



# Finance Committee

City of Arts & Innovation

**TO: FINANCE COMMITTEE MEMBERS** **DATE: AUGUST 28, 2019**

**FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT** **WARD: 1**

**SUBJECT: A CONCEPTUAL FRAMEWORK TO FACILITATE REINVESTMENT AND ECONOMIC/BUSINESS DEVELOPMENT AT THE MISSION INN HOTEL & SPA AND HISTORIC ANNEX PROPERTIES**

## **ISSUE:**

Receive information and provide input related to a framework for The Mission Inn Hotel & Spa. and historic Annex.

## **RECOMMENDATIONS:**

That the Finance Committee:

1. Review information and provide input on the Mills Act Plus+ framework for The Mission Inn Hotel & Spa and historic Annex; and
2. Direct staff to develop a framework and present to the City Council.

## **BACKGROUND:**

On May 7, 2019, the City Council approved the development of Lot 33 with “Riverside Alive”, a project consisting of two hotels, residential, commercial, parking garage, and convention center expansion project. During conversations about the Lot 33 development, the City was informed that the owners of The Mission Inn Hotel & Spa were concerned about the development of additional hotels in and around Downtown Riverside. The City Council asked staff to explore options available to the City relative to supporting The Mission Inn Hotel & Spa and Festival of Lights and to bring back a report for discussion.

### **Historic Mission Inn Hotel & Spa**

The Mission Inn Hotel & Spa is a community asset – a point of civic pride, among the most significant of Riverside’s depth and breadth of landmarks and assets, and which is reinforced annually through the Festival of Lights. The Historic Mission Inn Hotel & Spa is a state and national treasure and was designated a National Historic Landmark by the federal government in 1977 and a State of California Landmark in 1961. It is one of three hotels in California to receive National Historic Landmark status along with the Hotel del Coronado in San Diego and the Ahwahnee Hotel in Yosemite National Park. Riverside’s history interweaves with the history

of The Mission Inn Hotel & Spa. Today, the City's identity is tethered to this historic icon – when people from outside of Riverside speak about Riverside, The Mission Inn Hotel & Spa often accompanies their remarks and is reflected in the many accolades, awards, recognitions and achievements it has received.

The Mission Inn Hotel began in 1876 and became a full-service hotel in the early 1900s thanks to California's economic citrus bloom. The Mission Inn Hotel & Spa has played host to many U.S. Presidents, social leaders and celebrities. Frank Miller's family managed the hotel until the mid-1950s, and it changed hands multiple times and risked demolition, until Duane and Kelly Roberts purchased the Inn in the late 1980s. After a seven-year, \$55 million renovation, the Roberts opened the hotel in 1992.

According to a Press Enterprise article published on December 15, 1992, the former City of Riverside Redevelopment Agency (RDA) provided financial assistance in the total amount of \$5,497,370 to the Historic Mission Inn Corporation to help fund the acquisition and renovation of the Mission Inn Hotel & Spa. Part of this financial assistance included a loan by the former RDA in the amount of \$1,750,000 plus 6% annual interest, which was later reduced to \$1,000,000 by City Council in 1999. Also included as part of this financial assistance was a pre-paid thirty year lease for the Mission Inn Foundation and Museum on the ground floor in the total amount of \$1,225,873 by the RDA.

There are many published works documenting the history of the Mission Inn, including:

- Gale, Zona. *Frank Miller of the Mission Inn*. D. Appleton-Century Co., New York. 1938. OCLC 2181944
- Hall, Joan H. *Through the Doors of the Mission Inn*. Highgrove Press, Riverside, California. 1996.
- Hall, Joan H. *Through the Doors of the Mission Inn; Volume Two*. Highgrove Press, Riverside, California. 2000.
- Hodgen, Maurice. *Master of the Mission Inn: Frank Miller, a Life*. North Charleston, SC, Ashburton Publishing, c2013.
- Hutchings, DeWitt. *Handbook of the Mission Inn, Riverside, California*. Frank A. Miller. 1951.
- Klotz, Esther. *The Mission Inn: Its History and Artifacts*. Rubidoux Printing, Riverside, California. 1981.
- Moore, Barbara (editor). *Historic Mission Inn*. Friends of the Mission Inn, Riverside, California. 1998.
- Parks, Walter P. *The Famous Fliers' Wall of the Mission Inn*. Infinity Press, Orange, California. 2004.
- Mission Inn. *The Bells and Crosses of the Mission Inn, Riverside, California*. (between 1927 and 1938).

