

# 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

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# 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



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# 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

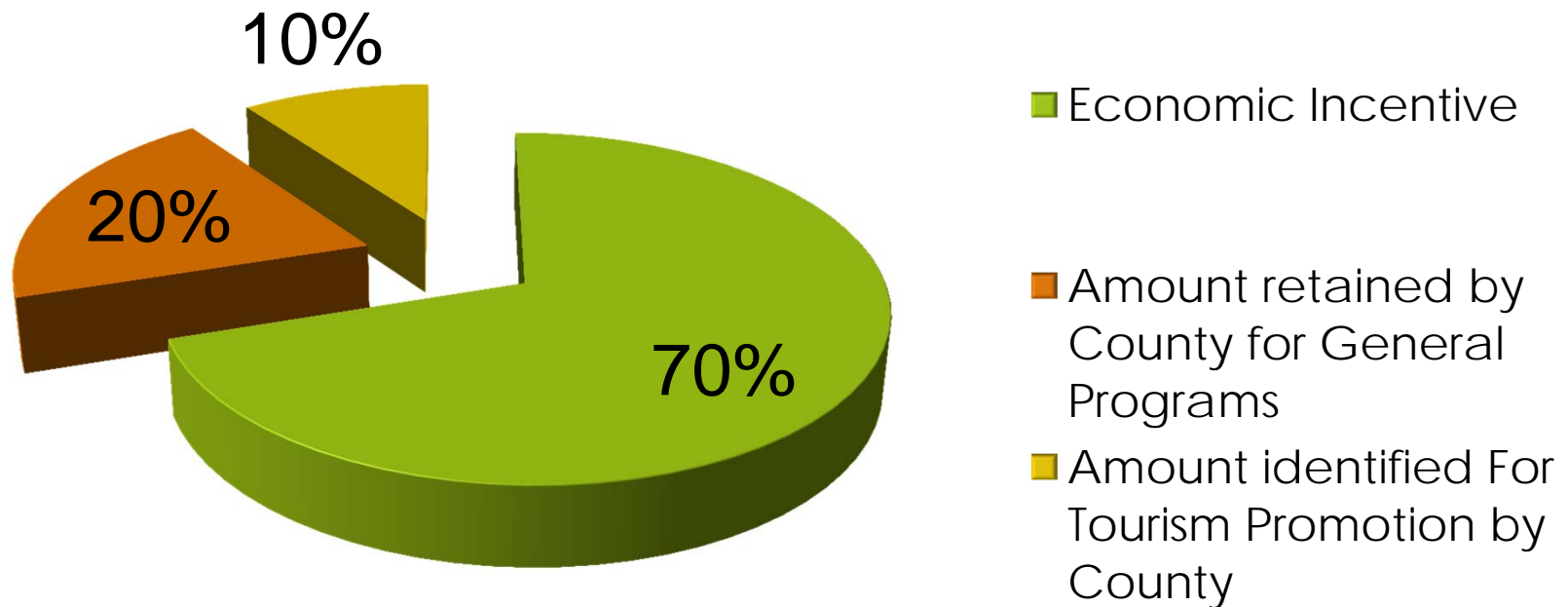
- Located in Unincorporated Area.
- Begin construction after January 2012.
- Does not include an addition to an existing visitor serving facility.
- Demonstrate financial capability.
- Final development plan approval.

