



City Council Staff Report

NEW BUSINESS

DATE: JULY 3, 2013

SUBJECT: AUTHORIZE CREATION OF "SPECIAL ECONOMIC DEVELOPMENT FOCUS INCENTIVE PROGRAM AREAS" FOR THE BUSINESS DISTRICTS GENERALLY LOCATED ON PALM CANYON DRIVE AND INDIAN CANYON DRIVE FROM TRAMWAY ROAD TO TACHEVAH ROAD, AND FROM RAMON ROAD TO SUNRISE WAY, INCLUDING EAST SUNNY DUNES FROM PALM CANYON DRIVE TO CALLE ENCILIA

FROM: David H. Ready, Esq., Ph.D., City Manager

BY: John Raymond, Community & Economic Development Director

SUMMARY

This action would establish Special Economic Development Focus Incentive Program Areas and establish a variety of goals for economic development of each of the two constituent Project Areas. These goals frame the near term economic development objectives for the plan period.

RECOMMENDATION:

1. Adopt Resolution No. _____, "A RESOLUTION OF CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, AUTHORIZING THE CREATION OF "SPECIAL ECONOMIC DEVELOPMENT FOCUS INCENTIVE PROGRAM AREAS" AND THE ALLOCATION OF FUNDS FOR SUCH A PROGRAM FOR THE FISCAL YEAR 2013-14
2. Allocate \$1,000,000 in Fiscal Year 2013-14 for the Program Areas and authorize the City Manager to execute an appropriate budget transfer.
3. Authorize the City Manager to execute all documents related to the Incentive Agreements.

ITEM NO. 56

BACKGROUND:

The corridors entering the Downtown and Uptown area of Palm Springs, both from the north and from the south, have historically lagged the progress made in the city's core. Over the past 30 years, the City and former Redevelopment Agency have tried to incentivize development in the area through the creation of economic development project areas (Project Area 9-A and North Palm Canyon in the north end, and South Palm Canyon and Project Area 9-E in the south end), but the overall vitality of the community was at a level that these were likely to see significant project activity only after the downtown core was fully developed.

General descriptions of the two new areas are: South Palm Canyon Drive (and Indian Canyon Drive) between Ramon Road and Sunrise Way, including the short block of East Sunny Dunes and Industrial Place near Palm Canyon; and, North Palm Canyon Drive (and Indian Canyon Drive) between Via Lola/Tachevah and Tramway Road (along Palm Canyon) and San Rafael Road (along Indian), including the 12 acre commercial area adjacent to the Visitor Center.

These areas were generally located within Project Areas of the former Community Redevelopment Agency, and under Redevelopment Law the Agency (or "RDA") would have been able to undertake a number of the projects and programs described herein. However, all redevelopment agencies in California were dissolved under State Law in the 2011-2012 year, removing the City and/or Agency's ability to eliminate blight or promote the economic well being of the area.

In lieu of redevelopment agency activity, over the past several years the City has created several incentive programs that have benefited dozens of businesses in the downtown area.

In 2009, the City Council adopted the Interior Remodel Program which assisted a number of sales tax-producing businesses, particularly restaurants, to upgrade the "front of house" experience for their customers as a way of spurring new business investment during the recession. The program was a companion to the larger but more financially limited Façade Improvement Program which provided assistance for exterior remodeling for approximately 120 businesses. Both programs have been phased out due to funding constraints largely attributable to the loss of redevelopment dollars.

These two renovation programs were extraordinary successful during the recession, helping set the stage in downtown for the recent growth in new business activity. The latest wave of business investment activity in the downtown has been the intensification of land uses, namely the conversion of traditional retail spaces into eating and drinking spaces and/or nightclubs/performing spaces. As downtown continues its transformation into an arts and entertainment destination, this next step is necessary to create the critical mass necessary to for the economic vitality to become sustainable. This type of

development has also had a positive and significant effect on tourism in the City, and created other positive spillover effects.

Most recently, in 2013 the City Council created a mechanism to assist owners or tenants of businesses investing in the redevelopment of retail space into eating and drinking spaces and/or nightclubs/performing spaces in the downtown and uptown core and the western portion of Section 14. This incentive would be accomplished through the deferral of certain City fees until the business is operating. Fees would include the Public Art Fee and the Sewer Connection Fee, as well as the Parking In-Lieu Fee in areas where such fee applies. That recommended geographic area was limited to the Business Improvement District (BID) area plus the western half of Section 14 (west of Avenida Caballeros).

