

Santa Barbara County Hotel Incentive Program



An economic vitality initiative

Santa Barbara County Board of Supervisors

June 26, 2012

RECOMMENDED ACTION

■ Recommended Action:

- a. Consider the introduction (first reading) of the Ordinance Adding Chapter 49 to the County Code, Adopting a Hotel Incentive Program (Attachment A, with a 70% - 20% - 10% split), and waive reading of the Ordinance in its entirety; **OR**
- b. Consider the introduction (first reading) of the Ordinance Adding Chapter 49 to the County Code, Adopting a Hotel Incentive Program (Attachment B, with a 90% - 10% split), and waive reading of the Ordinance in its entirety

BACKGROUND

- The Hotel Improvement Program:
 - Provides economic development tool to the Board.
 - Focused on the Hotel and Tourism Industry.

 - Goals:
 - Enable development of new first class hotel properties.
 - Enable renovation and up branding of existing hotels.
 - Strengthen the County's tourism promotion.
 - Create immediate and meaningful increases to local property and sales tax revenue streams.
 - Create meaningful long-term increases to transient occupancy tax revenue streams.
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APPLICATION PROCESS



PUBLIC BENEFIT CRITERIA

- Findings of Public Benefit relate to program goals, example findings include:
 - To develop properties to their highest and best use.
 - Luxury Hotels
 - Improving Existing Hotels
 - Reasonable relationship between incentive and benefits
 - Improves existing visitor facilities
 - Eliminates distressed properties
 - Improves community infrastructure
 - Generate revenues sufficient to defray costs.
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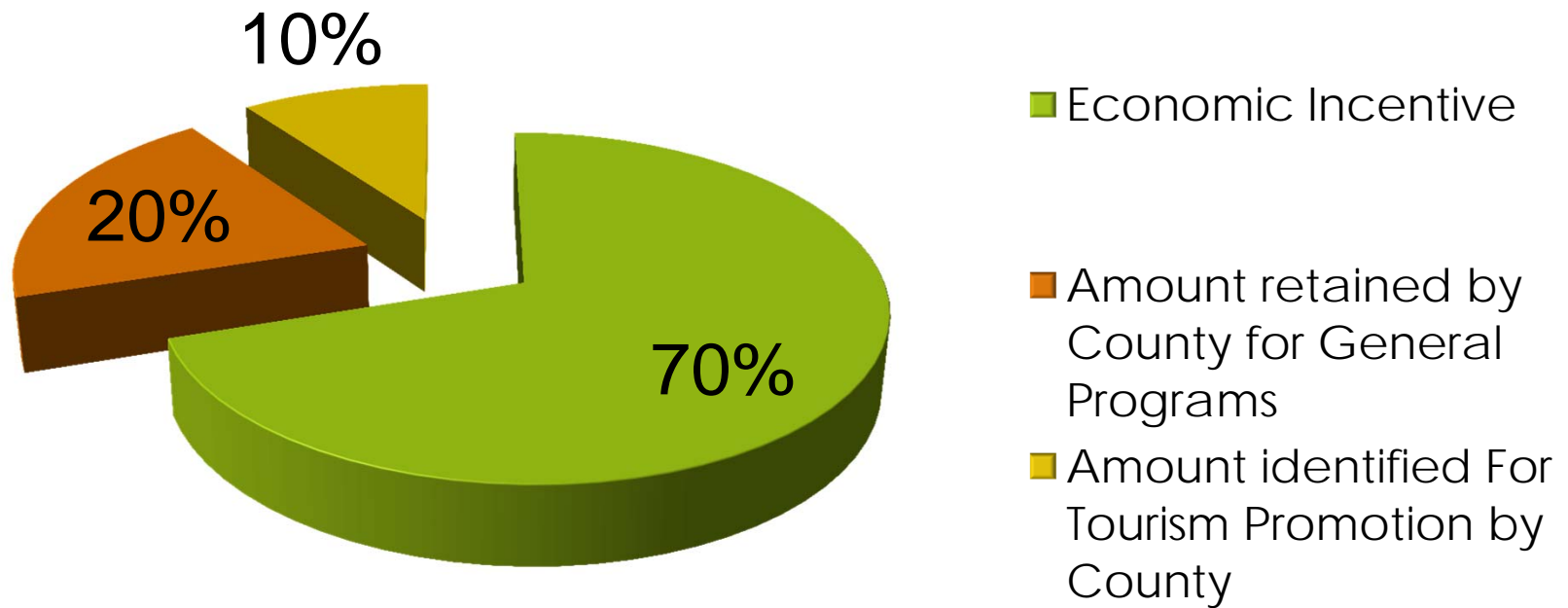
BASIC PROGRAM CRITERIA