## ■ 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.
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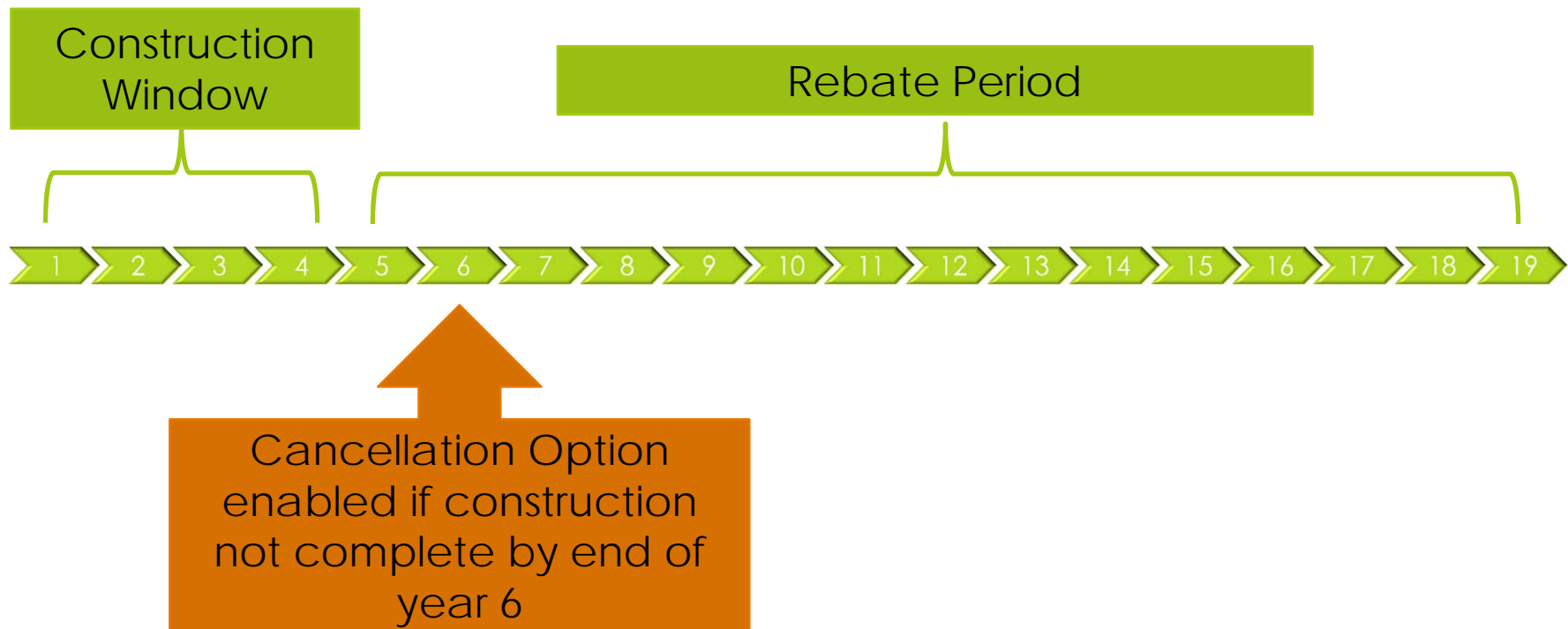
# NEW HOTEL INCENTIVE

New Hotel Incentive



# NEW HOTEL INCENTIVE TIMELINE

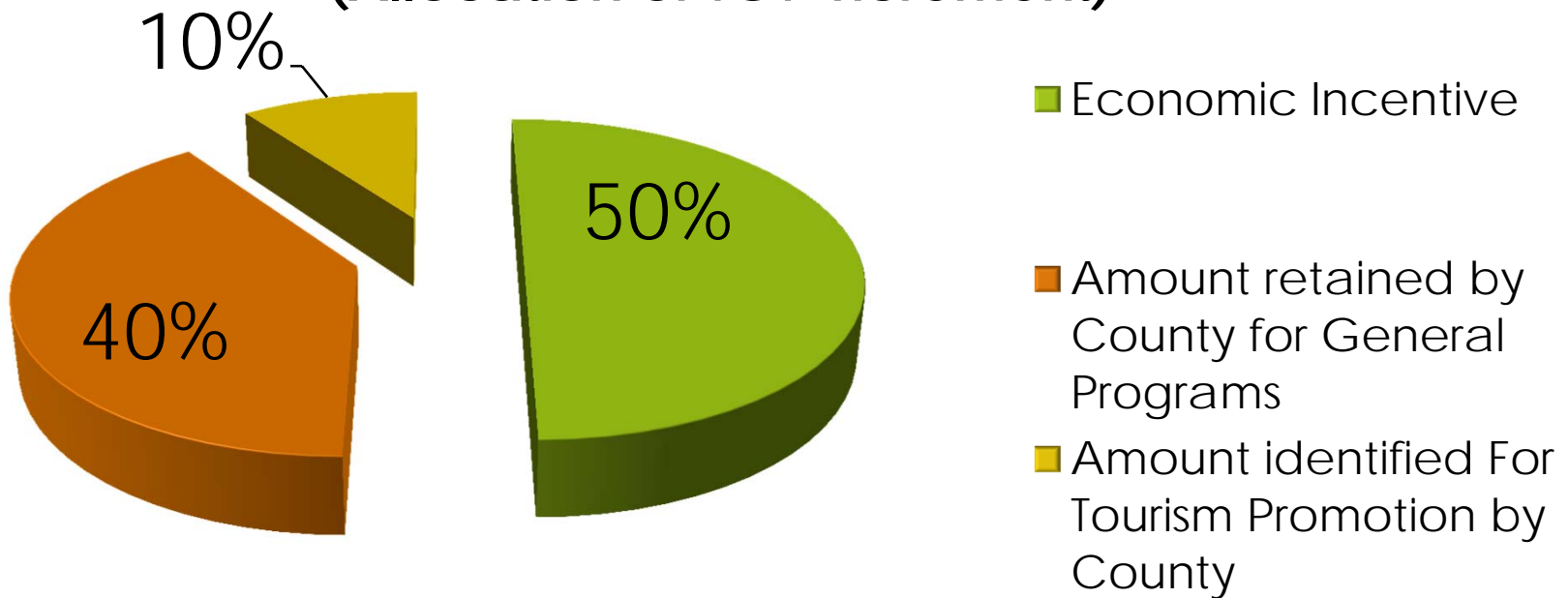
Timeline for program participation is **finite**. If construction does not complete by end of Construction Window, Rebate Period gets shorter.





