BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:	
Department Name:	Auditor-Controller, County Executive Office
Department No.:	
For Agenda Of:	March 6, 2012
Placement:	Departmental
Estimated Tme:	30 Minutes
Continued Item:	NA
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM: Robert W. Geis, Auditor – Controller
Chandra L. Wallar, County Executive Officer

STAFF CONTACT: Greg Levin, CPA Auditor – Controller
Advanced and Specialty Accounting Division

SUBJECT: **Proposed Santa Barbara County Hotel Incentive Program (HIP)**

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: Yes

Other Concurrence:
As to form: N/A

Recommended Actions:

That the Board of Supervisors:

Direct staff to prepare and return to the Board of Supervisors for consideration, an ordinance to amend Chapter 32, Article II of the County Code to incorporate a proposed Hotel Incentive Program into the County of Santa Barbara's existing "Transient Occupancy Tax."

Summary Text:

The current recession has been the longest and deepest since the Great Depression. Significant levels and length of unemployment, a profound decline in property values resulting in foreclosures, financial and political instability around the globe and limited business investment capital have resulted in five years of difficulty at most all levels and sectors of the economy both public and private .

The Board's recently approved legislative platform supports the development of employment opportunities, job growth and community economic vitality. With the demise of Redevelopment

Agencies in the State of California, local governments have fewer tools by which they can stimulate economic vitality within their jurisdiction. Incentives can play a vital role in helping encourage businesses to move forward during the ongoing economic challenges.

Accordingly, many local jurisdictions have developed programs to stimulate economic vitality by using their taxing powers. The County has a vested interest in developing sustainable local business; moreover, the general well-being of our residents depends in large measure on a vibrant tourism industry which, according to data published by the University of California at Santa Barbara (UCSB) Economic Forecast project generated over $1.4 billion in visitor spending within the County during calendar year 2008.

The proposed Hotel Incentive Program (HIP) seeks to establish a vehicle for the County to actively participate in economic vitality by offering a Transient Occupancy Tax Rebate to developers and operators of new luxury hotel properties in the unincorporated areas of the County and also to existing hotel operators and owners who are seeking to significantly renovate existing properties. The program as proposed is designed to stimulate economic activity in the unincorporated areas of Santa Barbara County and increase County property and sales tax revenues which, as a result, would increase the amount of money that flows to special districts and schools.

Background:

Opportunity to Increase Economic Vitality

In alignment with the Board's legislative platform to support the development of employment opportunities, job growth and community economic vitality, incentives can play a vital role in helping encourage businesses to move forward during the ongoing economic challenges. The hospitality and tourism sector is the second largest economic sector in the local economy and is particularly vulnerable during the difficult economic conditions of the last few years. Declining property values and significant reductions in leisure travel have made the development of new or the enhancement of existing properties a difficult business decision. Incentivizing the actual building of approved hotel projects could create hundreds of construction and hospitality jobs that create a positive ripple effect through the entire local economy. A new or enhanced facility is expected to bring thousands of additional visitors to eat in local restaurants, shop with local merchants and pay for other services.

One economic support strategy used in other communities is a Hotel Incentive Program (HIP) that provides financial incentives to enable property owners and developers to secure capital funding for construction of new or enhanced hotels by deferring the collection of the Transient Occupancy Tax (TOT). At the same time, the County realizes expanded economic activity, increased property values and growth in employment generated by the construction and operation of new and expanded facilities. The key principle of the HIP is that increased economic vitality benefits the construction and hospitality industry, other local businesses and local governments through increased property and sales tax.

Opportunities to Increase Tax Revenue

The current recession has resulted in significant unemployment, declining property values and limited business investment capital. Government has experienced reduced revenues as a result of the poor economy while at the same time demands for service from the public and the cost of delivering that service have dramatically increased. In response to the widening gap between expenses and revenue, the Board has received salary and benefit concessions from members of all general labor unions, increased the employee share of benefit costs, furloughed employees, consolidated departments to reduce costs and enhance service delivery, cut non-essential services and reduced the number of county employees to pre-1994 levels.

As the Board is aware, continuing to reduce costs by cutting services could mean a widening gap in meeting the needs of our residents. Staff continues to explore and bring forward options for new or additional revenues. Before the Board today is an option that incentivizes the timely construction of tourism properties to their maximize the assessed value, generate sales tax and provide much needed employment by rebating some or all of their TOT.

Many California local jurisdictions have begun economic incentive programs designed to stimulate investment in tourism properties due to the recession driven decline in the construction and hospitality industry and significant changes in financing packages available to tourism property developers. The local governments that have taken a programmatic approach include the City of Palm Springs and the City of Anaheim. The City of Los Angeles appears to have taken a project specific approach to providing economic incentives; projects that received economic incentives include the LA Live complex, the Wilshire Grand Hotel and the Mandarin Oriental Hotel. Other single projects that received economic incentives within California include the Ritz-Carlton Rancho Mirage and the Terranea Resort in Rancho Palos Verdes.