- New Hotels
 - Located in Unincorporated Area.
 - Begin construction after January 2012.
 - Does not include an addition to an existing visitor serving facility.
 - Demonstrate financial capability.
 - Final development plan approval.

 - Existing Hotels
 - Must be an existing hotel located in an unincorporated area of the County.
 - Project must have completed the applicable design review elements of the County land use planning process.
 - Completed design review.
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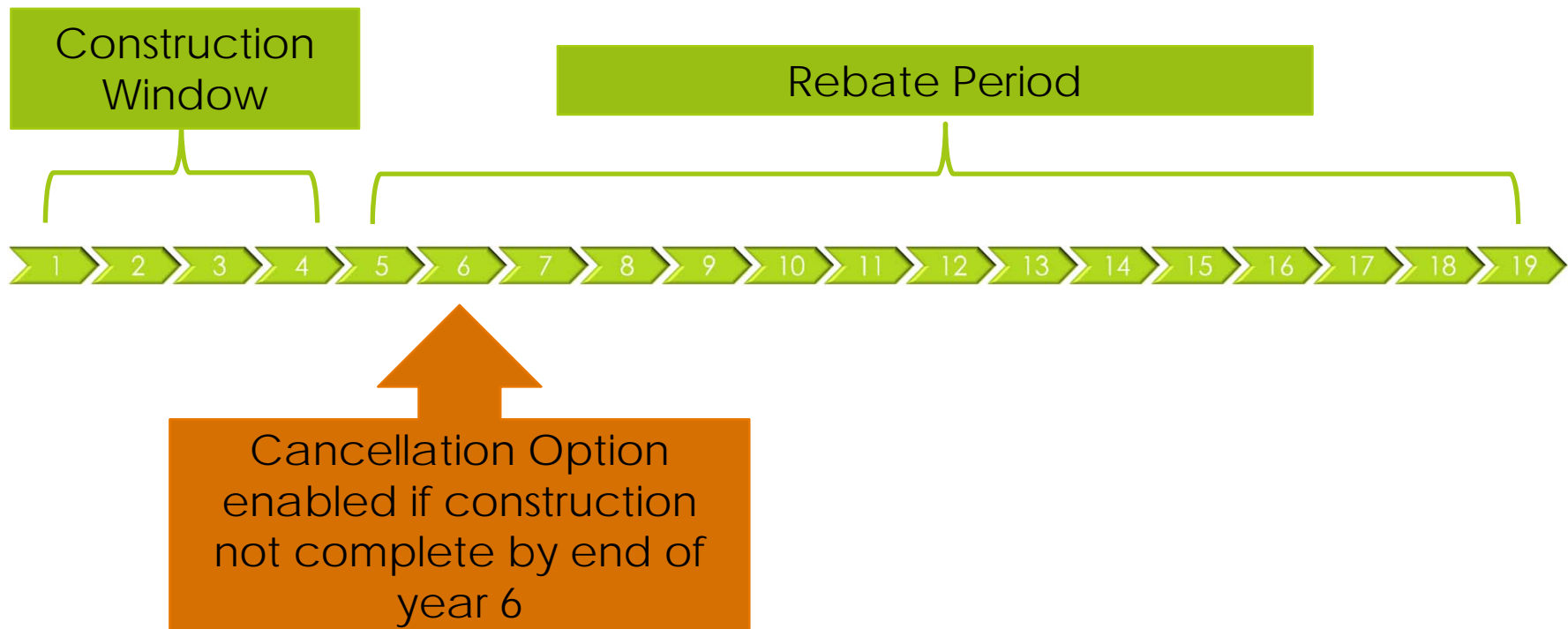
NEW HOTEL INCENTIVE