### Festival of Lights

Along with opening a fully restored Historic Mission Inn Hotel & Spa in 1992, the Roberts' started an event called the Festival of Lights (FOL) and in 2006, the City started its efforts to enhance this annual event to make it the signature City event that it is today. Twenty-five years

later, the FOL event was honored with a float in the 2018 Pasadena Tournament of Roses Parade winning the Golden State Award and garnering attention around the world.

The multiple award winning FOL event continues to draw national attention to The Mission Inn Hotel & Spa and the City of Riverside. An Economic Impact Study was completed by SMRI in 2017 on behalf of the City. The study determined that FOL generates over \$129,000,000 per year in economic impact (direct, indirect, and induced) through an estimated 750,000 visitors. Further, the total media added value is estimated at \$2,750,000 with print, broadcast, and internet professionals nationally. One of the recommendations by SMRI was to continue investing in FOL.

## **DISCUSSION:**

While the public benefits of The Mission Inn Hotel & Spa and the Festival of Lights are many (i.e. identity, aesthetics, events, financial, cultural, historic, economic, brand, etc.), ensuring the successful future of this historic property and its related festival has an associated public responsibility. Along with the status and prestige of a National Historic Landmark comes a substantial amount of maintenance. The Mission Inn Hotel & Spa spends approximately \$1,000,000 per year on ongoing maintenance and has deferred maintenance totaling \$2,500,000. In addition, the Festival of Lights, annually receives between \$900,000 and \$1,000,000 of investment by the Historic Mission Inn Hotel & Spa. The City spent approximately \$824,000 for expenses related to FOL last year and received revenue of approximately \$832,000, barely breaking even. However, these costs do not include staff time and in-kind support, which would result in a net loss to the City's investment. The Festival of Lights and The Mission Inn Hotel & Spa are in need of a sustainable, enduring funding source and organizational infrastructure to ensure a future of enduring citywide benefit.

A brief overview of financial tools available to the City are provided below:

Mills Act Program - On December 21, 2004, the City Council adopted the Mills Act Program for Riverside. The Mills Act Program agreement is a legal contract binding the owner of a designated historical resource to maintain the subject property consistent with the U.S. Secretary of the Interior's Standards, to provide visibility of the historical resource from the public right-of-way, and to improve or rehabilitate the property based on specific conditions included in the agreement. The agreement is recorded with the County, which allows the Assessor to determine the property tax, based on a formula set in State Law that typically results in a substantial annual savings to the property owner. The average savings is 50 percent with a range of property tax reduction between 25 percent and 75 percent.

*This option is viable for consideration and was used in the attached conceptual framework. The estimated annual Mills Act property tax reduction of \$200,000. However, this falls short of the magnitude of needed reinvestment each year. While the property owner may experience an approximately \$200,000 benefit, the City impact would be \$28,000 per year for 10 years.*

Property Tax Sharing Agreements - Local governments can enter into agreements with businesses to abate local ad valorem taxes on real property. The Mission Inn Hotel & Spa was previously in a Redevelopment Project Area and, as a result, all property tax revenues – including future increases – are subject to the rules and interpretation of Assembly Bill 26. This means the City does not have control over the use and subsequent rebate of the local property tax revenues generated by the project area except when residual property tax revenue remains

after all taxing entities are paid in full. Therefore, tax abatement is possible via a property tax sharing agreement when residual property tax is available.

*This option is viable for consideration and was used in the attached conceptual framework. The fiscal impact would be up to \$200,000 per year for the Historic Mission Inn Hotel & Spa property and \$200,000 per year for the historic Annex property (see Attachment #1 for reference).*

Transient Occupancy Tax (TOT) Sharing Agreement - The City currently charges a Transient Occupancy Tax of 13% of the rent charged by the Hotel or Motel owner. TOT can be increased from 13% to 14% and, if so, a portion of the existing TOT or increased TOT revenue could be earmarked for the Festival of Lights program to help offset its cost.

