for any work of repair, maintenance, improvement, alteration or addition done by FPG in connection with the Property, and to keep and to hold the Property free, clear and harmless of an from all liens that could arise by season of any such work.

( ) Approved

( ) Disapproved

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**EDWARD J. CALVO**

Chairman of the Board



Guam Economic Development Authority  
 Qualifying Certificate Application  
**TNN Guam Inc. (TGI)**  
 dba (Hotel name forthcoming)  
 Case Analysis  
 Case No. 15-09-04

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**1. Benefits Requested for QC:**

Applicant is requesting for full benefits under Public Law 32-233, also known as the Special Hotel Qualifying Certificate law. Requested full benefits are stated below:

Nature of Tax	Periods Requested	Percentages Requested
Corporate Income Tax	Twenty (20) years	Seventy-five percent (75%)
Unpledged Business Privilege Tax	Twenty (20) years	Fifty percent (50%)
Real Property Tax	Ten (10) years	One hundred percent (100%)
Use Tax Exemption	Within one (1) year of issuance of the facility's occupancy permit	One hundred percent (100%)

**2. Project Description:**

*Overview*

- TNN Guam Inc. (TGI) will invest \$164,700,000 to construct and operate a Hotel (name pending) in Tumon, Guam.
- Amounts separated by category as well as allowable versus unallowable costs are as follows:

Project Cost Item	Amount
<b>Allowable costs</b>	
Construction costs	\$130,000,000
Land & acquisition costs	\$8,000,000
Furniture, Fixtures and Equipment	\$26,700,000
<b>TOTAL applicable per PL 32-233</b>	<b>\$164,700,000</b>
<i>Total potential tax benefit (10% of allowable costs)</i>	<i>\$16,470,000</i>
<b>Unallowable Costs</b>	
Pre-opening expenses (not allowable as per PL 32-233)	0.00
Working capital (not allowable as per PL 32-233)	0.00
<b>TOTAL</b>	<b>\$0.00</b>

- **Building Info:** The proposed hotel will be 26 stories with an area of approximately 489,296 square feet. It will contain the following amenities and facilities:
  - 340 rooms;
  - 2<sup>nd</sup> floor lobby with restaurant, private rooms, deli and other facilities;
  - Recreation and leisure facilities (gym, outdoor pool, etc.);
  - Event Plaza;
  - Club lounge on 25<sup>th</sup> floor;
  - Specialty restaurant and bar on 26<sup>th</sup> floor.
- **Property information:** The property is located at Lot No. 10113-1-4 (between Gonga Beach Cove and Gun beach), municipality of Tumon, Guam with an overall area of 21,026 (+/-) square meters (226,322 [+/-] square feet). The property is owned in fee simple by TGI.

#### ***Employees***

According to TGI's application, an approximate total of 290 jobs will be created as a result of the project (90 full time/200 part time). The number of employees per each hotel room (1.17) is slightly less than the Guam Hotel and Restaurant Association's average (1.78), but is still within known averages regarding hotel operation.

- New Jobs: 290 total
- Total Annual Gross Pay Amount: \$8,744,000

#### ***Services***

- *Hotel guest rooms* – 340 rooms total. 278 standards guest rooms (ranging from approximately 460 Sq. Ft. – 490 Sq. Ft./unit) and 62 suites (ranging from approximately 615 Sq. Ft. – 1460 Sq. Ft./unit) within the 26 story tower.
- *Basic Services* - Hotel reception and lobby.
- *Dining* – restaurant and deli (2<sup>nd</sup> floor), club lounge (25<sup>th</sup> floor), specialty restaurant and bar (26<sup>th</sup> floor)
- *Banquet facilities* – private rooms and banquet rooms (2<sup>nd</sup> floor).
- *Health and Well Being* – gym and fitness center (1<sup>st</sup> floor).
- *Recreation* – outdoor pool and event plaza (1<sup>st</sup> floor).

### **3. Company Overview:**

TNN Guam Inc. is a company wholly owned by TNN Holdings Inc. TNN Holdings is a subsidiary of PHR Ken Micronesia, who owns and operates the Hilton Guam Resort and Spa, Pacific Islands Club Guam and Saipan, the Sheraton Laguna Guam Resort, the Hyatt Regency Guam, the Hotel Nikko Guam and Aqua Resort Club in Saipan. PHR Ken Micronesia also operates the Country Club of the Pacific golf course in southern Guam.