New Hotel Incentive



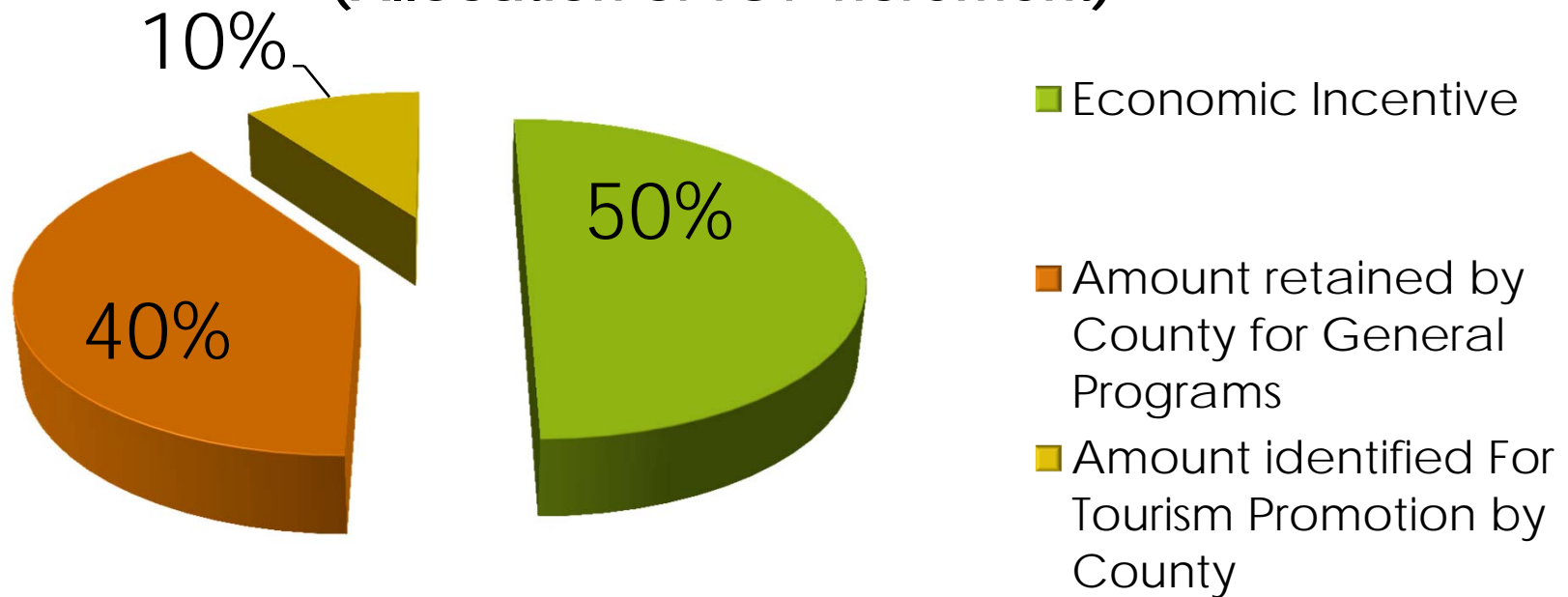
NEW HOTEL INCENTIVE TIMELINE

Timeline for program participation is **finite**. If construction does not complete by end of Construction Window, Rebate Period gets shorter.