*This option was not considered viable at this time as this will require considerable outreach and discussion with the Hotel and Motel owners throughout the City of Riverside and would require a vote of the people (per Ordinance No. 7111). However, should TOT increase from 13% to 14%, the attached conceptual framework includes a provision to direct any future incremental TOT increase generated by the Historic Mission Inn Hotel & Spa to be given back to the Mission Inn, and used as an offset of any other City contribution approved as part of the framework. This was not included in the fiscal impact nor has this fiscal impact been determined.*

The following options were not included in the attached framework but are included for consideration:

Sales Tax Sharing Agreements – Local governments can enter into agreements with businesses to abate local sales taxes on the total retail price of any tangible personal property. The City has entered into agreements with the Galleria at Tyler, Riverside Auto Center, Riverside Plaza and Riverside Community Hospital.

*This option is viable for consideration but was not used in the attached conceptual framework because retail sales are not anticipated to equal the amount of public investment needed.*

Business Improvement Area - On June 25, 1985, the Riverside City Council passed Ordinance No. 5303 establishing a Downtown Parking and Business Improvement Area (“BIA”) in the Downtown area of the City of Riverside. The purpose of the Improvement Area is to impose charges on all businesses within the area to pay for parking improvements, beautification, promotion of public events, furnishing music to public places in the area, and general promotion of business activities. In 2000, the City increased the BIA assessment from 50% of the annual Business Tax charge to 100% of the annual Business Tax charge. On May 25, 2010, the City of Riverside Redevelopment Agency entered into a three-year agreement to provide a \$100,000 annual fund match to the BIA and subsequently, the City amended the agreement to extend the term of this fund match to June 30, 2020. The estimated 2019 assessments from the BIA are \$350,000. The City could increase the BIA assessment, expand its boundaries or create a new BIA.

*This option was not considered viable because it would take considerable outreach and discussion with the existing BIA and business community, and, in the case of an expansion or new BIA, would require a vote of the businesses. As a result, this option was not discussed with the Riverside Downtown Partnership.*

Framework to Facilitate Investment - The attached Mills Act Plus+ conceptual framework provides for several tools discussed above including the Mills Act Agreement, a Property Tax Sharing Agreement and future increases in Transient Occupancy Tax.

**Future Steps** - Should the Committee direct staff to proceed, then the following steps would be applicable:

1. Framework – Present framework to the City Council for review in October 2019.
2. Mills Act – If the framework is approved, then a Mills Act Application could be submitted in 2020 to the Cultural Heritage Board and for final review by the City Council. The Mills Act Agreement could be effective in 2021.
3. Agreement – Prepare an Agreement (i.e. Property Tax Sharing or otherwise) for City Council review and approval to coincide with a Mills Act.

### **FISCAL IMPACT:**

This incentive is structured to recognize and respect the CalPERS Challenge (and its threat to the City's financial solvency), as well as to incentivize important reinvestment by the Mission Inn that will return public benefit over time through improved property conditions and potential additional revenue to the City. While property tax revenue to the City would be lost initially, that lost property tax would be utilized to reinvest in the historic hotel to improve its condition and stimulate investment in the adjacent annex and other contiguous properties owned by the Mission Inn. City staff is very mindful of the public concern for subsidies and worked diligently to provide a framework for the committee that leverages public benefit and upholds public interest.

A Mills Act Agreement would result in a reduction in revenue estimated to be approximately \$200,000 per year. A property tax sharing agreement in an amount matching the Mills Act, not to exceed \$200,000, would result in a \$28,000 per year reduction in revenue. This combined portion of the framework could be approximately \$228,000 per year or \$2,280,000 over ten years. The Festival of Lights economic impact study demonstrates revenue into the City more than offsets the impacts associated with the Mills Act and property tax sharing agreements.

Additionally, the framework would also provide for a separate property tax sharing agreement, not to exceed \$200,000 per year, in conjunction with a minimum \$5,000,000 investment by the property owner and a fully completed project on the Historic Annex property. The grand total of this element of the framework would be \$2,000,000 over a separate ten-year period. Property tax derived from such an investment is expected to exceed and offset this amount. These are all estimates and may vary when an agreement is developed in conjunction with the Mission Inn.

Prepared by:	David Welch, Community & Economic Development Director
Certified as to	
availability of funds:	Edward Enriquez, Chief Financial Officer/Treasurer
Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Gary G. Guess, City Attorney

Attachment:

1. MISSION INNvest Mills Act Plus+ (Conceptual Framework)
2. Presentation