



City Council Staff Report

PUBLIC HEARING

DATE: May 4, 2016

SUBJECT: CONDUCT A PUBLIC HEARING UNDER SECTION 53083 OF THE CALIFORNIA GOVERNMENT CODE TO APPROVE AN AMENDED AND RESTATED HOTEL OPERATIONS COVENANT WITH PALM SPRINGS PROMENADE, LLC, TRANSFERRING SAID COVENANT FROM BLOCK "F" (THE SOUTHWEST CORNER OF "MAIN STREET" AND BELARDO ROAD) TO BLOCK "B-1" (THE NORTHEAST CORNER OF "MAIN STREET" AND BELARDO ROAD) OF THE DOWNTOWN PALM SPRINGS SPECIFIC PLAN FOR THE CONSTRUCTION OF A 142-ROOM VIRGIN HOTEL IN LIEU OF A 135-ROOM AC MARRIOTT HOTEL PURSUANT TO THE CITY'S HOTEL OPERATIONS INCENTIVE PROGRAM.

FROM: David H. Ready, City Manager

BY: Community & Economic Development Department

SUMMARY

Approval of the recommended action will serve to transfer the benefits granted and the obligations incurred under a hotel operations covenant from one previously entitled hotel to another in the Downtown Palm Springs Specific Plan area. This Operations Covenant will be recorded on the property to ensure that the hotel will be operated and maintained continuously as a Virgin Hotel consistent with the Hotel Operations Incentive Program.

RECOMMENDATION:

1. Open the public hearing and receive public testimony.
2. Approve the Amended and Restated Operations Covenant transferring Operations Covenant A6144 recorded as DOC #2015-0000803 in the Official Records of the County of Riverside from Block F to Block B-1 of the Downtown Palm Springs Specific Plan; and
3. Authorize the City Manager to execute all documents required to effectuate the transferred covenant.

ITEM NO. 1.C.

STAFF ANALYSIS:

On December 17, 2014, the City Council approved a Hotel Operations Covenant Agreement with Palm Springs Promenade, LLC, for a 135-room Marriott AC Hotel. The hotel was to be the second of two hotels in the redevelopment project, and was to be located on Block “F” of the Downtown Palm Springs Specific Plan (formerly the “Downtown Revitalization Project”). This covenant provided for the owner of the hotel to receive a rebate of 75% of the Transient Occupancy Tax paid to the City of Palm Springs for a period of thirty 30 years or up to a sum of \$50 million dollars, whichever occurred first. The covenant specifically named the AC Marriott as the brand of hotel that would be developed on the site, and identified it as a 135-room, first-class new hotel.

Subsequent to the approval and recordation of the subject covenant, Palm Springs Promenade has proposed various changes to the project, and those changes have been duly considered and vetted through open meetings and public hearings before the Architectural Advisory Committee, the Planning Commission, and the City Council. These revised entitlements have included the relocation of the proposed AC Marriott Hotel to another site, and the addition of a third hotel, the Virgin Hotel, near the original site of the AC Marriott. The Virgin Hotel will be slightly larger – 142 vs. 135 rooms – and is also considered to be a four-star, first-class new hotel. The entitlements have also conditioned the third of the three hotels such that its construction cannot commence until and unless the demand for additional hotel rooms can be demonstrated through an independent third-party assessment.

The first hotel in the specific plan area, the Kimpton, is under construction and is scheduled to open at the end of the calendar year. Palm Springs Promenade has now identified the Virgin Hotel as the next to be constructed, with the AC Marriott to follow. They have requested that the operations covenant be amended and restated to allow the substitution of the Virgin Hotel for the AC Marriott, with the parties (the City and Palm Springs Promenade) and the terms of the Transient Occupancy Tax (TOT) rebate (75% TOT rebate for 30 years or up to \$50 million, whichever occurs first).

Staff finds it to be in the best financial interest of the City of Palm Springs to allow the developer to designate the hotel covered by the Operations Covenant to whichever hotel is developed first, because the new TOT revenue to the General Fund will commence upon the opening date of that hotel, and because the certainty of a third hotel is not assured.

HOTEL INCENTIVE PROGRAM

In 2005 and 2006, the City spent \$45 million to renovate and expand the Convention Center to make it more competitive with similar-sized venues in the west.