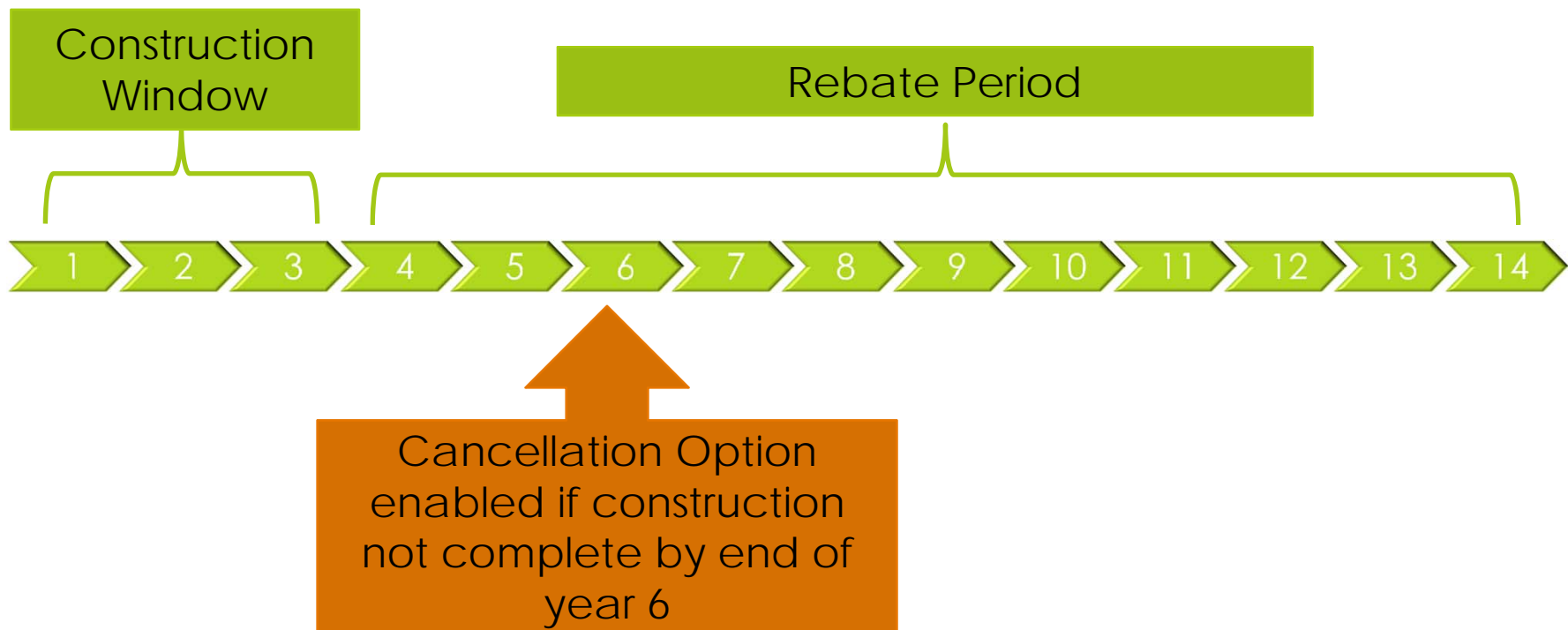
EXISTING HOTEL INCENTIVE (Renovations)

Existing Hotel Incentive
(Allocation of TOT Increment)



EXISTING HOTEL INCENTIVE TIMELINE (Renovations)

Timeline for program participation is **finite**. If construction does not complete by end of Construction Window, Rebate Period gets shorter.



TOT INCREMENT

- Incentive to Existing Hotels is limited to an amount equal to the “Incremental” increase in TOT.
 - Base Average return of the previous 36 Months is calculated.
 - Becomes TOT Base Amount
 - Amounts generated above the TOT Base amount are subject to rebate.

TOT INCREMENT FORMULA:

$.50 \times (\text{TOT Remitted} - 3 \text{ Year Average TOT Prior to Program Participation})$

TOT INCREMENT

- Applied Example:
 - An Existing Hotel generated \$30,000 in TOT over prior 3 years.
 - Completed a qualified renovation plan as a HIP participant.
 - Generated \$15,000 in TOT in first year of operation after renovation.