**A. Business & Financial Plan**

TGI plans to construct a 26 story tower adjacent to Hotel Nikko Guam that will house 340 rooms total. As with most other hotels on Guam, TGI's hotel will have banquet facilities, restaurants, shops and delis as well as wedding facilities to cater to Guam's tourist market and locals alike.

TGI anticipates that 290 employees will be needed to operate the hotel upon opening, with a total payroll cost in excess of \$8 million. In addition, the various restaurants and facilities will utilize local suppliers and distributors, which will have a multiplier effect on the economy. Lastly, all of this activity will result in increased tax revenue for the government of Guam.

TGI has provided in their application gross revenues for years one through five of their operation. They are as follows.

Total Revenue	Year	Change
\$41,594,060	One	-
\$43,485,046	Two	4.5%
\$47,902,262	Three	10.2%
\$47,902,262	Four	-
\$47,902,262	Five	-

TGI broke down revenues for year one as follows:

Revenue Source	Totals
Room Revenue ( <i>avg. rate of \$350 per night x 340 rooms x 365 days x 78% occupancy</i> )	\$33,879,300
Restaurant and Bar	\$6,084,760
Banquet Revenue	\$1,110,000
Wedding Revenue	\$520,000
<i>Year One revenue</i>	<b>\$41,594,060</b>

TGI's average room rate is considerably higher than the Guam Hotel and Restaurant Association's (GHRA) weighted average room as well as average "high level" room rate for 2014 (\$149 and \$201 respectively). However, TGI's average occupancy rate of 78% is on par with GHRA's weighed average occupancy, which is pegged at 75%.

TGI provided operating costs for the proposed hotel for years one through five. Like revenues, costs equalize for years three through five. The breakdown is as follows:

Year	Operating Costs and Expenses	Gross Revenue	Cost Percentage of Total Gross Revenue
One	\$25,429,804	\$41,594,060	61%
Two	\$26,093,467	\$43,485,046	60%
Three	\$27,650,242	\$47,902,262	57%
Four	\$27,650,242	\$47,902,262	57%
Five	\$27,650,242	\$47,902,262	57%

Based on this breakdown, approximately 40% of all revenues generated by TGI will be profit for the project.



**B. Shareholder Information:**

**TNN Holdings, Incorporated (100%)**

- Subsidiary of PHR Ken Micronesia, Inc.
- Incorporated in 2015 as a holding company for the assets of TNN Guam Inc., which also owns the Hotel Nikko Guam.
- Balance sheet figures (as of July 31, 2015)
  - ❖ Total Assets: \$66,219,844
  - ❖ Total Liabilities: \$33,371,711
  - ❖ Net Assets: \$32,848,133

TNN Holding Incorporated's balance sheet does not reflect the assets of the parent company, PHR Ken Micronesia Inc. PHR Ken owns and operates, along with the Hilton Guam Resort and Spa, the Sheraton Laguna Resort Guam Resort, Hyatt Regency Guam and the Guam Pacific Islands Club, which are all extremely valuable assets.

**4. Public Hearing Comments**

A public hearing on TGI's application was held on December 10, 2015 in the GEDA Library. The hearing commenced at 10:05 AM. In attendance along with GEDA staff were representatives from TNN Guam, Inc. No members of the public showed up to provide comment on the application. The sign in sheet from the hearing is attached to this analysis. The hearing adjourned at 10:08 AM.

**5. Findings:**

**1. Application**

**a. Does the project meet eligibility requirements (§58201 *et. seq.*, QC Law) - Yes**

The application is being processed as a "hotel" for Guam as defined by Article 2 of Chapter 58, Title 12 GCA (the Special Hotel QC law). This is substantiated with the Guam Visitors Bureau's Tourism 2020 Plan, that highlights the need for 1,600 additional hotel rooms by 2020. Currently, during Guam's peak tourist season, visitors encounter instances where all hotels on Guam are at full capacity. This construction of this new hotel will alleviate the room shortage during peak season, and will also potentially provide an additional commercial venue for new retail and service businesses and outside investment.

**b. Creation of a vitally needed facility – Yes.**

With the anticipated increase in tourism and military buildup, Guam is in vital need of additional hotel rooms. TGI's project specifically meets those needs as well as fits in with GVB's Tourism 2020 goal of constructing additional hotel rooms for Guam.

