



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: DECEMBER 12, 2019**
FROM: COMMUNITY & ECONOMIC DEVELOPMENT **WARD: 1**
DEPARTMENT
SUBJECT: UPDATE ON THE CONCEPTUAL FRAMEWORK TO FACILITATE
REINVESTMENT AND ECONOMIC BUSINESS DEVELOPMENT FOR THE
MISSION INN HOTEL & SPA AND HISTORIC ANNEX PROPERTIES

ISSUE:

Receive and file an update on the conceptual framework to facilitate reinvestment and economic business development for The Mission Inn Hotel & Spa and historic Annex properties.

RECOMMENDATION:

That the Budget Engagement Commission receive and file an update on the conceptual framework to facilitate reinvestment and economic business development for The Mission Inn Hotel & Spa and historic Annex properties.

BACKGROUND:

On August 28, 2019, the Finance Committee unanimously recommended that the City Council approve the Mills Act Plus+ framework for The Mission Inn Hotel & Spa and historic Annex. They also requested staff to prepare property tax sharing agreements in the amount of \$200,000 annually and to increase staff's recommended term from ten (10) years to twenty (20) years for City Council approval.

On October 1, 2019, the City Council conceptually approved economic incentives for the Mills Act Plus+ framework to facilitate reinvestment and economic business development for The Mission Inn Hotel & Spa and historic Annex properties. They also directed staff to prepare a property tax sharing agreement in the total amount of \$400,000 annually for a term of 20 years and identify a funding source for the additional \$200,000 to coincide with a Mills Act award and to prepare a second property tax sharing agreement in the amount of \$200,000 annually for a term of 20 years upon completion of The Mission Inn Hotel & Spa investing a minimum of \$5 million into the historic Annex for a completed development project as evidenced by a Certificate of Occupancy both for City Council approval.

On November 5, 2019, the City Council directed staff to prepare a property tax sharing agreement in the total amount of \$400,000 annually for a term of 20 years and to use Transient Occupancy Tax (TOT) revenues in the amount of \$200,000 annually to fund the additional \$200,000 to

coincide with a Mills Act award and return to City Council for approval.

DISCUSSION:

Staff researched a variety of potential funding options including the Mills Act Program, Property Tax Sharing Agreements, Sales Tax Sharing Agreements, Transient Occupancy Tax Sharing Agreements and Business Improvement Areas to facilitate reinvestment and economic business development options for The Mission Inn Hotel & Spa and historic Annex properties.

The proposed MISSION INNvest Mills Act Plus+ Conceptual Framework that was presented to City Council is included as Attachment 1 to this staff report. This economic incentive package was 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 that leverages public benefit and upholds public interest.

Future Steps

- Step 1: Mills Act – The Mission Inn Hotel & Spa needs to submit a Mills Act application to the City by June 30, 2020. City staff would review and submit the application to the Cultural Heritage Board for consideration shortly thereafter and then submit the application to City Council for final consideration by the end of 2020. If approved, the Mills Act Agreement could be effective in 2021.
- Step 2a: Agreement #1 – Prepare a Property Tax Sharing Agreement for \$400,000 annually for 20 years to coincide with a Mills Act application for The Mission Inn Hotel and Spa and return to City Council for approval.
- Step2b: Agreement #2 – Prepare a Property Tax Sharing Agreement for \$200,000 annually for 20 years upon completion of a new development project with a minimum investment of \$5 million into the historic Annex property and return to City Council for approval.

FISCAL IMPACT:

A Mills Act award to The Mission Inn Hotel & Spa of approximately \$200,000 annually is estimated to result in a \$28,000 per year reduction in revenue to the General Fund.

A property tax sharing agreement in an amount matching the Mills Act, not to exceed \$400,000 annually using \$200,000 in General Funds and \$200,000 in TOT funds, would result in a reduction of \$8,000,000 in revenue to the General Fund over a twenty-year period.

A property tax sharing agreement not to exceed \$200,000 per year, in conjunction with a minimum \$5,000,000 investment by The Mission Inn Hotel & Spa and a fully completed project on the historic Annex property would result in a reduction of \$4,000,000 in revenue to the General Fund

over a 20-year period, partially offset by the increased investment in the Annex by the Mission Inn, which may result in increases in property and sales tax dollars.

These are all estimates and may vary when agreements are developed in conjunction with The Mission Inn Hotel & Spa.

Prepared by:	David Welch, Community & Economic Development Director
Approved as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Carlie Myers, Deputy City Manager

Attachments:

1. MISSION INNvest Mills Act Plus+ (Conceptual Framework)
2. Finance Committee Report – August 28, 2019
3. City Council Report - October 1, 2019
4. City Council Report - November 5, 2019
5. Presentation