



City Council Staff Report

DATE: December 17, 2014 NEW BUSINESS

SUBJECT: EXTENSION OF HOTEL INCENTIVE PROGRAM PARTICIPATION FOR NEW CHURCH II, LLC AND 750 LOFTS, LLC FOR THE ORCHID TREE HOTEL, 261 SOUTH BELARDO ROAD, AND THE 750 LOFTS PROJECT, 750 NORTH PALM CANYON DRIVE FOR A PERIOD OF ONE (1) YEAR FOR PROJECT ENTITLEMENT, WITH CONSTRUCTION COMMENCING NO LATER THAN DECEMBER 31, 2017.

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

BY: Community & Economic Development Department

SUMMARY

In January, 2008, the City Council adopted the Hotel Incentive Program which consisted of two primary incentive components: 1) the construction of new hotels and, 2) the renovation and upgrading of existing hotels. The Ordinance was extended in May, 2013, with a deadline for qualifying for participation in the Program December 31, 2014, both for Qualified Renovation Programs and for New Hotels.

These requests to extend the program are from the developers of the Orchid Tree Hotel on Belardo Road, Downtown and the 750 Lofts Hotel, located on Palm Canyon in the core of the Uptown Design District. Both projects are well into the design review process but have had additional time added to their processing time due to historic preservation issues and community input, given their sensitive locations. This action would only extend the eligibility of the two projects to participate in the Hotel Incentive Program but does not approve any actual agreement or amend the Ordinance. Covenants documenting the agreements would return at a future meeting for Council approval once the projects are completed with the entitlement process.

RECOMMENDATION:

1. Approve eligibility for participation in the Hotel Incentive Program by New Church II, LLC for the Orchid Tree Inn & Spa, located at 261 South Belardo Road for a period of one year, extending the deadline for project entitlement until December

31, 2015; the deadline for commencing construction remains on December 31, 2017; and

2. Approve eligibility for participation in the Hotel Incentive Program by 750 Lofts, LLC for the 750 Lofts hotel project, located at 750 North Palm Canyon Drive for a period of one year, extending the deadline for project entitlement until December 31, 2015; the deadline for commencing construction remains on December 31, 2017.

BACKGROUND:

In January, 2008, the City Council adopted the Hotel Incentive Program which consisted of two primary incentive components: 1) the construction of new hotels and, 2) the renovation and upgrading of existing hotels. Generally, the program provided for up to a rebate of a portion of TOT to developers of new hotels for prescribed periods of time, based on the quality of the hotel. For those hotels undergoing renovation, the City would keep the historical "base" TOT and share a portion of the TOT above the base.

The 2008 Hotel Incentive Program originally expired at the end of December 2012, having stimulated an incredible renovation of more than 1,600 Palm Springs hotel rooms and generating in excess of a \$180 million investment in the renovation and upgrading of hotel properties throughout the City. The exception was the category of new first class hotels: that class of hotels will expire at the end of 2013.

In September 2012, prior to the original expiration date, Staff asked Council to allow it to negotiate one-on-one Hotel Incentive Agreements with developers of hotel properties based on a number of factors: (1) the need for the particular hotel product in the City's inventory; (2) the demonstrated financial need for the incentive by the Developer; and (3) the public benefit provided through the development or redevelopment of the hotel.

As Section 5.26.010 ["Purpose"], subdivision (c) of the Hotel Operations Incentive Program states:

"(c) It is in the best interest of the City of Palm Springs to induce and encourage the, operation, and maintenance of hotel 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."

In May, 2013, the City Council extended the Program, establishing the following new deadlines:

"Qualified renovation program" means a property improvement program undertaken by an existing hotel which invests no less than fifteen thousand dollars per room, or invests no less than one million dollars in ancillary non-hotel room facilities and/or space. The property improvement program shall be comprehensively executed in a single renovation project on the property and be

under construction no later than December 31, 2014 and completed no later than December 31, 2015.