**c. Letter of Intent submitted: - Yes.**

Received on March 6, 2015

**d. QC Application Submitted: - Yes.**

Submitted application on September 15, 2015

Application certified as complete on October 15, 2015

- e. **Public Notice of Submitted Application**  
Printed in Guam Daily Post on October 23, 2015

2. **Specific findings on the application (§58109, QC Law):**

a. **Project Risks and challenges:**

*Potential reduced occupancy during non-peak seasons:*

As with all hotel projects, TGI's proposed hotel will face potential lulls in occupancy during non-peak travel seasons. However, TGI's occupancy estimates of 78% on average for the first year is almost on par with the Guam Hotel and Restaurant Association's weighed occupancy average for 2014, which is 75%. Furthermore, TGI's parent company already operates 5 other successful hotel properties in Guam, and has experience in operating hotels during non-peak seasons.

b. **Importance to the economy and the official policy of the government:**

The hotel proposed by TGI will result in the creation of at least 290 new jobs earning approximately \$8,744,000 in gross wages in year one alone. The hotel will generate economic activity by increasing the number of hotel rooms, which is a pillar of the Tourism 2020 plan and the explicit purpose of PL32-233. These new hotel rooms will increase the amount of consumer spending on Guam, and the new employment will result in additional tax revenue through withholding taxes and income taxes. In addition, TGI's project aims to provide more luxurious and higher quality hotel rooms, which is another express goal of Tourism 2020 and will bring visitors that will spend more on island during their stay.

**6. Recommendations:**

Currently, Guam experiences seasons where hotels are at full occupancy due to the high influx of visiting tourists and military. In 2014, the Guam Visitors Bureau (GVB) issued their 5-year master plan, which included a need for 1,600 more hotel rooms by the year 2020 in anticipation of the rising tourism numbers and the potential of a China Visa Waiver. GVB's *Tourism 2020* plan also stated the need for more luxurious 4-5 star hotels in order to accommodate visitors with higher income. TGI's project is anticipated to provide rooms to fulfill this need.

Based on the review of the facts on this case, the recommendation is to **APPROVE** the Qualifying Certificate Application 15-08-04 with the following benefits and additional conditions.

**Recommended Benefits for QC:**

The following benefits will be awarded to TNN Guam, Inc. in the amount equal to approximately **\$16,470,000** or 10% of their total construction cost, as per public law 32-233. This amount will be applied by the developer, at their discretion, with regard to the following:

Nature of Tax	Periods Requested	Percentages Requested
Corporate Income Tax	Twenty (20) years	Seventy-five percent (75%)
UNPLEDGED Business Privilege Tax	Twenty (20) years	Fifty percent (50%) of the one percentage (1%) point of the BPT that is not levied for BPT bonds
Real Property Tax	Ten (10) years	One hundred percent (100%)
Use Tax Exemption	Within one (1) year of issuance of the facility's occupancy permit	One hundred percent (100%)

**Additional Conditions:** In addition to the standard requirements of the QC law, the following are additional conditions of approval.

1. **Community Contributions** – As per §58205 of the Special Hotel QC Law TGI will remit funds in an amount of 0.5% of the total investment, approximately **\$823,500**, as a community contribution. The contribution is for the following areas:
  - a. Funding for the maintenance and upkeep of certain tourist attractions or to support other tourism projects;
  - b. Economic Development with a priority on the promotion of industry and small business; or
  - c. Higher education and cultural preservation.

GEDA is recommending that the community contribution be paid in three equal installments for the three years immediately commencing the approval of the QC. GEDA will recommend to the Board of Directors on how to distribute the contribution among the three funding areas.

2. **Provision for Local Art** – Pursuant to Article 2 of Chapter 8 Title 1 GCA, the beneficiary shall make provisions for the inclusion of local art in their building. Upon completion of the project, GEDA will coordinate with the Guam Council of the Arts and Humanities, who shall enforce this provision.
3. **Auditing process upon GEDA's recommendation:**
  - a. Since total tax benefits and the community contribution are pegged to project costs, TGI agrees that GEDA will engage an independent 3<sup>rd</sup> party to provide an audit of valuation of investment. This valuation will validate total investment and ensure that all expenditures are allowable per the requirements of PL 32-233.
  - b. This auditing process will be payable by the investor and conducted once the total investment has been completed and occupancy permit is granted. GEDA agrees to use its best efforts to keep the audit cost at a reasonable rate and to notify TGI of the quote within a timely manner.
4. **Property Value** – TGI agrees that GEDA will calculate the value of the land utilized for the activities identified in the QC as either the purchase price of the land, or its appraised value, *whichever is lower*. Appraisals must be no more than 12 months old.