- TOT increment is calculated in the following manner:
 - Base TOT = $\$30,000 / 3 = \$10,000$
 - TOT Increment = $\$15,000 - \$10,000 = \$5,000$

- Incentive calculated as: $.5 * \$5,000 = \$2,500$

PROPERTY TAX PROTECTION

- Fundamental principle of implementation.
- Fixes initial assessed valuation through “Property Assessed Value Offset.”
 - Reduces dollar for dollar the amount of incentive provided if participants property tax amounts are reduced for any reason.

OTHER POLICY CONSIDERATIONS

- Prevailing wage applies
 - Legal Validation is not an option
 - Sunset of new applications after five years.
 - Failure to construct enables cancellation after six years
 - Transfer of ownership allows option to cancel participation
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IMPLEMENTATION AGREEMENT

- Required for all participating projects
 - Stipulates project specific covenants, examples include:
 - Potential local hiring preference
 - Audit criteria
 - Demonstrate financial capability
 - Allows for Board approval and findings of public benefit
 - Contractual terms defined
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PROJECT SPECIFIC CASE STUDY



Square Feet

259,000 ft²

Number of Rooms

186

Ballroom Capacity

500

Other amenities

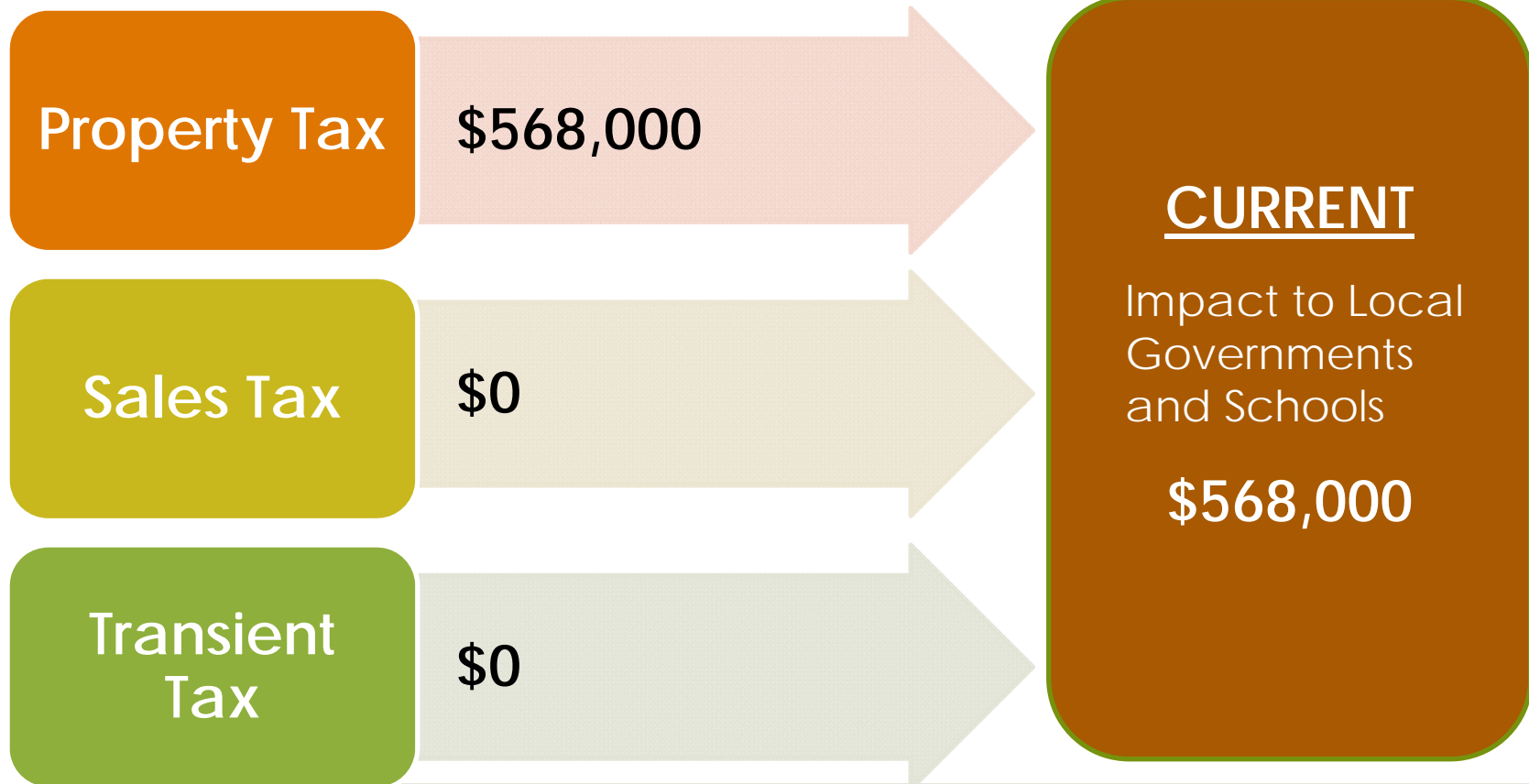
Beach club
and spa

Project Cost Est.