“New hotel,” “first class new hotel,” and “comfort new hotel” means a hotel or first class hotel or comfort hotel that is or was fully entitled as a hotel after January 1, 2008, but before December 31, 2014 and which is under construction prior to December 31, 2017. The term “new hotel” does not include all, or any portion of, or addition to, an existing hotel.

But for the deadlines noted above, these two hotel projects would be eligible to participate in the City’s Hotel Incentive Program. Both the Orchid Tree and 750 Lofts projects fit the legislative intent of the Ordinance. One project represents both a new hotel and the retrofit and renovation of two Class 1 historic sites, and the other project proposes a high quality designed small hotel located in a historic district and an opportunity to redevelop obsolete properties in the Uptown Design District.

Orchid Tree Inn & Spa

The Orchid Tree Inn & Spa Project proposes the renovation and adaptive reuse of the Orchid Tree Inn "Bungalow Court Cottages" on West Baristo Road and the historic Community Church at South Cahuilla Rd. Both the Church and Bungalows are Class 1 historic sites. The Project proposal also includes a new hotel complex of approximately 80 rooms; a restaurant; a banquet and meeting facility; a bar and lounge; a spa; and, the use of underground and above-ground on-site parking.

The applicant for the Orchid Tree Project, New Church II, LLC, filed its application as a Project with the City on June 10, 2014. However, the Developer began working with the City on a number of general plan and community participation challenges several months earlier.

- On May 11th the Developer presented again to the Historic Preservation Board where they received positive feedback on their design.
- Although they received positive feedback when presenting to HPSB in May, on October 14th when they officially presented to the Historic Preservation Board they received a lengthy list of comments and requested changes.
- On November 18th the Developer presented again to HPSB after redesigning the main hotel building to better suit the HSPB’s concerns. The HSPB members were satisfied with the direction of the project but still had some requests which the developer is now working to incorporate into the project design.
- The Project was scheduled to return before the Historic Site Preservation Board (HSPB) on December 9, 2014.

Besides the natural difficulty of redeveloping an older hotel in an established neighborhood, the Developer is trying to satisfy the community's desire to save the historic church. The project would combine the restoration and reuse of two historic resources while facilitating the revitalization of a blighted area in the Tennis Club neighborhood. The Project will incur costs beyond a normal hotel development, due to the Community Church retrofit alone because of its substantial damage in a fire in September 2013. Although they have been advised by multiple structural engineers that it would be more economical to demolish the church and rebuild due to its structural issues, it is something they do not want to do. As a result, the Developer would spend approximately \$2.5 million to preserve the church to a state that is safe for it to be located on the property of an operating hotel.

In addition to trying to maintain our damaged historic structure, they have also worked with the community to develop a project that is appealing to the neighbors as well as financially possible for the operator. The Developer is working with their architects to design a first class hotel and is now "costing out" the revisions that have been requested by the neighbors – such as putting in over half of the parking underground, which will cost over \$1 million.

The Project in the entitlement process today represents the best opportunity to get this challenging property redeveloped in a first class manner. The Ordinance deadline risks the loss of this Project and all that it brings to the Tennis Club Neighborhood and the Downtown area. Without the Hotel Incentive Program it is likely the property could remain vacant and blighted another decade or more.

750 Lofts

The project is located in a fully developed part of the city in the Uptown Design District. It is bounded roughly by North Palm Canyon Drive on the west, East Granvia Valmonte on the south, North Indian Canyon Drive on the east and Tamarisk Road on the north. The site is currently developed with a building that previously was occupied by the Security Pacific National Bank, but has been vacant for several years.

The proposed 750 Lofts hotel project is a mixed use development comprised of a new four-story structure with commercial/retail space on the first floor fronting Palm Canyon Drive, a restaurant on the first floor fronting Indian Canyon Drive and parking at grade for 62 new off-street parking spaces and trash rooms. At the second level is proposed a spa for hotel guests and 38 new hotel rooms and eight (8) 2-story loft units. The fourth floor is a sun deck, pool, bar, toilets and support spaces. An existing two story commercial (bank) building and surface parking lot built in the eighties is proposed to be demolished to redevelop the site.