5. **Passive Income** - TGI agrees that only income related to the activities of the proposed qualifying certificate will be eligible for QC benefits. No passive income, (i.e. lease income and others) will be eligible for benefits under the QC.
6. **Agreement to follow jurisdiction of Compliance Division** - TGI agrees to follow the jurisdiction of GEDA's Compliance Division and ensures the construction of 340 rooms at the new hotel. Failure to comply with the rules and regulations of GEDA's compliance division may result in the declining of the Special Hotel QC. TGI also agrees to remit all QC monitoring fees as per PL32-233 as a condition of compliance TGI also agrees to follow jurisdiction of Compliance Division for full length of QC, which is 20 years or until full benefits have been exhausted, whichever comes first.
7. **Non Compliance** - TGI agrees that in the event that it shall fail to comply with any of the terms and conditions of the QC as determined by GEDA, it shall lose the tax benefits for the calendar year in which the failure occurred. TGI also agrees that if it fails to correct errors after notice from GEDA or fails to come into compliance within twelve (12) months after notification, the QC shall be void and of no further force or effect and GEDA, as agent for the government of Guam, shall obtain repayment from TGI to the Government of Guam all tax exemptions, rebates, and/or abatements it claimed pursuant to the QC.

**7. Effective Date**

This Qualifying Certificate shall be effective upon recommendation by the Board of Directors of GEDA and the final approval of the Governor of Guam.


Prepared By:

  
Date: \_\_\_\_\_  
Matthew Baza  
Industry Development Specialist

Reviewed and Approved to Present to CRC:

  
Date: \_\_\_\_\_  
Edward Camacho  
Business Development Manager

**CRC RECOMMENDED ACTION:**

  
Mana Silva Tajeron  APPROVED  
[ ] DISAPPROVED  
Deputy Administrator

  
Larry Toves  APPROVED  
[ ] DISAPPROVED  
Real Property Manager

  
Claire Cruz  APPROVED  
[ ] DISAPPROVED  
Loans & Compliance Manager

  
Bernice Torres  APPROVED  
[ ] DISAPPROVED  
Admin. & Operations Manager

for   
Christina D. Garcia  APPROVED  
[ ] DISAPPROVED  
Public Finance Manager

Guam Economic Development Authority  
 Qualifying Certificate Application  
**JMSH 11, LLC**  
 dba Citta Di Mare  
 Case Analysis  
 Case No. 15-08-03

**1. Benefits Requested for QC:**

Applicant is requesting for full benefits under Public Law 32-233, also known as the Special Hotel Qualifying Certificate law. Requested full benefits are stated below:

Nature of Tax	Periods Requested	Percentages Requested
Corporate Income Tax	Twenty (20) years	Seventy-five percent (75%)
UNPLEDGED Business Privilege Tax	Twenty (20) years	Fifty percent (50%)
Real Property Tax	Ten (10) years	One hundred percent (100%)
Use Tax Exemption	Ten (10) years*	One hundred percent (100%)

*\*Although Applicant has requested a use tax exemption for a period of ten (10) years, PL 32-233 mandates that all use tax exemptions be taken no later than one year after full occupancy. Proper language is used in Section 7 Recommendations.*

**2. Project Description:**

*Overview*

- JMSH 11, LLC (JMSH) will invest approximately \$133,165,500 to construct and operate the Citta Di Mare Hotel in Tumon, Guam. Of that amount, \$128,165,000 is allowable as per PL 32-233.
- Amounts separated by category as well as allowable versus unallowable costs are as follows:

Project Cost Item	Amount
<b>Allowable costs</b>	
Construction costs	\$100,760,000
Land & acquisition costs	\$14,905,500
Furniture, Fixtures and Equipment	\$12,500,000
<b>TOTAL applicable per PL 32-233</b>	<b>\$128,165,500</b>
<i>Total potential tax benefit (10% of allowable costs)</i>	<i>\$12,816,550</i>
<b>Unallowable Costs</b>	
Pre-opening expenses (not allowable as per PL 32-233)	\$3,000,000
Working capital (not allowable as per PL 32-233)	\$2,000,000
<b>TOTAL</b>	<b>\$5,000,000</b>