In 2008, the City Council adopted the Hotel Incentive Program to help close the gap in financing new hotels and the renovation of existing hotels in the City. Chapter 5.26

of the Municipal Code was approved in December, 2007 (Ordinance 1730, effective January 2008) to provide an incentive program for the operation and maintenance of quality and first class hotel facilities that: enhance the tourist and travel experience for visitors to the City of Palm Springs; maximize the use of the City's convention center; provide attractive and desirable visitor serving facilities and experiences; and assist the City in achieving its tourism goals. In it, the City agreed to rebate a portion of the transient occupancy tax (TOT) to a developer of a new hotel for a period of time to provide additional cash flow to the project. The stream of additional revenue is intended to help fill the financing gap for new hotel projects..

The first paragraph of Section 5.26.040(a), "First Class New Hotels," was modified in 2011 as follows:

(a) First Class New Hotels. The City shall pay to an operator of a first class new hotel an amount equal to seventy-five percent (75%) of the adjusted tax rate. Such payments shall be made for thirty years or until the operator has been paid \$50 million dollars, whichever event occurs first.

The Marriott AC Hotel qualified as a First Class New Hotel and is entitled to the provisions of Section 5.26.040(a) of the ordinance. Operations Covenant Agreement A6144 was approved by the City Council on December 17, 2014 to formalize that entitlement. Under this agreement, the operator agreed to place restrictions upon the use and operation of the hotel, in order to ensure that it would be operated and maintained continuously as a hotel available for short-term rentals. The hotel operator also agreed to participate in the Palm Springs Convention Center's Committable Rooms Program and provide six (6) designated room nights per month for official City use. The City agreed to share a percentage of Transient Occupancy Tax Increment with the owner pursuant to the guidelines of the Hotel Incentive Program.

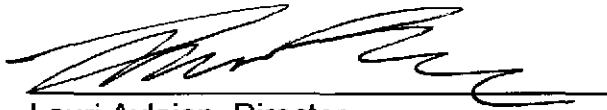
As approved by the City, the Hotel Operations Covenant falls under California Government Code Section 53083 and, as such, the Operations Covenant for the AC Marriott Hotel was approved subsequent to the conduct of a public hearing. Therefore, the proposed amendment and restatement of the operations covenant, although not technically addressed by Section 53083, is being treated as if a public hearing were required. The relevant findings are as follows:

1. *The business entity that is the beneficiary of the economic development subsidy:* Palm Springs Promenade, LLC, 555 South Sunrise Way, Suite 200, Palm Springs, CA 92264.
2. *The start and end dates and schedule, if applicable, for the economic development subsidy:* The Operations Covenant commenced on January 1, 2015, and will end December 31, 2044. However, the "start date" of the Operations Covenant is the date at which the construction project is deemed fully completed and the collection of the Transient Occupancy Tax commences.

3. *A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to the local agency as a result of the economic development subsidy:* The lost revenue accrues from the rebate of a 75% share of Transient Occupancy Tax collected annually, calculated as follows: after the start date (estimated December, 2018) the increased revenue to the City's General Fund is based on TOT collections for the year; 75% of the increased revenue from TOT is payable to Palm Springs Promenade, LLC. The maximum payment to Palm Springs Promenade is capped at \$50 million, which is unchanged between the original Operations Covenant and the Amended and Restated Operations Covenant. However, the actual estimate of TOT rebate is significantly lower. Because of the greater number of rooms and the higher room rate for the Virgin brand, the estimated total amount of revenue loss to the City for the Virgin Hotel is estimated to be \$24.1 million, well under the \$50 million cap; but above the \$15.8 million estimated for the AC Marriott Hotel. The City's portion of the increased TOT during the 30-year term of the agreement is estimated to increase from \$5.3 million to \$8.0 million by virtue of change in hotel brands from the AC Marriott to the Virgin Hotel. After the term of the agreement, the City of Palm Springs will retain 100% of the Transient Occupancy Tax for the hotel.
4. *A statement of the public purposes for the economic development subsidy:* The City has confirmed that the Palm Springs Promenade, LLC, operation and maintenance of the hotel facilities improvements will enhance the tourist and travel experience for visitors by providing attractive and desirable facilities and assists the City in achieving its tourism goals. The change of brand from AC Marriott to Virgin is expected to attract a greater number of visitors due to its exclusivity (there are currently thirteen AC Marriott Hotels in the United States, but only one Virgin Hotel). The increase in number of visitors will have associated economic benefits to retailers and restaurant operators in the city, and the resulting increase in revenue to the General Fund will afford greater public benefits in terms of public safety, capital improvements, and maintenance of public assets.
5. *Projected tax revenue to the local agency as a result of the economic development subsidy:* The City will retain 25% of the TOT. Even with a portion of the increment being shared with the applicant, the City conservatively projects an average of \$215,000 of City TOT revenue per year over the thirty year period for the Virgin Hotel, as opposed to the conservative estimate of \$150,000 per year, which was projected for the AC Marriott Hotel under the original Operations Covenant.
6. *Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time and temporary positions:* The development of the hotel will create no fewer than 185 full-time and 30 part-time positions, in addition to construction jobs during the construction period.