In addition to the lot merger, the project is proposed to be connected by a north-south pedestrian walkway to the existing Alcazar Hotel which is immediately south of the subject site. The Alcazar has 33 existing hotel rooms and 34 existing parking spaces. An east-west pedestrian passageway linked to a mid-block cross walk at Indian

Canyon Drive is proposed to encourage pedestrian connectivity between Palm Canyon and the neighborhoods and hotels to the east of the site.

The spa on the second floor is proposed for hotel guests only and the fourth floor bar is proposed to be open to the public.

The proposed project is located within the Las Palmas Business Historic District (LPBHD). Pursuant to Municipal Code Section 8.05.185, persons wishing to initiate new construction within a historic district must submit an application for approval to the Historic Site Preservation Board (HSPB). The required historic site review, as well as the neighborhood meeting process, has created some additional timing issues in the approval of the project. In terms of the elements of the entitlement application, the proposed project is comprised of the following:

- A preliminary PDD in lieu of a change of zone to change the underlying zoning from C-1/R-3/PDD 104 to PDD 374 and seek relief from the development standards of those zones and the high-rise ordinance;
- A General Plan Amendment (GPA) to change the general plan land use designation from Neighborhood Community Commercial (NCC) to Mixed-Use//Multi-use Uptown (0.5 FAR, 15du/ac, 30 du/ac w/PDD);
- A Conditional Use Permit (CUP) to engage the High-Rise Ordinance; and
- A lot merger of the subject parcel with the parcels on which the Alcazar Hotel are sited for purposes of establishing a floor area ratio (FAR) for the resultant lot that conforms to the General Plan.

So far, after a significant redesign of an earlier plan, the project has been very well received through the reviewing bodies and through the neighborhood. The major project milestones so far have been:

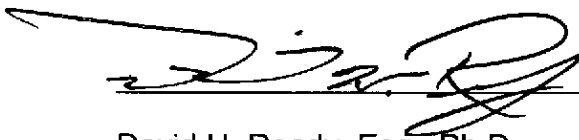
- Submittal of PDD Application occurred on 7.16.14 and 8.13.14.
- Neighborhood Meeting was held on 9.1.14.
- AAC Approval of the PDD (6-0 Vote) occurred on 10.6.14.
- On October 14, 2014, HSPB reviewed the proposed development against the factors outlined in PSMC Section 8.05.190 and the LPBHD Conceptual Design Guidelines for New Commercial Construction & Major Remodels (11-5-1985) and approved conceptual PDD (6-1 Vote).
- Major Architectural Application Submittal. Major Architectural Application was submitted on 11-10-14 and Final Planned Development Application will be submitted at a later date. Color, materials, specific landscape material and plant

selections still to be reviewed. The Developer is awaiting hearings to be scheduled with AAC and HSPB; the application also needs to go to Planning Commission, and the schedule begins to run into the holiday schedule for staff review and for meeting dates.

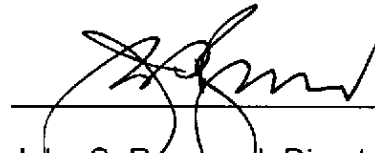
- The Developer anticipated the proposed Preliminary PDD to be final and CD's for plan check by 1.15.15, just beyond the December 31, 2014 deadline.

The action before Council is merely to establish that, pursuant to Section 5.26.010 (c) ("Purpose"), that it is in the best interests of the City to find and declare that, based on the importance of the two projects within their neighborhoods or districts, and based on the significant design work and review already undertaken on the respective projects, that the City Council would find and declare the two projects to remain eligible for participation in the Hotel Incentive Program for a period of one year, extending the deadline for entitlement until December 31, 2015, but not extending the deadline for the commencement of construction, which remains on December 31, 2017.

Furthermore, neither action makes any findings regarding either project's approval or entitlement status, and neither project is deemed "approved" under the Zoning Code or under the Hotel Incentive Program by this action. If completed through the entitlement stage, each Hotel Operations Covenant would require approval at a noticed public hearing by the City Council at a future date.



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