



CITY COUNCIL AGENDA REPORT

CITY OF ANAHEIM COMMUNITY DEVELOPMENT DEPARTMENT

DATE: JUNE 16, 2015
FROM: COMMUNITY DEVELOPMENT DEPARTMENT
SUBJECT: APPROVAL OF HOTEL INCENTIVE PROGRAM

ATTACHMENT (Y/N): YES **ITEM #** 29

RECOMMENDATION:

That the City Council, by Motion, approve and adopt its Resolution establishing a Hotel Incentive Program and determining said action is exempt from the California Environmental Quality Act pursuant to CEQA Guidelines Sections 15060(c)(2) and 15060(c)(3) and not a project under Section 15378.

DISCUSSION:

While the City of Anaheim boasts one of Southern California's most vibrant and diverse economies, the presence of the Anaheim Resort is a significant feature which sets our economy apart from those of our neighbors. The importance of the Anaheim Resort to the health of our neighborhoods cannot be overstated, as it provides approximately \$67 million in net tax revenue (\$147.6 million gross revenues less \$80.3 million of expenditures) for the City's General Fund, accounting for nearly 24% of the City's General Fund Budget. And of the \$147 million gross tax revenues generated by the Anaheim Resort, Transient Occupancy Tax (TOT) accounts for nearly \$123 million.

Staff has long-recognized the Anaheim Resort as a critically important economic engine and the significance of TOT generation. For more than a decade, Anaheim has attempted to induce the development of a new, upscale hotel market based on the premise that we could triple TOT and greatly enhance sales and property tax revenue per acre over three star, limited service developments, significantly increase average daily room revenue in our existing hotel base, and capture a new segment of the hospitality industry. In its earliest efforts commencing in 2002, the City offered assistance equal to 50% of project-generated TOT over 10 to 15 year periods, while other cities offered 70% to 100% over various lengths of time. However, no upscale hotels were developed in Anaheim under our program. Recognizing this and after extensive economic analysis of upscale hotels in general and the proposed hotels at GardenWalk in particular, Anaheim entered into two Economic Assistance Agreements (EAAs) in 2013 with the GardenWalk Hotel developer to induce the development of two, four diamond hotels by providing assistance equal to 70% of the project-generated TOT over 20 years.

Since that time, Council Members have requested that staff develop a City-wide program based on the criteria set forth in the GardenWalk EAAs. The Resolution before you would establish such a program (Hotel Incentive Program).

The salient features of the Hotel Incentive Program include the following:

- Economic assistance will be provided in the form of Incentive Payments under an Operating Covenant Agreement between the City and the Owner/Developer consistent with the Hotel Incentive Program.
- Each Operating Covenant Agreement will be prepared by staff for City Council consideration at a noticed, public hearing under the requirements of AB 562.
- Incentive Payments will be equal to (i) 70% of project-generated TOT for new Luxury Hotels, and (ii) 50% of project-generated incremental TOT for the renovation of existing hotels into Luxury Hotels, both for a period of 20 years.
- The continuous operation of a Luxury Hotel in accordance with the AAA Four Diamond Hotel criteria (or better) will be required for receipt of Incentive Payments.
- Luxury Hotels are defined as hotels providing the physical features and operational services which meet or exceed the rating criteria established for AAA Four Diamond Hotels (or higher) by the American Automobile Association. (By way of guidance, Minimum Development Standards for AAA Four Diamond Hotels and a list of Brands and Flags that typically qualify for AAA Four Diamond status are attached to the Resolution.)
- Owners/Developers of Luxury Hotels will be required to expend Minimum Shell Costs of not less than (i) \$225,000 per guestroom for new hotels, and (ii) \$100,000 per guestroom for new or renovated hotels.
- Owners/Developers of Luxury Hotels will be required to expend Minimum Furniture, Fixture and Equipment Costs of not less than \$30,000 per guestroom for new and renovated hotels.
- Operating Covenant Agreements will contain an obligation of the Owner/Developer to comply with Prevailing Wage Statutes and use good faith efforts to hire local residents and contract with local subcontractors, suppliers and other businesses.
- Operating Covenant Agreements will contain an obligation of the Owner/Developer to ensure that all journeymen and apprentices comply with all State labor laws and that the workforce meet a specific ratio of apprenticeship program graduates and OSHA certified workers, as well as contain at least one site safety manager with OSHA 30-hour certification.

- The Hotel Incentive Policy will be applicable City-wide.

In 1996 we started to make significant investments in the Anaheim Resort in order to revitalize the City's tourist serving infrastructure and expand the hospitality industry. Those investments have paid huge dividends as exemplified by the near doubling of TOT revenue over the past decade. TOT revenue should continue to grow as nearly 1,600 hotel rooms are under construction or in the late stages of pre-development. And while the development of more three star, limited service hotels is nice and attests to the general health of the Anaheim Resort, glaringly missing is the development of Four Diamond Hotels. Accordingly, staff recommends adoption of the Resolution establishing the Hotel Incentive Policy.

IMPACT ON BUDGET:

Adoption of this policy has no budgetary impact. Incentive Payments will only be provided under subsequent Council-approved Operating Covenant Agreements and then only to the extent that a Luxury Hotel is built and operated as required and only in amount equal to a portion of project-generated revenues.

Respectfully submitted,

John E. Woodhead IV
Director

Attachment:

1. Resolution