



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 5, 2019

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 1
DEPARTMENT

SUBJECT: FUNDING OPTIONS FOR AN ADDITIONAL \$200,000 ANNUALLY FOR 20
YEARS FOR A CONCEPTUAL FRAMEWORK TO FACILITATE
REINVESTMENT AND ECONOMIC/BUSINESS DEVELOPMENT AT THE
MISSION INN HOTEL & SPA AND HISTORIC ANNEX PROPERTIES

ISSUE:

Consider funding options for an additional \$200,000 annually for 20 years for a conceptual framework to facilitate reinvestment and economic business development for The Mission Inn Hotel & Spa and historic Annex properties.

RECOMMENDATIONS:

That the City Council select one of the following recommendations:

1. Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa and increase the proposed amount by an additional \$200,000, for a total of \$400,000 annually, using Measure Z funds to cover the additional \$200,000 annually for a term of 17 years to coincide with the end of the Measure Z tax and a Mills Act award, and return to City Council for approval; or
2. Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa for the historic Annex property and increase the proposed amount by an additional \$200,000, for a total of \$400,000 annually for a term of 20 years upon completion of The Mission Inn Hotel & Spa investing a minimum of \$5,000,000 into the historic Annex for a completed development project as evidenced by a Certificate of Occupancy, and return to City Council for approval; or
3. Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa and reduce the amount from \$400,000 annually to \$200,000 annually; and not fund the additional \$200,000 per annum as requested by City Council for a term of 20 years to coincide with a Mills Act award, and return to City Council for approval.

FINANCE COMMITTEE RECOMMENDATION:

The Finance Committee met on August 28, 2019, with Chair Adams, Vice Chair Conder and Member Soubrious present to consider a conceptual framework to facilitate reinvestment and economic/business development at Mission Inn Hotel and Spa and historic Annex properties. After discussion, the Committee unanimously voted to recommend the following:

1. That the City Council approve the Mills Act Plus+ framework for The Mission Inn Hotel & Spa and historic Annex; and
2. Requested staff to prepare property tax sharing agreements in the amount of \$200,000 annually and to increase staff's recommended term from ten years to twenty years for City Council approval.

Doubling the term of the agreements increased the Mission Inn Hotel and Spa portion from \$2,000,000 to \$4,000,000 and historic Annex portion from \$2,000,000 to \$4,000,000 over the twenty year term.

BACKGROUND:

On October 1, 2019, the City Council met and determined the following:

1. 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;
2. Directed staff to prepare a property tax sharing agreement for The Mission Inn Hotel & Spa 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 return to City Council for approval; and

Doubling the term of the agreement increased the Mission Inn Hotel and Spa portion from \$2,000,000 to \$4,000,000 over the twenty year term.

3. Directed staff 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 \$5,000,000 into the historic Annex properties for a completed development project as evidenced by a Certificate of Occupancy, and return to City Council for approval.

DISCUSSION:

Staff researched a variety of potential funding options and believes that the property tax sharing agreement remains the most viable method for the City to consider. Staff's original recommendation of a property tax sharing agreement in the amount of \$200,000 annually for a 10 year period in conjunction with a Mills Act award, was given careful consideration to respect the CalPERS Challenge. The next five to ten years are critical; the City will be facing significant

budgetary challenges due to rising costs and required payments on the City's Unfunded Actuarial Liability (UAL) to CalPERS, which will cripple the General Fund if significant changes or cost savings measures are not implemented in a timely manner. As such, staff does not recommend funding an additional \$200,000 annually out of the General Fund, given the fiscal challenges that lie ahead.

However, Measure Z funds, which are general fund tax dollars, may be a viable option to consider for the additional \$200,000 increase as part of a \$400,000 annual property tax sharing agreement, coupled with a Mills Act application, for The Mission Inn Hotel & Spa. Alternatively, funding the additional \$200,000 predicated on a historic Annex development project would provide the City with a buffer of several years before a required minimum of \$5,000,000 was invested into a completed new project for the historic Annex. If this option was chosen, the impact to the General Fund would be mitigated as a result of delaying the annual expenditures, which would provide additional funding resources needed to meet future obligations including the UAL payments.

The Chief Financial Officer/Treasurer concurs with the recommendations in this staff report.

FISCAL IMPACT:

If option 1 in the above Recommendations were chosen:

“Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa and increase the proposed amount by an additional \$200,000, for a total of \$400,000 annually, using Measure Z funds to cover the additional \$200,000 annually for a term of 17 years to coincide with the end of the Measure Z tax and a Mills Act award, and return to City Council for approval.”

A property tax sharing agreement in an amount matching the Mills Act, not to exceed \$200,000 annually, would result in a reduction of \$4,000,000 in revenue to the General Fund over a twenty-year period. An additional \$200,000 annually from Measure Z funds would result in \$3,400,000 over a 17-year period.

If option 2 in the above recommendations were chosen:

“Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa for the historic Annex property and increase the proposed amount by an additional \$200,000, for a total of \$400,000 annually for a term of 20 years upon completion of The Mission Inn Hotel & Spa investing a minimum of \$5,000,000 into the historic Annex for a completed development project as evidenced by a Certificate of Occupancy, and return to City Council for approval.”

A property tax sharing agreement not to exceed \$400,000 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 \$8,000,000 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.

If option 3 in the above recommendations were chosen:

“Direct staff to prepare a property tax sharing agreement with The Mission Inn Hotel & Spa and reduce the amount from \$400,000 annually to \$200,000 annually; and not fund the additional \$200,000 per annum as requested by City Council for a term of 20 years to coincide with a Mills Act award, and return to City Council for approval.”

A property tax sharing agreement in an amount matching the Mills Act, not to exceed \$200,000 annually, would result in a reduction of \$4,000,000 in revenue to the General Fund over a twenty-year period.

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
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. Geuss, City Attorney