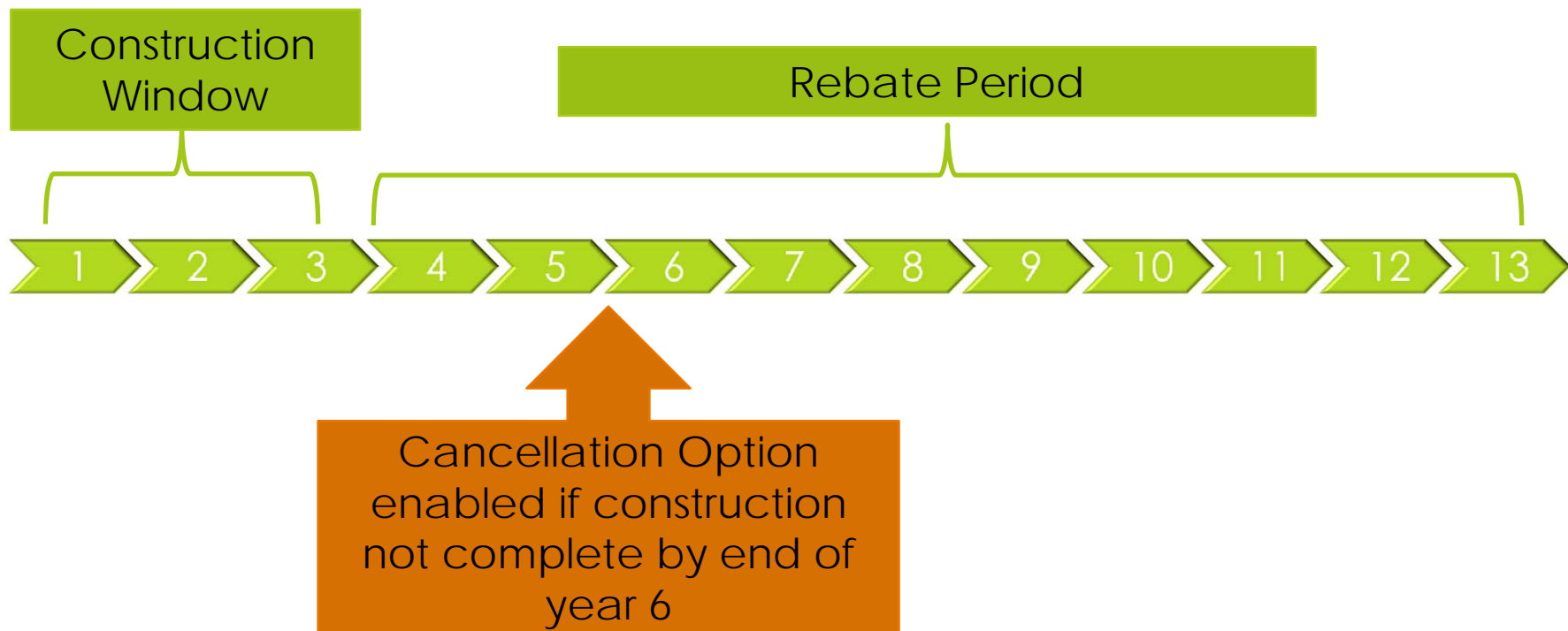
# EXISTING HOTEL INCENTIVE (Renovations)

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.