The lesser economic vitality of these Special Focus areas, particularly compared to the downtown and uptown areas, has prompted the City to look at developing mechanisms to spur development in these key gateway areas.

On the north end, the lack of population density has made traditional retailing along Palm Canyon Drive a marginal endeavor. There is almost no non-restaurant "retail" on that stretch, with the exception of a few galleries and a plant nursery. The significant growth in the area has been in housing, particularly in the two communities of Mountain Gate, but the speed and lack of pedestrian amenities along Palm Canyon and Indian have made even restaurant and club businesses struggle. The number of new housing units has ameliorated some of the population density issue, but the Highway 111/Caltrans issue persists on the stretch down to Vista Chino.

The south end also faces issues with the former Highway 111 and the broad East Palm Canyon curve. Street lighting and pedestrian safety are concerns in the area. Among its other circulation-related benefits, Belardo Bridge was supposed to be a catalyst for new development, but it also presented the risk of serving as a "bypass" diverting valuable traffic for Palm Canyon Drive and making commercial development less viable. There is slightly more retail in the area, but not much.

The unique combination of general local economic health but particular location-driven challenges in the gateway areas suggests the creation of a multi-year incentive program.

Structure of the Incentive Area

The recommendation of how to create an incentive for catalyst vacant projects is to layer several different incentives and systematically provide a threshold that provides the necessary assistance. First, this is a relatively large and heterogeneous area. Therefore, a single incentive program would not be applicable to every potential project in the area. However, there are four types of investments that the City should consider:

- Assisting stalled, vacant land projects
- Renovating and repositioning major vacancies as catalyst projects
- Creative uses of the Hotel Incentive Program for small, dilapidated hotels
- Extending Façade Improvement/Interior remodel programs for the area

To assist projects like these, there are a number of tools that would be available to the City, in addition to the City's direct cash resources. These include:

- Direct Public Works investment (streets, sidewalks, etc.)
- Direct assistance to private developers
- More aggressive code enforcement within the area
- Leveraging other agencies' public works investment (water, Caltrans, etc.)
- Leveraging other public and/or private outside dollars (tax credits, grants)

While residential development is useful to the vitality of nearby commercial uses, it is not within the scope of this program to create incentives for purely residential development projects, since the residential market is driven by local, regional and national forces. In other words, there should not be any special incentives for purely residential development in the North or South Palm Canyon area.

Public Works

The City has undertaken an ambitious program of new public works using its Measure J funds, as well as funding traditional public works through traditional channels. Public works in these areas should be "counted" as part of the investment in the project areas, particularly in the area of leveraging public resources for grant applications. An example would be the Tahquitz Creek Master Plan: any City money expended as part of the implementation of the Master Plan should be counted as public investment within the Project Area. Similarly, the extension and replacement of palm tree lighting in the uptown area should be considered as part of the public investment in the project.

Vacant Land Projects and Catalyst Vacant Buildings

Both areas have several major projects that were proposed and approved and not constructed, including the Cameron Center and Fairfield project in the south end, and the Racquet Club redevelopment and Pedregal on the north end. Additionally, there are major difficult building vacancies in both areas, such as the Northgate Center, Magruder Chevrolet, Dink's Restaurant and Cedar Creek Inn. The program would be designed to consider assistance based on pro forma need through a combination of direct (up-front) assistance and tax sharing over time based on project performance. Examples of some of the major vacancies in the area are:

North End Vacant Land Projects and Catalyst Vacant Buildings

- Northgate Center
- Former Art Colony project
- Racquet Club
- Dink's Restaurant
- Numerous Vacant Parcels on North Palm Canyon and Indian
- City Owned Parcels at Palm Canyon and Stevens

South End Vacant Land Projects and Catalyst Vacant Buildings

- Cameron Center
- Fairfield parcel
- Magruder parcel
- Cedar Creek Inn
- Stein Mart Center and Environs
- Sun Center Restaurant Pad

Need Based Assistance

Need-based assistance would be available for projects in the “stalled, vacant land projects” and the “renovating and repositioning major vacancies as catalyst projects” categories. Both categories of assistance would require some direct assistance to the project itself, rather than merely considering the construction of adjacent public improvements by the City as a way of assisting a private development project, as was done in several projects by the former RDA.

First, like in former RDA projects, a review of the project's pro forma should be undertaken to determine the “warranted assistance” to the project. This analysis would review the project capital costs, operating costs, anticipated revenues from operations (and/or rents), and the proposed development capital stack. The warranted assistance would need to show that the value of the project based on the capitalization of either operating profit or tenant rent would not be enough to support the capital outlay necessary to get the project into the condition necessary to bring the project forward.