\$170,000,000

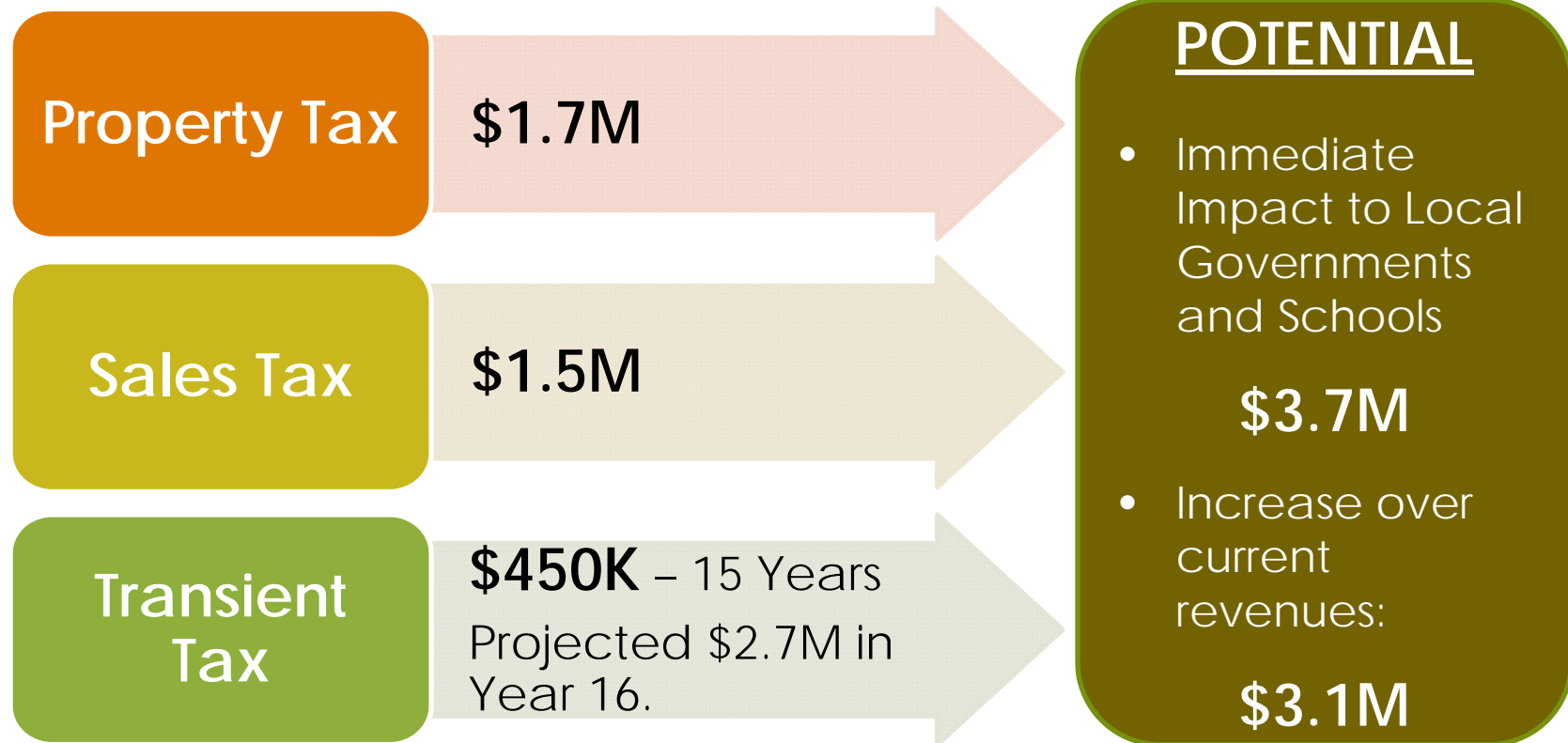
PROJECT SPECIFIC CASE STUDY

- Current annual revenues generated by Miramar property



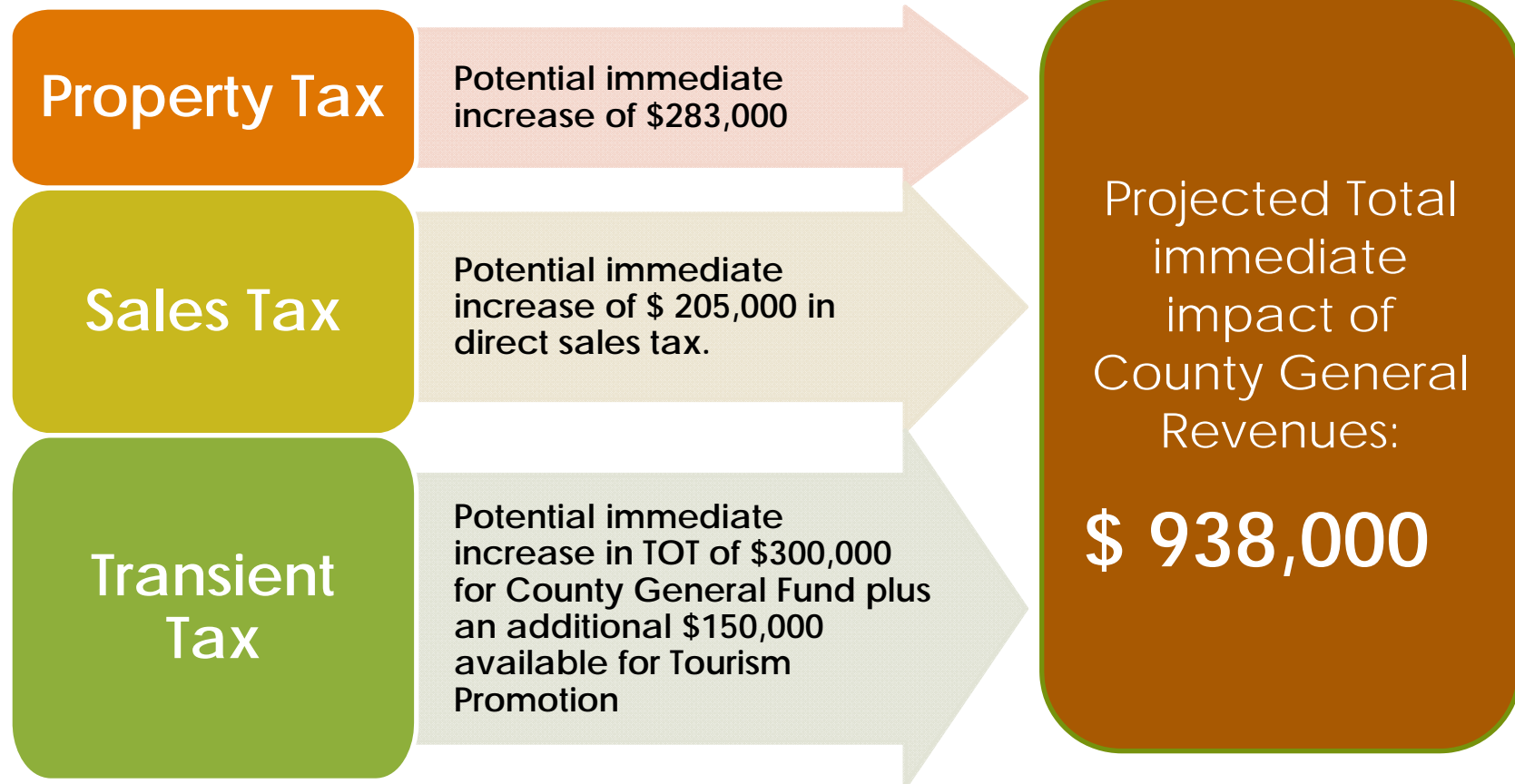
PROJECT SPECIFIC CASE STUDY

- Potential estimated annual revenues generated by built – out Miramar with HIP on a County – Wide Basis



DIRECT COUNTY BENEFIT

■ Immediate Impacts to County Revenue



PROJECT SPECIFIC CASE STUDY: DIRECT COUNTY BENEFIT

■ 70 – 20 – 10 Split

■ Benefits (Nominal Dollars):

Total Projected Incentive Provided by County	(\$21,024,767)
Total Projected Increase in TOT over 20 Years	\$23,642,351
Total Projected Increase in Sales Tax over 20 Years	\$14,407,118
Total Projected Increase in County Property Tax over 20 Years	\$6,876,156
Total Direct Net Gain to County	<u>\$23,900,857</u>

■ Benefits (Present Value @ 10%)

Total Projected Incentive Provided By County	(\$9,955,198)