FISCAL IMPACT:

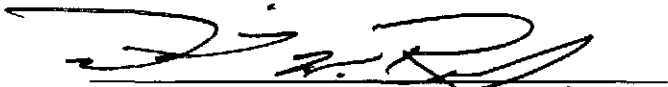
The incentive is provided on a reimbursement basis to the hotel operator. For cash flow purposes, the TOT due to the operator will be segregated from the TOT available as general City revenue, although it will all be booked as revenue to the City. At the Average Daily Rate for its comparable hotel set and at a presumed occupancy rate that is slightly, but not significantly, higher than the city average, the developer will likely receive a TOT reimbursement of \$640,000 or more per year over the life of the subsidy. The remaining revenue to the City is "new" revenue, however, and available for general City services.



Lauri Aylaian, Director
Community & Economic Development



Douglas Holland
City Attorney



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

Attachments: Amended and Restated Operations Covenant

FREE RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

THE CITY OF PALM SPRINGS
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262
Attention: City Clerk

(Space Above This Line for Recorder's Office Use Only)

AMENDED AND RESTATED
OPERATIONS COVENANT

THIS AMENDED AND RESTATED OPERATIONS COVENANT AND DECLARATION OF COVENANTS AND RESTRICTIONS ("Agreement" or "Covenant") is made and entered into this 4th day of May, 2016, by and between the City of Palm Springs, a municipal corporation and charter city ("City"), and Palm Springs Promenade, LLC, a California limited liability company ("Owner" or "Participant").

RECITALS:

A. The City of Palm Springs adopted Chapter 5.26 of its Municipal Code in December, 2007 to provide a Hotel Operations Incentive Program ("Program") for the operation, maintenance and expansion of the inventory of quality and first class hotels within the City that enhance the tourist and travel experience for visitors to the City, maximize the use of the City's Convention Center, provide attractive and desirable visitor serving facilities and experiences, and assist the City in achieving its tourism goals. (Chapter 5.26 of the Municipal Code is incorporated herein by reference and defined terms therein shall, unless otherwise indicated, have the same meanings herein.)

B. On December 30, 2014, City and Owner entered into an Operations Covenant for an AC Hotel for Block F on the Site Plan attached hereto as Exhibit "A", and legally described as Parcel 5 on the Legal Description attached hereto as Exhibit "B". The Parties desire to amend this Operations Covenant to transfer the rights and obligations of the Parties for this Operations Covenant from the AC Hotel on Block F to another property within the Site Plan.

C. Owner also holds fee title to certain real property ("Site"), which is depicted as Block B-1 on the Site Plan attached hereto as Exhibit "A", and legally described as Parcel 3 on the Legal Description attached hereto as Exhibit "B". The Site, which is located in the downtown area of the City of Palm Springs, California, is fully entitled for development of a first class new Virgin Hotel to contain approximately 142 hotel rooms ("Hotel" or "Project"). The Parties acknowledge that the Virgin Hotel, as entitled and approved and when completed and under operation, will qualify as a new first class hotel and be entitled to benefits thereof under and pursuant to provisions of Chapter 5.26 of the Municipal Code and this Agreement.

C. City and Owner now desire to place restrictions upon the use and operation of the Project, in order to ensure that the Project shall be operated continuously as a first class hotel available for short-term rental for the term of this Agreement.

D. City and Owner also agree that in return for participation in the Program, Owner shall agree to operate the Project as a hotel; participate in the Palm Springs Convention Center's Committable Rooms Program; and provide City with a minimum of six (6) room-nights per month for official City use; and, City agrees to share a percentage of Transient Occupancy Tax Increment with Owner pursuant to the Program guidelines.

E. The City finds that no further environmental review is required in connection with the approval of this Covenant in that in connection with City approval of entitlements, findings were made that the Project would be consistent with the approved Specific Plan and certified EIR and that neither a subsequent EIR, supplemental EIR, or EIR Addendum would be necessary.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Participant hereby conveys to the City the Operating Covenants described herein and City hereby agrees to provide Participant with funds as provided under the Program and as set forth hereinafter.