Example:

As an example, the cost of building out a retail space for a new tenant was \$1,000,000, to bring it to a quality standard adequate to meet the brand standard. The developer had about half of the amount available in the form of prepaid rent from the previous tenant, which had vacated. Those funds were available for the renovation. However, the new tenant was only paying \$3,000 per month more than the prior tenant, which, when capitalized, meant that half of the remaining cost had no “basis” for being expended – it was pure cost to the owner without a

return. In that case, the "warranted assistance" would be \$250,000, which the City/Agency could rationalize a number of different methods to close the gap: an enhanced version of the Interior Remodel Program, but rather than a capped dollar amount (the original program was \$25,000), a program that features a dollar match of 3:1, meaning \$3.00 of private investment for each \$1.00 of City money. Therefore, in the example above, the City may contribute \$250,000 toward the renovation but only if the private renovation dollars exceed \$750,000.

The maximum dollars per building square foot committed by the City should be \$30. However, the \$30/sq.ft. should be reserved for high potential \$/sq.ft. projects, meaning major restaurants or clubs projected to produce significant revenue for the City through sales taxes, property taxes and other revenue. The base maximum \$/sq.ft. of \$10/sq.ft. would be for general retail. One criteria to distinguish the types of spaces for one another would be whether Department of Health review was necessary on the project. Another would be whether there was sewer connect fees charged to the project. Criteria to determine the eligibility for the higher per square foot assistance will include but are not limited to:

- (i) Is the proposed property currently vacant?
- (ii) Has the property been vacant more than two years?
- (iii) Does the project intensify the land use, e.g. converting from retail to restaurant?
- (iv) Does the project combine or assemble two or more properties, spaces, or addresses into a larger consolidated project?
- (v) Does the property add more land square footage, i.e. expanding the site and/or parking area?
- (vi) Does the project anticipate increased gross sales tax, increased per sq. ft. sales tax, and other tax benefits to the City?

Need based assistance for "stalled, vacant land projects" will also be based on the project pro forma, though the participation in the project may be more focused on traditional redevelopment mechanisms, i.e. participation in the funding for off-site improvements. The assistance would be based on need and the available resources in the program.

Extending Façade Improvement/Interior Remodel Programs for the Area

In 2009, the City Council adopted the Interior Remodel Program which assisted a number of sales tax-producing businesses, particularly restaurants, to upgrade the "front of house" experience for their customers as a way of spurring new business investment during the recession. The program was a companion to the larger but more financially limited Façade Improvement Program which provided assistance for exterior remodeling for approximately 120 businesses. Both programs have been phased out due to funding constraints largely attributable to the loss of redevelopment dollars. It is

recommended that both programs be reinstated for the two constituent areas of this program.

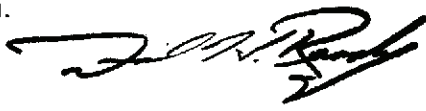
FISCAL IMPACT:


The Fiscal Impact for this Incentive Program would vary by the size and scope of the projects that apply. Staff recommends a commitment of \$1,000,000 per year to be divided by the two areas for "up-front" assistance; future "tax sharing" commitments could begin to be charged against the annual commitment. The amount of additional tax revenue to the City that it would generate, however, should be in excess of the amount committed.

Performance metrics based on actual data of the participating businesses will be developed to evaluate future funding of the program.



John S. Raymond, Director
Community & Economic Development



David H. Ready, Esq., Ph.D.,
City Manager 

Attachment:
Resolution

RESOLUTION NO. _____

A RESOLUTION OF CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, AUTHORIZING THE CREATION OF "SPECIAL ECONOMIC DEVELOPMENT FOCUS INCENTIVE PROGRAM AREAS" AND THE ALLOCATION OF FUNDS FOR SUCH A PROGRAM FOR THE FISCAL YEAR 2013-14

WHEREAS, the City Council of the City of Palm Springs ("Council") and the Agency Board of the Palm Springs Community Redevelopment Agency ("Agency") approved and adopted the Amended and Restated Redevelopment Plans for the Merged Project Areas No. 1 and No. 2 ("Redevelopment Plan") covering properties within the Agency (the "Project Areas"); and

WHEREAS, since the dates of adoption of the Redevelopment Plan, the Agency undertook redevelopment projects in the Project Area to eliminate blight, to improve public facilities and infrastructure, to renovate and construct affordable housing, and to enter into partnerships with private industries to create jobs and expand the local economy; and