Total Projected TOT Revenue to County	\$6,902,390
Total Projected Sales Tax Revenue to County	\$5,437,555
Total Projected Property Tax Revenue to County	\$2,756,149
Total Direct Net Gain to County @10% Cost of Money	<u>\$5,140,896</u>

PROJECT SPECIFIC CASE STUDY: DIRECT COUNTY BENEFIT

- ▣ 90 – 10 Split (This option is not staff's recommended option, questionable whether this would incentivize construction)

- ▣ Benefits (Nominal Dollars)

Total Projected Incentive Provided by County	(\$16,208,245)
Total Projected Increase in TOT over 20 Years	\$28,458,873
Total Projected Increase in Sales Tax over 20 Years	\$14,407,118
Total Projected Increase in County Property Tax over 20 Years	\$6,876,156
Total Direct Net Gain to County	\$33,533,902

- ▣ Benefits Present Value @ 10%

Total Projected Incentive Provided By County	(\$9,659,289)
Total Projected TOT Revenue to County	\$7,198,298
Total Projected Sales Tax Revenue to County	\$5,437,555
Total Projected Property Tax Revenue to County	\$2,756,149
Total Direct Net Gain to County @10% Cost of Money	\$5,732,713

COMPARISON OF ORDINANCE OPTIONS

INCENTIVE PLAN OPTIONS

Option 1: 70/20/10 Split

Option 2: 90/10 Split

NEW HOTEL INCENTIVE

Incentive Provided to Operator	70%	90%
Revenue Retained to County	20%	0%
Tourism Incentive	10%	10%
Rebate Period	15 Years	10 Years



Option 1: 70/20/10 Split

Option 2: 90/10 Split

RENOVATION INCENTIVE

Renovation Incentive to Operator	50% TOT <u>Increment</u>	50% TOT <u>Increment</u>
Renovation Revenue Retained to County	40% TOT <u>Increment</u> plus Base	40% TOT <u>Increment</u> plus Base
Renovation Tourism Incentive	10% TOT <u>Increment</u>	10% TOT <u>Increment</u>
Renovation Rebate Period	10 Years	10 Years