ARTICLE I

STATEMENT OF OPERATING COVENANTS

1.1. OPERATION AND USE COVENANT. Upon occupancy, Owner covenants to operate, maintain, and use the Virgin Hotel in accordance with this Agreement. All uses conducted on the Site, including, without limitation, all activities undertaken by the Owner pursuant to this Agreement shall, in all material respects, conform to requirements of this Agreement and Palm Springs Municipal Code.

1.2. HOTEL USE. The Owner hereby agrees that the Project is to be owned, managed, and operated as a Virgin Hotel in a first-class manner, and the Project's participation in the Program shall continue in accordance with the terms of the Program, for a term equal to thirty years commencing upon the date Owner first receives from the City the Owner's share of transient occupancy tax revenues pursuant to the Program, or until Owner has received from the City the total sum of fifty million dollars if that occurs prior to the expiration of said thirty years, unless Owner's participation in the Program is terminated prior thereto in accordance with this Agreement (the "Term"). Subject to Palm Springs Municipal Codes Section 5.26.040(a) and Sections 7.9, 7.11, and 7.16 of this Covenant, during the Term, City shall pay to Owner, within thirty days after receipt from Owner of twelve monthly payments made by Owner to the tax administrator per Section 3.24.080 of the Municipal Code, an amount equal to seventy-five percent of the total of such payments. City acknowledges and agrees that City has reviewed proposed development and operational plans for the Hotel and concluded that such plans are in substantial compliance with and will satisfy first class Hotel requirements of the City and Chapter 5.26 of the Municipal Code.

1. Housing Uses Prohibited. None of the rooms in the Project will at any time be utilized as a non-transient residential property including dormitory, fraternity or sorority house, rooming house, nursing home, hospital, sanitarium, or trailer court or park without the City's prior consent which consent may be given or withheld in its sole and absolute discretion.

2. Conversion of Project. No part of the Project will at any time be owned by a cooperative housing corporation, nor shall the Owner take any steps in connection with the conversion to such ownership or uses to condominiums, or to any other form of ownership, without the prior written approval of the City Council which approval may be given or withheld in its sole and absolute discretion.

ARTICLE 2

WARRANTIES AND COVENANTS

2.1. WARRANTIES AND COVENANTS. For the Term of this Agreement, the Owner hereby represents, covenants, warrants and agrees as follows:

1. Owner has completed the City's application for the Hotel Operations Incentive Program. Since the Hotel will be a new hotel, City has determined the Transient Occupancy Tax Base to be used to calculate the Transient Occupancy Tax Increment shall be zero, and the Owner accepts such Transient Occupancy Tax Base.

2. Owner hereby agrees to subscribe to the Palm Springs Convention Center's Committable Rooms Program or any similar successor program as identified by the City Manager without being obligated to incur any additional costs or expenses.

3. Upon City's prior request, Owner shall provide the City at no cost six (6) rooms for one (1) night (or 3 rooms for 2 nights) other than Friday or Saturday nights each month for use for City purposes as approved or designated by the City Manager, provided that such use by the City shall be subject to the rooms being available at the time of the City's request. Such accommodations shall include all services and amenities for which the Owner would normally collect transient occupancy taxes but will not include services and amenities that are optional to the transient and for which the transient is not required to pay a transient occupancy taxes. City shall be responsible for any transient occupancy taxes for any occupancy provided to City under the provisions of this paragraph. Notwithstanding anything in this Agreement to the contrary, if the City does not use rooms during any month, then its right to use rooms with respect to that month shall expire at the end of that month and shall not accrue; provided, however, if the City was unable to use rooms solely because Owner's Hotel had no rooms available when the City requested a room in accordance with this Section 2.1.3, then, the City's right to use rooms shall not expire and may be used by the City in a subsequent month.

