



## CITY COUNCIL STAFF REPORT

DATE: January 7, 2015

UNFINISHED BUSINESS

SUBJECT: APPROVE AMENDMENT TO THE CITY'S SPECIAL ECONOMIC DEVELOPMENT FOCUS INCENTIVE AREAS PROGRAM GUIDELINES AND AMEND THE FISCAL YEAR 2014-15 BUDGET TO APPROPRIATE FUNDS FOR THE AGREEMENT

FROM: David H. Ready, City Manager

BY: Community & Economic Development Department

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### SUMMARY

The City Council adopted the "Special Economic Development Focus Incentive Areas Program" in 2013 for areas north of Tachevah and South of Ramon. In November, 2014, the City Council appropriated \$250,000 for the Façade Improvement Program portion of the program, while making it City-wide (the 2014 Program). This action would appropriate an additional \$300,000 for the 2013 Program, making it available to the Interior Remodel and "Major Properties" programs. There is some additional activity in the South end area that may qualify and which could be the last eligible properties under the Major Properties program.

### RECOMMENDATION:

1. Adopt Resolution No\_\_\_\_, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, AMENDING THE BUDGET FOR THE 2014-15 FISCAL YEAR TO PROVIDE \$250,000 FOR THE INCENTIVE GRANT AGREEMENT."
2. Adopt Resolution No\_\_\_\_, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, AMENDING THE GUIDELINES FOR THE "SPECIAL ECONOMIC DEVELOPMENT FOCUS INCENTIVE PROGRAM AREAS."
3. Authorize the City Manager to execute all documents related to the Special Economic Development Focus Incentive Areas Program.

### STAFF ANALYSIS:

On July 3, 2013, the City Council adopted Resolution 23413 approving the creation of two Special Economic Development Focus Incentive Areas generally located on the

ITEM NO. 4.A.

major corridors south of Ramon Road and north of Tachevah Road, along the entryways into the Downtown and Uptown areas. On September 4, 2013, the City Council adopted Resolution No. 23433, amending the budget for Fiscal Year 2013-14 to provide the \$1,000,000 in funding for the Special Economic Development Focus Incentive Areas.

The Special Focus Incentive Area Program is a collection of several City incentives to create an inducement to redevelop vacant properties or spur stalled development projects in the area. The four types of investments that the City approved include:

- 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 the Facade Improvement and Interior Remodel programs for the area

In November, 2014, City Council appropriated additional funds and amended the boundaries for the Façade Improvement Program, making it City-wide but keeping the limit to \$5,000 per applicant.

Staff has reviewed the previous completed Major Projects and determined several things: in all these projects there were significant "hurdles" for the space to be competitive in the commercial market, mainly due to the relatively high cost per square foot of renovation vs. the current competitiveness of the location within the Palm Springs market. However, each operator brought an advantage to the project beyond financial strength (live music, new restaurant concepts, critical mass to the area), and provided the City with ideal opportunities to assist the surrounding areas through these projects.

#### Program Guidelines

One component of the existing catalyst projects program – for key, hard to fill spaces – was for the City to provide up to \$30.00 per square foot of grant funding toward the property improvements, based on a 3:1 match with the applicant (private:public) up to a maximum of \$250,000. It is a "major" catalyst program because the total project expenditure, including the public funds, must be at least \$1,000,000, excluding property acquisition. Unlike the Interior Remodel Program, which eligibility was based strictly on the location of the business and the anticipated use of the funds, applicants to the Major Properties Program must submit a much more detailed application demonstrating the experience of the Owner/Operator of the business, significant leverage of the public money in the form of developer equity and business debt, and a solid plan for opening and operating.

In a handful of cases the project could reach \$1,000,000 in remodel costs, but the owners would hope it would be slightly less. The Program's firm expenditure threshold of \$1,000,000 for eligibility in the Major Projects program then presents a conundrum for any owner: spend \$1,000,000 to be eligible for a \$250,000 reimbursement, or spend \$999,999 and only be eligible for \$30,000 (\$5,000 in Façade Incentive and \$25,000 in Interior Remodel).

Because there are few remaining properties that could be eligible as a Major Catalyst project in the 2013 Incentive Program in terms of size, location, and business closure, staff recommends a modification to program's expenditure threshold in this category: keep the \$250,000 maximum and keep the 3:1 private-to-public leverage requirement, but allow the eligibility to remain in place (up to \$250,000) for remodels from \$500,000 to \$1,000,000, on a "sliding scale" basis. Several examples of this change are shown below:

1. The Owner spends \$1,250,000 on the project and receives a reimbursement of \$250,000 (the maximum amount, and 4:1 leverage).
2. The Owner spends \$1,000,000 on the project and receives a reimbursement of \$250,000 (the maximum amount, and 3:1 leverage).
3. The Owner only spends \$800,000 on the project and receives a reimbursement of \$200,000 (based on 3:1 leverage).
4. The Owner only spends \$600,000 on the project and receives a reimbursement of \$150,000 (based on 3:1 leverage).

In the end, it slightly widens the number of eligible projects that could qualify, without compromising the leverage requirements in the existing program.

While overall, the Program has a solid track record in leveraging over \$6,000,000 in private investment in historically under-invested areas in the City over the past year, there is still work to be done in both areas. In the South end, the area seen resurgence in commercial activity largely through restaurants assisted through the Incentive Program: Appetito Cal-Italian Deli, Hacienda Cantina, Miro's, New York Company Restaurant and Bernie's Lounge and Supper Club. Bernie's recently had a major fire, resulting in the closure of the business, but the owners intend to reopen in the space or in a different location.