- **Building Info:** Four towers, ranging in height from thirteen (13) to eighteen (18) stories, with guest rooms, amenities and parking. The top floor of each tower will be reserved for penthouse units. A commercial structure serves all four (4) towers with easy access to dining, shopping and the hotel's reception, main lobby and other facilities. Bus and auto access will be available from Marine Corps Drive as well as from Pale San Vitores Road via Tun Joaquin Santos Lane (between Acanta Mall and En Restaurant) and pedestrian access via Tun Joaquin Santos Lane leading to nearby Pale San Vitores Road.
- **Property information:** The property contains an area of approximately 7.36 acres (27,623 + 2,188 = 29,811 square meters, or 320,883 square feet) at Lot Nos. 5119-2NEW and 5119-2-R11 (behind Acanta Mall and extending to Marine Corps Drive), municipality of Tumon, Guam. The property is owned in fee simple by JMSH 11, LLC.

#### ***Employees***

According to JMSH's application, an approximate total of 413 jobs will be created as a result of the project. As there will be a shopping center on the hotel property, JMSH notes that 100 of the 413 jobs will be generated by lessee vendor labor needs.

- **New Jobs: 413 total**
  - 300 for JMSH labor needs (i.e. Bell Staff, Front Desk, F&B, Security, Accounting, Marketing, Sales, etc.) - \$11,680,000
  - 103 for lessee vendor labor needs (i.e. Drivers, Sales, Accounting, Security, etc.) - \$4,351, 250
- **Total Annual Gross Pay Amount: \$16,031,250**

#### ***Services***

- **Hotel guest rooms** – 500 rooms total. 450 boutique guest rooms (330 Sq. Ft./unit) and 50 deluxe boutique guest rooms (450 Sq. Ft./unit) within 4 towers and a large commercial space. Each tower will accommodate between 100-150 guest rooms and parking. The commercial structure serving all 4 towers will feature retail sales and dining as well as the hotel reception and lobby along with function rooms and common amenities.
- **Dining** – large buffet dining offering international cuisine.
- **Shopping** – retail sales within a 25,000 sq. ft. shopping arcade in addition to a gift shop and convenience store.
- **Health and Well Being** – spa and massage salon and large swimming pool.
- **Recreation** – Nightly entertainment, game room, and close proximity to Pale San Vitores Road for walking, running, beach access and shopping. Transportation to golfing, touring and hiking venues.

### 3. Company Overview:

JMSH 11, LLC is wholly owned by Hee K. Cho, and Maria Minsook Cho. They are developing the Citta Di Mare hotel in Tumon behind the Acanta Mall. JMSH and its subsidiaries currently own and operate the Guam Holiday Resort and Spa (252 guest rooms), Garden Villa Hotel (98 guest rooms and 29 apartment units), Alupang Beach Towers (138 units), and Mai'ana Airport Plaza (78 condo-style units) among other projects on Guam, as well as the Rota Resort and Country Club.

JMSH has indicated in its application that other private investors, along with Mr. and Mrs. Cho will have ownership in Citta di Mare. The Applicant has been informed that if any of these other investors are to have at least 20% stake in the project, they must give prior notification to GEDA along with a balance sheet and information on those investors.

#### A. Business & Financial Plan

JMSH 11, LLC plans to construct four towers that will house 500 rooms total (450 boutique guest rooms and 50 deluxe boutique guest rooms). In addition, a commercial structure (shopping center) will be constructed that will serve all four towers and will feature retail sales and dining as well as the hotel reception, lobby and other facilities.

It is also important to note that the commercial structure will also provide a venue for new retail and service businesses. These other businesses will be apart from Citta di Mare and will generate its own tax revenue for the government as well as stimulate new economic activity in the heart of Guam's tourism district.

JMSH has provided in their application gross revenues for years one and five of their operation. They are as follows.

Total Revenue	Year	Change
\$29,500,000	One	-
\$35,900,000	Five	5% per year

JMSH broke down revenues for year one as follows:

Revenue Source	Totals
Room Revenue ( <i>avg. rate of \$120 per night x 500 rooms x 365 days x 90% occupancy</i> )	\$19,710,000
Other ( <i>F&amp;B, lease income and others, estimate pegged at 50% of room revenue</i> )	\$9,855,000
<b>Year One revenue</b>	<b>\$29,500,000</b>

JMSH's average room rate is \$29 dollars less than the Guam Hotel and Restaurant Association's (GHRA) weighted average room rate for 2014 (\$149). However, JMSH's average occupancy rate is 15 percentage points higher than GHRA's weighed average occupancy, which is pegged at 75%.