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# 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:

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

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# 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:  $.5 * \$5,000 = \$2,500$

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# 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.
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# 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 ft<sup>2</sup>

**Number of Rooms**

186

**Ballroom Capacity**

500

**Other amenities**

Beach club  
and spa

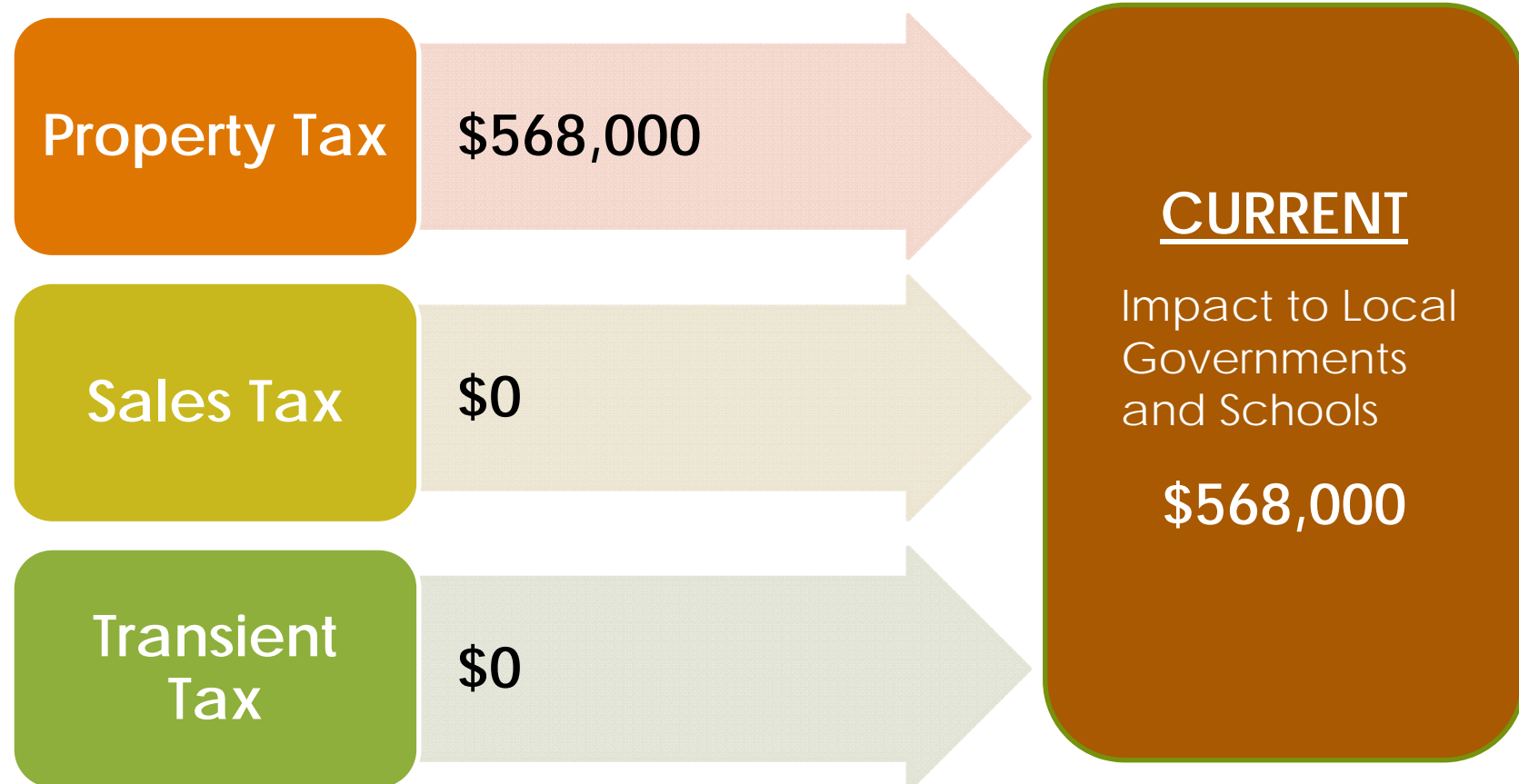
**Project Cost Est.**

\$170,000,000



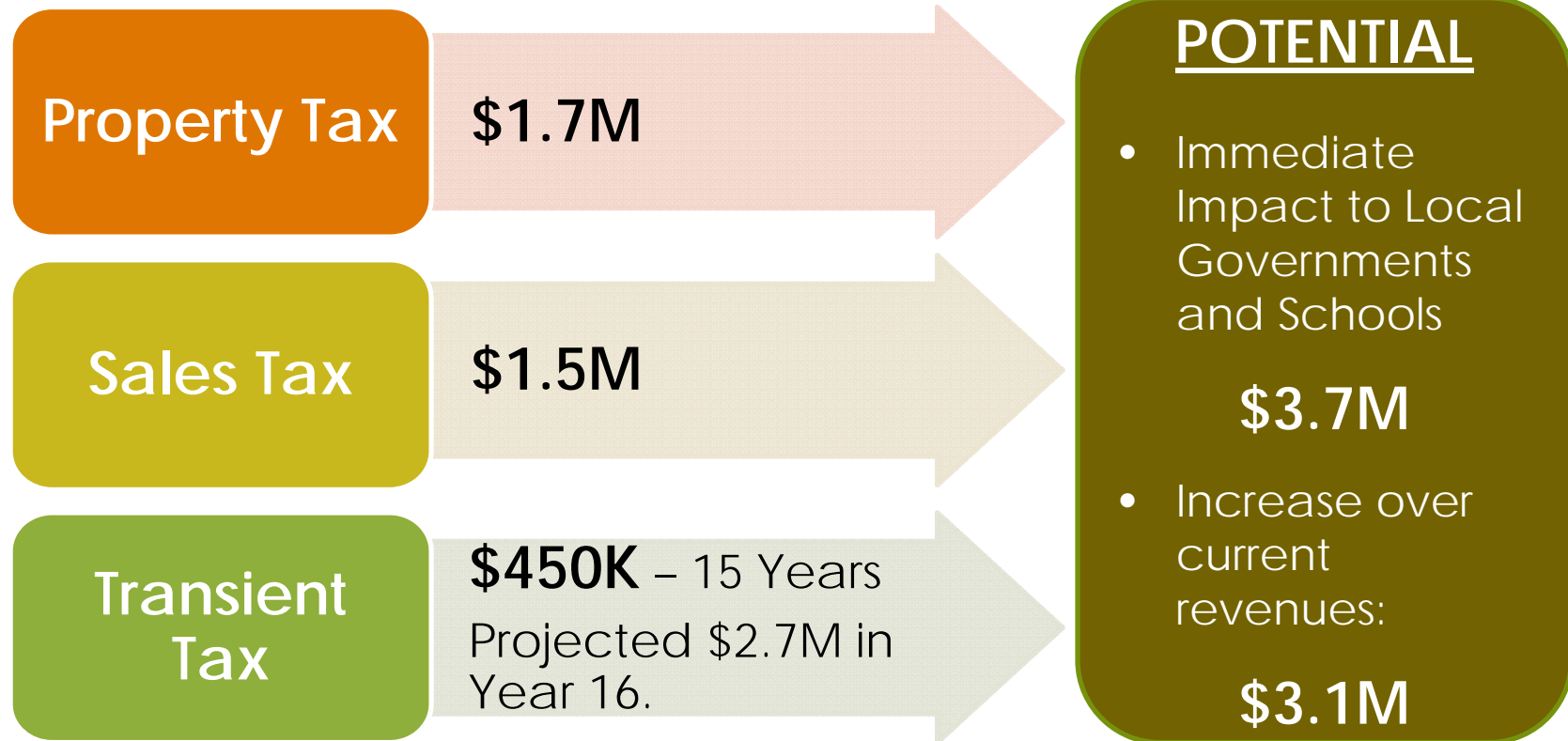
# PROJECT SPECIFIC CASE STUDY

- Current annual revenues generated by Miramar property



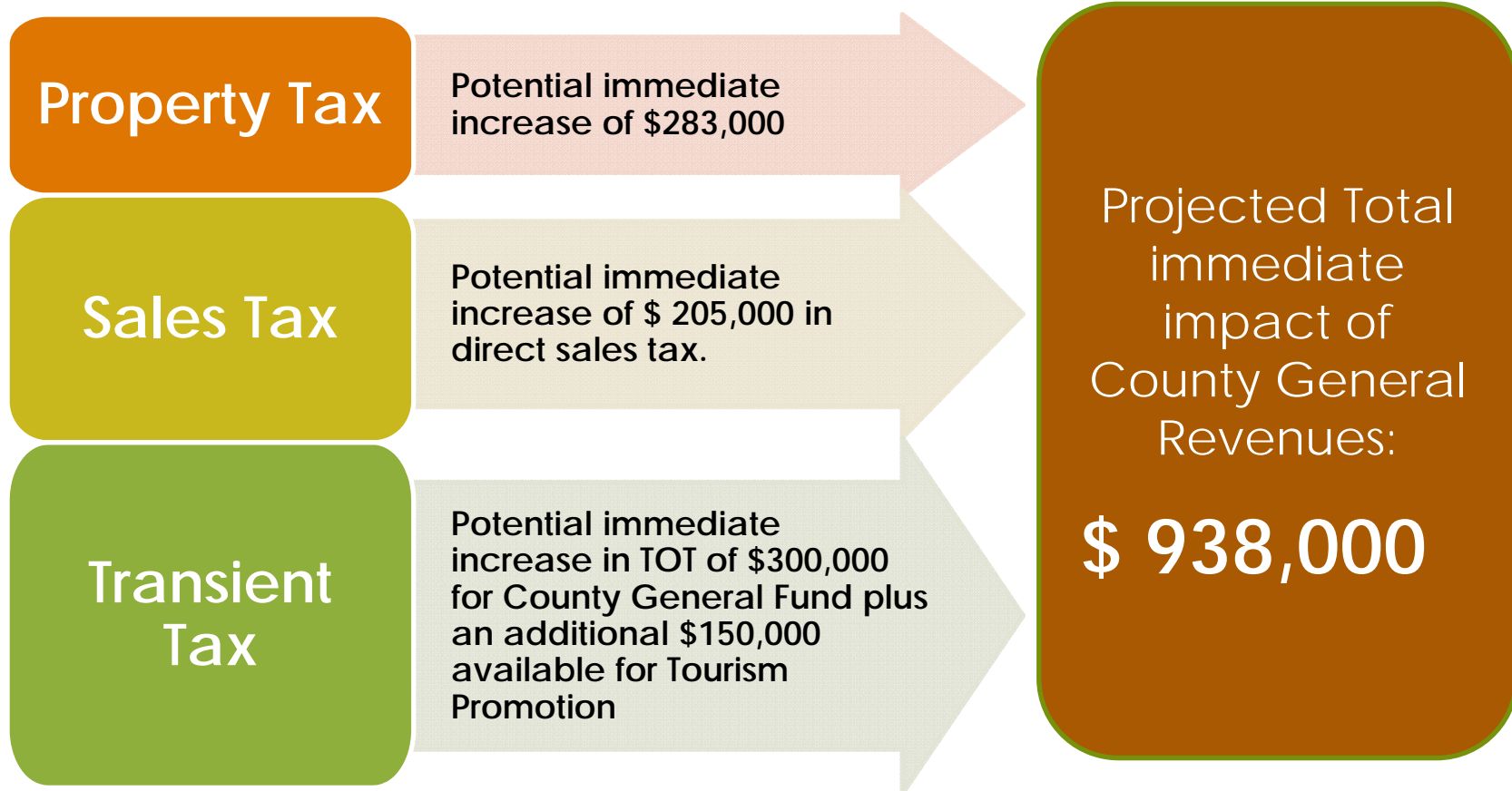
# PROJECT SPECIFIC CASE STUDY

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