WHEREAS, as part of the 2011-12 State budget bill, the California Legislature enacted and the Governor signed AB X1 26, requiring that each redevelopment agency be dissolved unless the community that created it enacts a resolution committing it to making certain payments; and

WHEREAS, on December 29, 2011, the California Supreme Court upheld AB X1 26, which dissolves all of the redevelopment agencies in the State of California, and struck down AB1X 27, rendering redevelopment funding unavailable for eliminating blight or assisting projects; and

WHEREAS, the City Council has determined the general welfare and material well being of the residents of the city of Palm Springs depend in large measure upon the growth and expansion of the commercial corridors in the city; and

WHEREAS, the City Council has determined that the operation, maintenance, and expansion of the inventory of quality commercial development, including hotels and first class hotels, restaurants, clubs, markets, and other retail activity in the city of Palm Springs will create desirable visitor serving facilities that will contribute to the growth and expansion of tourism and travel opportunities in the city, provide employment opportunities for the residents of the city, and promote and enhance the economy of the city; and

WHEREAS, It is in the best interest of the city of Palm Springs to induce and encourage the operation, and maintenance of hotel and other commercial

facilities that would not otherwise exist, thereby creating new sources of tax revenues for the city's general fund which supports the public services that the city provides its residents; and

WHEREAS, the authority granted and the purposes to be accomplished by this Resolution are properly local governmental and public purposes for which public funds can be expended and that the operation, maintenance, and expansion of the inventory of quality and first class hotels and catalytic projects is of paramount importance to the city of Palm Springs, its residents, and businesses.

WHEREAS, the City Council has determined that certain portions of former Merged Area No. 1, generally described as the South Palm Canyon Project Area, a portion of Project area 9-D, the northern half of the North Palm Canyon Project Area, and Project Area 9-A, plus certain adjacent areas along Palm Canyon Drive, have historically lagged the progress made in the city's core; and

WHEREAS, the City Council has determined that the focus area has a higher rate of stalled development projects, undeveloped vacant lots, significant and large vacancies, and generally a need for façade improvement and interior remodeling; and

WHEREAS, the City Council has determined that with the general economic health of the city, combined with renewed interest in these study areas, means that any incentive program the City would develop would have a reasonable chance of having a catalytic effect on nearby development, as well as the assisted project, and have a good chance of "paying for itself" over time; and

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Palm Springs, does resolve as follows:

Section 1. The Recitals set forth above are true and correct and incorporated herein by reference.

Section 2. The Special Economic Development Focus Incentive Program Areas ("Program Areas"), as described in Exhibit "A" to this resolution, are hereby approved and established.

Section 3. The amount of \$1,000,000 is hereby allocated in Fiscal Year 2013-14 for the implementation of the Program Areas. The City Manager is hereby authorized to execute an appropriate budget transfer.

Section 4. The City Manager or designee is authorized to take all actions necessary to implement this Resolution, including without limitation, the development of program guidelines, evaluation criteria, performance metrics, application forms, covenants and agreements; and any action approved by this Resolution.

PASSED, APPROVED, AND ADOPTED at a regular meeting of the City Council of the City of Palm Springs, California, on this 3rd day of July, 2013.

DAVID H. READY
CITY MANAGER

ATTEST:

JAMES THOMPSON
CITY CLERK

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, James Thompson, City Clerk of the City of Palm Springs, California, hereby certify that Resolution No. _____ was adopted by the Palm Springs City Council at a regular meeting held on the 3rd of July, 2013, and that the same was adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

JAMES THOMPSON
CITY CLERK

Exhibit "A"
To Resolution No. _____

The general descriptions of the areas are:

South Palm Canyon Area

Both sides of South Palm Canyon Drive and South Indian Canyon Drive, and East Palm Canyon Drive, from Ramon Road to Sunrise Way. The area on the west side of South Palm Canyon Drive shall extend to the east side of Belardo Road. The south side of East Palm Canyon Drive shall extend through to the north side of Twin Palms; otherwise, East Palm Canyon Drive shall be a single lot depth of the north and south sides. The area also includes the commercial and industrial district of East Sunny Dunes and Industrial Place.

North Palm Canyon Area

Both sides of North Palm Canyon Drive between Via Lola/Tachevah to Tramway Road, including the 12 acre commercial area immediately adjacent to the Visitor Center. The area on the west side of North Palm Canyon Drive shall be a single lot depth. The area on the east side of North Palm Canyon Drive shall extend to the west side of Indian Canyon Drive from Tachevah Road to San Rafael Road. The area on the east side of North Indian Canyon Drive shall be a single lot depth.