The only estimated operating costs provided by JMSH are for payroll costs for years one and five. The breakdown is as follows:

Year	Payroll Cost (excluding lessee payroll)	Gross Revenue	Payroll Cost Percentage of Total Gross Revenue
One	\$11,680,000	\$29,500,000	39.6%
Five	\$14,200,000	\$35,900,000	39.5%

Based on this breakdown, approximately 40% of all revenues generated by JMSH will be spent on payroll costs. This does not include other costs such as utilities, or fixed costs such as insurance, debt service and others. Absent information on these other costs, GEDA has limited basis upon which to more accurately evaluate the profitability of the proposed development. In addition, the estimate of 90% occupancy on average is high, especially when taking GHRA standards into account.

**B. Shareholder Information:**

**Hee Kyun Cho (80%)**

- Graduated from college in Seoul, March 1982
- Moved to Los Angeles in 1985
- Co-owned and operated C.K. Realty and Management from 1989 to 2004 – Real estate development, investment, and management of business
- Co-owned and managed 1,000 units of apartments and 3 shopping centers in L.A.
- Served as President of L.A. Korean Apartment Owners Association from 2001 to 2004
- Developed, Co-owned and operated Majestic Golf Land from 2003 to 2010, a complex with a driving range, golf school, restaurant, golf pro shop, and golf equipment repair shop
- Moved to Guam in 2004
- Co-owns and operates Holiday Resort Guam, Alupang Beach Tower Condominiums, Garden Villa Hotel, Mai'ana Airport Plaza, and Tumon Horizon Condominiums
- Co-owns and operates Rota Resort and Country Club
- Serving as president of the Korean Council of Commerce in Guam since 2009
- ❖ Total Assets: \$191,705,000
- ❖ Total Liabilities: \$37,300,00
- ❖ Net Assets: \$154,405,000

**Maria Minsook Cho (20%)**

- Graduated from college in Korea in 1981 and from graduate school in 1984
- Moved to Los Angeles in 1987
- Co-owned and operated C.K. Realty and Management from 1989 to 2004
- Co-owned and managed 1000 units of apartments and 3 shopping centers in L.A.
- Developed, co-owned, and operated Majestic Golf Land from 2003 to 2010
- Moved to Guam in 2004
- Co-owns and operates Holiday Resort Guam, Alupang Beach Tower Condominiums, Garden Villa Hotel, Mai'ana Airport Plaza, and Tumon Horizon Condominiums
- Co-owns and operates Rota Resort and Country Club



#### 4. Public Hearing Comments

A public hearing on JMSH 11 LLC's application was held on November 13, 2015 in the GEDA Conference Room. The hearing commenced at 10:03 AM. In attendance along with GEDA staff were representatives from JMSH 11 LLC. No members of the public were present to provide comment on the application. The sign in sheet from the hearing is attached to this analysis. The hearing adjourned at 10:19 AM.

JMSH provided a short presentation regarding the project. It described the general location of the project, along with the number of hotel rooms (450 boutique rooms and 50 luxury rooms) anticipated employee count with estimated payroll cost as well as a more detailed description of the four towers and adjoining commercial structure. The project is described as a boutique hotel to differentiate itself from standard chain hotels. The developers are aiming to create a trendy, European look with contemporary furnishings. In addition, the development was designed by David Pierre Jalicon ([http://www.dpj-partners.com/dpj\\_eng/home/htm/home.htm](http://www.dpj-partners.com/dpj_eng/home/htm/home.htm)) The details presented in the hearing about the project are as follows:

- the towers will range between 13-18 stories and each will house between 100-150 rooms;
- the adjoining commercial structure will contain all of the amenities of the hotel (restaurants, banquet facilities, concierge, front desk, meeting rooms, hotel owned and operated retail space, etc.);
- commercial structure will also house retail space for lease to outside vendors;
- property has three access points (two from Marine Corps Drive, one from Pale San Vitores road);
- Access to water will be from the main running along Marine Corps Drive; wastewater access will split between lines along Marine Corps Drive and Pale San Vitores Road

The developers insist that the development goes along with Tourism 2020 and economic goals because it (1) increases room inventory, (2) fosters economic growth and job development and (3) further develops and matures Guam's tourism industry. In order to mitigate the potential risks to their development, JMSH plans to do aggressive marketing of Guam and their property to ensure stable occupancy rates.