ARTICLE 3

MAINTENANCE

3.1. MAINTENANCE.

1. Maintenance Obligation. Owner, for itself and its successors and assigns, hereby covenants and agrees to maintain and repair or cause to be maintained and repaired the Site and all related on-site improvements and landscaping thereon, including, without limitation, buildings, parking areas, lighting, signs and walls in a first class condition and repair, free of rubbish, debris and other hazards to persons using the same, and in accordance with all applicable laws, rules, ordinances and regulations of all federal, state, and local bodies and agencies having jurisdiction, at Owner's sole cost and expense. Such maintenance and repair shall include, but not be limited to, the following: (i) sweeping and trash removal; (ii) the care and replacement of all shrubbery, plantings, and other landscaping in a healthy condition; and (iii) the repair, replacement and restriping of asphalt or concrete paving using the same type of material originally installed, to the end that such paving at all times be kept in a level and smooth condition. In addition, Owner shall be required to maintain the Project in such a manner as to avoid the reasonable determination of a duly authorized official of the City that a public nuisance has been created by the absence of adequate maintenance such as to be detrimental to the public health, safety or general welfare or that such a condition of deterioration or disrepair causes appreciable harm or is materially detrimental to property or improvements within one thousand (1,000) feet of such portion of the Site. The foregoing notwithstanding, Owner shall not be obligated to maintain any street or sidewalk areas, or landscaping therein, which are to be maintained by the City pursuant to a Project Financing Agreement executed by the City (as amended).

2. Parking and Driveways. The driveways and traffic aisles on the Site shall be kept clear and unobstructed at all times.

3. Right of Entry. In the event Owner fails to maintain the Site in the above-mentioned condition, and satisfactory progress is not made in correcting the condition within thirty (30) days from the date of written notice from City (such notice shall reasonably identify the required maintenance), City may, at City's option, and without further notice to Owner, declare the unperformed maintenance to constitute a public nuisance. Thereafter, either City or its employees, contractors, or agents, may cure Owner's default by entering upon the Site and performing the necessary landscaping and/or maintenance in accordance with Section 3.1.1 above. The City shall give Owner, its representative, or the residential manager reasonable notice of the time and manner of entry, and entry shall only be at such times and in such manner as is reasonably necessary to carry out this Agreement. Owner shall pay such costs as are reasonably incurred by City for such maintenance, including attorneys' fees and costs.

4. Lien. If any costs incurred by City under Section 3 above are not reimbursed within thirty (30) days after Owner's receipt of City's written request for reimbursement, the same shall be deemed delinquent, and the amount thereof shall bear

interest thereafter at a rate of the lower of ten percent (10%) per annum or the legal maximum until paid. Any and all delinquent amounts, together with said interest, costs and reasonable attorney's fees, shall be an obligation of Owner as well as a lien and charge, with power of sale, upon the property interests of Owner, and the rents, issues and profits of such property. City may bring an action at law against Owner obligated to pay any such sums or foreclose the lien against Owner's property interests. Any such lien may be enforced by sale by the City following recordation of a Notice of Default of Sale given in the manner and time required by law as in the case of a deed of trust; such sale to be conducted in accordance with the provisions of Section 2924, et seq., of the California Civil Code, applicable to the exercise of powers of sale in mortgages and deeds of trust, or in any other manner permitted by law.

Any monetary lien provided for herein shall be subordinate to any bona fide mortgage or deed of trust covering an ownership interest or leasehold or subleasehold estate in and to any portion of the Site, and any purchaser at any foreclosure or trustee's sale (as well as any deed or assignment in lieu of foreclosure or trustee's sale) under any such mortgage or deed of trust shall take title free from any such monetary lien, but otherwise subject to the provisions hereof; provided that, after the foreclosure of any such mortgage and/or deed of trust, all other assessments provided for herein to the extent they relate to the expenses incurred subsequent to such foreclosure, assessed hereunder to the purchaser at the foreclosure sale, as owner of the subject Site after the date of such foreclosure sale, shall become a lien upon such Site upon recordation of a Notice of Assessment or Notice of Claim of Lien as herein provided. In the event of any such foreclosure, City (or successor) agrees to and shall recognize and honor any existing commercial (non-transient occupancy) leases in effect with respect to portions of the Project, provided that commercial tenants of such leases agree to subordinate and attorn to City (or successor) as the new landlord with respect to such leases.

ARTICLE 4

COMPLIANCE WITH LAWS

4.1. COMPLIANCE WITH LAWS. Owner shall comply with all ordinances, regulations and standards of the City and City applicable to the Site. Owner shall comply with all rules and regulations of any assessment district of the City with jurisdiction over the Site.

ARTICLE 5

NONDISCRIMINATION

5.1. NONDISCRIMINATION. There shall be no discrimination against or segregation of any person, or group of persons, on account of race, color, creed, religion, gender, sexual orientation, marital status, national origin or ancestry in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Site, or any part thereof, nor shall Owner, or any person claiming under or through it, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of guests or vendees of the Site, or any part thereof.