Upon review, the various incentive programs all appear to be focused around revitalization of an existing tourism area and/or improvement of underperforming economic assets. One commonality noted in the projects is that usually the incentive comes with guarantees from the project developer to perform specific improvements and to maintain those improvements at a specific level. Still in the conceptual phase, the proposed Hotel Incentive Program (HIP) is intended to mirror the programmatic approach developed by the City of Palm Springs.

Proposed Hotel Incentive Program: Conditions of Participation

The proposed HIP program would seek to emphasize the development of hotel properties that accentuate Santa Barbara’s current status as a high end luxury tourism destination with an abundance of outdoor and recreation opportunities as well as a vibrant local arts and entertainment community. While staff is seeking direction prior to developing the final program for the Board’s consideration, it is envisioned that the program would include general conditions requiring that participants:

- Complete the entitlement process, construction and receive all final occupancy clearances within a specified period of time (currently proposed to be four years from project approval) to receive the full benefit of the program.
- Maintain the property as a luxury property in accordance with accepted hospitality and tourism industry standards for the duration of the rebate period.
- The amount of the rebate incentives could be tied to the maintenance of a certain assessed property value (construction valuation) for property tax purposes (i.e. if the property taxes decline, so would the rebate given to the operator).
- Operate the facility in keeping with other covenants as deemed reasonably necessary by the Board of Supervisors at the time of certification of the application.

Proposed General Eligibility Criteria

- Project located in an unincorporated area of the County.
- Project must have received final development plan approval.
- Owner or developer must demonstrate the financial capability to implement the project as entitled, including demonstrating that the necessary financing to complete the project can be obtained.
- Owner or developer must agree to maintain adequate records of construction and agree to allow for the County to audit such records on an annual basis.
- Owner or developer must agree to pay an application fee to defray the County's cost of administering the program and processing the application.

Additional Criteria for New Hotel Projects

- Expected construction budget of at least $50 million.

Additional Criteria for Renovation Projects

- Expected total renovation budget is the equivalent average of $50,000 per room; or at least $1 million in ancillary non-hotel room facilities and/or space.

Proposed HIP Rebate Incentive

The rebate incentive could vary depending on whether or not the project is a new hotel project or a renovation project.

New Hotels

A new hotel project could be described as a complete, from the ground up development, or a complete, from the ground up development post demolition of an existing property. For new hotel projects, the suggested rebate is 100% of Transient Occupancy Tax (TOT) generated by the property for a period of 10 years, but in no case would the rebate period extend more than 14 years past the date the Board approves application for participation in the program.

Hotel Renovations

A hotel renovation project would substantially improve an existing and operating hotel property. For hotel renovation projects, the planned rebate is 50% of Transient Occupancy Tax (TOT) growth following the renovation. The rebate period would be valid for 10 years, but in no case would the rebate period extend more than 12 years past the date the Board approves application for participation in the program.

Impact of Changes to the County TOT Ordinance

Should the County, or its residents, determine to raise or otherwise alter the existing Transient Tax Ordinance; the rebate incentive could be limited to the amount of the Transient Occupancy Tax levy (10%) in place at the time the rebate is awarded.

Assignment of Rebate

Participation in the rebate program is envisioned to transfer to the new owner, subject to County approval, should a participating property be sold during the rebate participation period.

Legal Validation

Several other California jurisdictions have implemented Transient Occupancy Tax rebate programs; however, each program is unique to its jurisdictional requirements. Depending on its terms, the proposed HIP amendments and/or other amendments to County Code Chapter 32 could present legal risks to the County. If the Board directs staff to return to the Board with draft amendments, and the Board then votes to approve specific amendments, the Board could then direct County Counsel to pursue a statutory "validation action." A "validation action" would allow the County to obtain an advance judgment that its financing commitments are valid, legal and binding.

Performance Measure:

The program is designed to stimulate the local economy and provide an overall net positive impact on County revenues by working to increase the assessed value of properties on the County property tax roll. The measure of this would be increases to the assessed property values of participating properties greater than the lost TOT.

Fiscal and Facilities Impacts:

Provided as an attachment, is a case study of the Miramar Beach Resort which is intended to illustrate that project's potential financial impacts, to the County and other local governments, assuming project approval and participation in the HIP program. Our analysis indicates a positive first year impact to the County of approximately $300,000. Historical information suggests that new hotel properties tend to generate significant impacts on local tourism and trade. In the attached case study, we estimated that the project would generate nearly $1,500,000 in annual sales tax revenue; $500,000 of which would directly benefit local governments in the region. We used historical and comparable hotel sales tax return information to develop our estimate.

Attachments:

Analysis of Economic Incentives for the Revitalization of Miramar Beach Resort

Authored by:

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cc:

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