#### 5. Findings:

##### 1. Application

- a. **Does the project meet eligibility requirements (§58201 *et. seq.*, QC Law) - Yes**  
The application is being processed as a "hotel" for Guam as defined by Article 2 of Chapter 58, Title 12 GCA (the Special Hotel QC law). This is substantiated with the Guam Visitors Bureau's Tourism 2020 Plan, that highlights the need for 1,600 additional hotel rooms by 2020. Currently, during Guam's peak tourist season, visitors encounter instances where all hotels on Guam are at full capacity. This construction of this new hotel will alleviate the room shortage during peak season, and will also potentially provide an additional commercial venue for new retail and service businesses and outside investment.

- b. **Creation of a vitally needed facility – Yes.**  
With the anticipated increase in tourism and military buildup, Guam is in vital need of additional hotel rooms. Citta Di Mare specifically meets those needs as well as fits in with GVB's Tourism 2020 goal of constructing additional hotel rooms for Guam.
- c. **Letter of Intent submitted: - Yes.**  
Received on May 04, 2015
- d. **QC Application Submitted: - Yes.**  
Submitted application on August 18, 2015
- e. **Public Notice of Submitted Application**  
Printed in Guam Daily Post on August 24, 2015

2. **Specific findings on the application (§58109, QC Law):**

a. **Project Risks and challenges**

*Potential reduced occupancy during non-peak seasons:*

As with all hotels, Citta di Mare will face potential lulls in occupancy during non-peak travel seasons. As such, JMSH's occupancy estimates of 90% on average across the board is too high and may not account for the natural drops in hotel occupancy during these not peak travel times.

*Competition with other established hotels:*

Citta di Mare will have to compete with already established hotels in Tumon, several of which carry international branding.

b. **Importance to the economy and the official policy of the government:**

The hotel proposed by JMSH will result in the creation of at least 413 new jobs earning approximately \$16,000,000 in gross wages in year one alone. The hotel will generate economic activity by increasing the number of hotel rooms, which is a pillar of the Tourism 2020 plan and the explicit purpose of PL32-233. These new hotel rooms will increase the amount of consumer spending on Guam, and the new employment will result in additional tax revenue through withholding taxes and income taxes.

**6. Recommendations:**

Currently, Guam experiences seasons where hotels are at full occupancy due to the high influx of visiting tourists and military. In 2014, the Guam Visitors Bureau (GVB) issued their 5-year master plan, which included a need for 1,600 more hotel rooms by the year 2020 in anticipation of the rising tourism numbers and the potential of a China Visa Waiver. GVB's *Tourism 2020* plan also stated the need for more luxurious 4-5 star hotels in order to accommodate visitors with higher income. Citta di Mare is anticipated to provide rooms to fulfill this need.

Based on the review of the facts on this case, the recommendation is to **APPROVE** the Qualifying Certificate Application 15-08-03 with the following benefits and additional conditions.

**Recommended Benefits for QC:**

The following benefits will be awarded to JMSH 11, LLC in the amount equal to **\$12,816,550**, or 10% of their total construction cost, as per public law 32-233. NOTE: The benefit amount above is contingent on final independent audit at the completion of the project. This amount will be applied by the developer at their discretion with regard to the following:

Nature of Tax	Periods Requested	Percentages Requested
Corporate Income Tax	Twenty (20) years	Seventy-five percent (75%)
UNPLEDGED Business Privilege Tax	Twenty (20) years	Fifty percent (50%) of the 1 percentage (1%) point of the BPT that is not levied for BPT bonds
Real Property Tax	Ten (10) years	One hundred percent (100%)
Use Tax Exemption	Within one (1) year of issuance of the facility's occupancy permit	One hundred percent (100%)

**Additional Conditions:** In addition to the standard requirements of the QC law, the following are additional conditions of approval.

1. **Community Contributions** – As per §58205 of the Special Hotel QC Law JMSH will remit funds in an amount of 0.5% of the total investment, approximately **\$640,827.50** as a community contribution. The contribution is for the following areas:
  - a. Funding for the maintenance and upkeep of certain tourist attractions or to support other tourism projects;
  - b. Economic Development with a priority on the promotion of industry and small business; or
  - c. Higher education and cultural preservation.

GEDA is recommending that the community contribution be paid in three equal installments for the three years immediately commencing the approval of the QC. GEDA will recommend to the Board of Directors on how to distribute the contribution among the three funding areas.