There is evidence that the positive spillover effects of the program are beginning to be felt, with the recent announcement of the sale of the Curve Hotel to a pair of investors from San Francisco with plans to significantly upgrade the property, along the lines of the Ace Hotel or Saguaro Hotel, as well as pending sale of the Travelodge with plans to upgrade as well.


One large property in that that would likely be eligible under the Major Projects program would be the former Lyons English Grill.

An additional change described in the Resolution is amending the guidelines for the Façade Improvement Program to make that program available Citywide. The Council gave direction on November 19, 2014 to do so, and this formalizes that by resolution.

FISCAL IMPACT:

The Special Focus Area Incentive Program represented a significant commitment by the City as a way to encourage new business investment in the project area. This Budget Resolution would appropriate a new \$300,000 from Fund Balance for this Program.

Furthermore, neither action (amending the guidelines or appropriating additional funds) makes any findings regarding any applicant's approval or entitlement status. Once submitted and reviewed, all Agreements under this program would require approval at a noticed public hearing by the City Council at a future date.

  
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John Raymond, Director

  
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Cathy Van Horn, Economic  
Development Administrator

  
\_\_\_\_\_  
David H. Ready, City Manager

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Attachments:      Resolution  
                            Budget Resolution

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION OF CITY COUNCIL OF THE  
CITY OF PALM SPRINGS, CALIFORNIA,  
AMENDING THE GUIDELINES FOR THE  
"SPECIAL ECONOMIC DEVELOPMENT  
FOCUS INCENTIVE PROGRAM AREAS"**

**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 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**, on July 3, 2013, the City Council 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 adopted the "Special Economic Development Focus Incentive Program Areas"; and

**WHEREAS**, based on the success of the core program and recent program data, the City Council desires to amend the program guidelines in two

ways: calculating the eligibility for the “Major Need-Based Assistance for Renovating Major Vacancies as Catalyst Projects” portion of the program, and amending the boundaries of the Façade Improvement Program Citywide.

**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 guidelines to the Special Economic Development Focus Incentive Program Areas (“Program Areas”), as described in Exhibit “A” to this resolution, are hereby amended as described.

**Section 3.** 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 7th day of January, 2015.

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DAVID H. READY  
CITY MANAGER

ATTEST:

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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 7th of January, 2015, and that the same was adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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JAMES THOMPSON  
CITY CLERK

Exhibit "A"  
To Resolution No. \_\_\_\_\_

The amendments to the Program are:

Major Project Eligibility

The paragraph in the "Major Need-Based Assistance for Renovating Major Vacancies as Catalyst Projects" application, shown as follows:

"The threshold for investment in a project that would qualify for this assistance would be \$1,000,000, excluding the cost of purchasing the land or building, or leasing the property. Additionally, the Applicant must show that the project has a feasibility "gap", or the difference between the proposed investment necessary to make the project "work" and the amount of investment that could be reasonably be supported by an equity investment at a standard return on investment."

shall be amended to:

"The threshold for investment in a project that would qualify for this assistance would be \$500,000, excluding the cost of purchasing the land or building, or leasing the property. The grant has a \$250,000 maximum for projects with a total expenditure above \$1,000,000 and all projects in this category retain the leverage requirement; remodels from \$500,000 to \$1,000,000 shall be eligible under this section on a "sliding scale" basis, maintaining the 3:1 private-to-public leverage. Additionally, the Applicant must show that the project has a feasibility "gap", or the difference between the proposed investment necessary to make the project "work" and the amount of investment that could be reasonably be supported by an equity investment at a standard return on investment."

Façade Improvement Program Boundaries

The geographic eligibility for the Façade Improvement Program shall be in any legally permitted commercial area in the City.



RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
PALM SPRINGS, CALIFORNIA, AMENDING THE BUDGET  
FOR THE 2014-15 FISCAL YEAR.

WHEREAS, Resolution No. 23560 approving the budget for the Fiscal Year 2014-15 was adopted on June 4, 2014; and

WHEREAS, the City Manager has recommended, and the City Council desires to approve, certain amendments to said budget.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF PALM SPRINGS DOES HEREBY RESOLVE that the Director of Finance is authorized to record inter-fund cash transfers as required in accordance with this Resolution, and that Resolution No. 23560, adopting the Fiscal Year 2014-15 budget is hereby amended as follows:

SECTION 1. ADDITIONS

Fund	Activity	Account	Amount
001 General Fund	1400 Com & Economic Development	59422 Eco Dev Incentive Focus	\$300,000

Purpose: Establish funding for

SECTION 2. SOURCE

Fund	Activity	Account	Amount
001 General Fund		29031 Fund Balance	\$300,000

ADOPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2015.

\_\_\_\_\_  
David H. Ready, City Manager

ATTEST:

\_\_\_\_\_  
James Thompson, City Clerk

CERTIFICATION

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

I, JAMES THOMPSON, City Clerk of the City of Palm Springs, hereby certify that Resolution No. \_\_\_\_\_ is a full, true and correct copy, and was duly adopted at a regular meeting of the City Council of the City of Palm Springs on \_\_\_\_\_, by the following vote:

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

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James Thompson, City Clerk  
City of Palm Springs, California