2. **Provision for Local Art** – Pursuant to Article 2 of Chapter 8 Title 1 GCA, the beneficiary shall make provisions for the inclusion of local art in their building. Upon completion of the project, GEDA shall coordinate with the Department of Chamorro Affairs, who shall enforce this provision.
3. **Auditing process upon GEDA's recommendation:**
  - a. Since total tax benefits and the community contribution are pegged to project costs, JMSH agrees that GEDA will engage an independent 3<sup>rd</sup> party to provide an audit of valuation of investment. This valuation will validate total investment and ensure that all expenditures are allowable per the requirements of PL 32-233.
  - b. This auditing process will be payable by the investor and conducted once the total investment has been completed and occupancy permit is granted. GEDA agrees to

use its best efforts to keep the audit cost at a reasonable rate and to notify JMSH 11, LLC of the quote within a timely manner.

4. **Property Value** – JMSH agrees that GEDA will calculate the value of the land utilized for the activities identified in the QC as either the purchase price of the land, or its appraised value, *whichever is lower*. Appraisals must be no more than 12 months old.
5. **Passive Income** - JMSH agrees that no passive income, (i.e. lease income and others) will be eligible for benefits under the QC.
6. **Agreement to follow jurisdiction of Compliance Division** - JMSH 11, LLC agrees to follow the jurisdiction of GEDA’s Compliance Division and ensures the construction of 500 rooms at the Citta Di Mare. Failure to comply with the rules and regulations of GEDA’s compliance division may result in the declining of the Special Hotel QC. JMSH also agrees to remit all QC monitoring fees as per PL32-233 as a condition of compliance JMSH also agrees to follow jurisdiction of Compliance Division for full length of QC, which is 20 years or until full benefits have been exhausted, whichever comes first.
7. **Non Compliance** - JMSH 11, LLC agrees that in the event that it shall fail to comply with any of the terms and conditions of the QC as determined by GEDA, it shall lose the tax benefits for the calendar year in which the failure occurred. JMSH also agrees that if it fails to correct errors after notice from GEDA or fails to come into compliance within twelve (12) months after notification, the QC shall be void and of no further force or effect and GEDA, as agent for the government of Guam, shall obtain repayment from JMSH to the Government of Guam all tax exemptions, rebates, and/or abatements it claimed pursuant to the QC.

**7. Effective Date**

This Qualifying Certificate shall be effective upon recommendation by the Board of Directors of GEDA and the final approval of the Governor of Guam.

Prepared By: Matthew Baza Date: \_\_\_\_\_  
 Matthew Baza  
 Industry Development Specialist

Reviewed and Approved to Present to CRC: Edward Camacho Date: \_\_\_\_\_  
 Edward Camacho  
 Business Development Manager

**CRC RECOMMENDED ACTION:**

Mana Silva Tanjeron  APPROVED  
 [ ] DISAPPROVED  
 Deputy Administrator

Larry Toves  APPROVED  
 [ ] DISAPPROVED  
 Real Property Manager

Christina D. Garcia  APPROVED  
 [ ] DISAPPROVED  
 Public Finance Manager

Claire Cruz  APPROVED  
 [ ] DISAPPROVED  
 Loans & Compliance Manager

Bernice Torres  APPROVED  
 [ ] DISAPPROVED  
 Admin. & Operations Manager

Motion made by Director Espaldon to table the discussions pending more concrete discussions between the board and the GEDA staff in terms of more options for GEDA and the parties involved, recognizing that the board is sensitive to the parking needs and the desire of Fujita Property regarding Lot 1 Block 5 to a further meeting. Seconded by Director Wu with unanimous decision by the board.

Motion made by Director Espaldon to approve the QC Application for TNN Corporation seconded by Director Chiu and was unanimously approved by the board.

Motion made by Director Espaldon to approve the QC Application for JMSH 11 Corporation seconded by Director Director Chiu and unanimously approved by the board.

### ***Reports***

§7. The next item on the agenda was Reports.

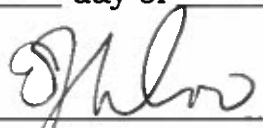
### ***Public Comments***

§8. The next on the agenda is Public Comments.


### ***Adjournment***

§9. A motion to adjourn was duly made by Director Espaldon and seconded by Director Mesa. The motion was unanimously approved.

Dated this 31<sup>st</sup> day of March, 2016

  
\_\_\_\_\_  
Edward J. Calvo  
Chairman

ATTEST:

  
\_\_\_\_\_  
Vera Wu  
Secretary