ARTICLE 6

COVENANTS TO RUN WITH THE LAND

6.1. COVENANTS TO RUN WITH THE LAND. Owner hereby subjects the Site to the covenants, reservations, and restrictions set forth in this Agreement. City and Owner hereby declare their express intent that all such covenants, reservations, and restrictions shall be deemed covenants running with the land and shall pass to and be binding upon the Owner's successors in title to the Site; provided, however, that on the termination of this Agreement said covenants, reservations and restrictions shall expire. All covenants without regard to technical classification or designation shall be binding for the benefit of the City, and such covenants shall run in favor of the City for the entire term of this Agreement, without regard to whether the City is or remains an owner of any land or interest therein to which such covenants relate. Each and every contract, deed or other instrument hereafter executed covering or conveying the Site or any portion thereof shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations, and restrictions, regardless of whether such covenants, reservations, and restrictions are set forth in such contract, deed or other instrument.

City and Owner hereby declare their understanding and intent that the burden of the covenants set forth herein touch and concern the land in that Owner's legal interest in the Site is rendered less valuable thereby. City and Owner hereby further declare their understanding and intent that the benefit of such covenants touch and concern the land by enhancing and increasing the enjoyment and use of the Project by the intended beneficiaries of such covenants, reservations, and restrictions, and by furthering the public purposes for which the City was formed.

Owner, in exchange for the City entering into this Agreement, hereby agrees to hold, sell, and convey the Site subject to the terms of this Agreement. Owner also grants to the City the right and power to enforce the terms of this Agreement against the Owner and all persons having any right, title or interest in the Site or any part thereof while such party owns the Site. No party shall have any liability or obligation in connection with any breach occurring while such party is not the owner of the Site.

Within fifteen (15) business days after request of Owner, City shall execute and provide to Owner an estoppel certificate, in the form approved by the City Attorney of the City, confirming whether or not Owner is in breach of any obligations under this Agreement and identifying any required cure.

ARTICLE 7

INDEMNIFICATION

7.1. INDEMNIFICATION. Owner agrees for itself and its successors and assigns to indemnify, defend, and hold harmless City and its respective officers, members, officials, employees, agents, volunteers, and representatives from and against any loss, liability, claim, or judgment to or by any third party relating to development and/or operation of the Project by Owner, excepting only any such loss, liability, claim, or judgment arising solely out of the

intentional wrongdoing or gross negligence of City or its respective officers, officials, employees, members, agents, volunteers, or representatives. Owner, while in possession of the Site, and each successor or assign of Owner while in possession of the Site, shall remain fully obligated for the payment of property taxes and assessments in connection with the Site. The foregoing indemnification, defense, and hold harmless agreement shall only be applicable to and binding upon the party then owning the Site or applicable portion thereof.

7.2. ATTORNEYS' FEES. In the event that a party to this Agreement brings an action against the other party hereto by reason of the breach of any condition, covenant, representation or warranty in this Agreement, or otherwise arising out of this Agreement, the prevailing party in such action shall be entitled to recover from the other reasonable expert witness fees, and its reasonable attorney's fees and costs. Attorney's fees shall include attorney's fees on any appeal, and in addition a party entitled to attorney's fees shall be entitled to all other reasonable costs for investigating such action, including the conducting of discovery.

7.3. AMENDMENTS. This Agreement shall be amended only by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County of Riverside.

7.4. NOTICE. Any notice required to be given hereunder shall be made in writing and shall be given by personal delivery, certified or registered mail, postage prepaid, return receipt requested, at the addresses specified below, or at such other addresses as may be specified in writing by the parties hereto:

- City: City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262
Attn: City Manager
- Copy to: City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262
Attn: City Attorney
- Owner: John Wessman
555 South Sunrise Way, Suite 200
Palm Springs, CA 92264

The notice shall be deemed given three (3) business days after the date of mailing, or, if personally delivered, when received.

7.5. SEVERABILITY/WAIVER/INTEGRATION

1. Severability. If any provision of this Agreement or portion thereof, or the application to any person or circumstances, shall to any extent be held invalid, inoperative, or unenforceable, the remainder of the provisions, or the application of such provision or portion thereof to any other persons or circumstances, shall not be affected thereby; provided, that if any material terms or provisions of these Operating Covenants

are rendered invalid, void and/or unenforceable, or due to changes in the law such terms or provisions would materially alter the terms of the transactions contemplated herein, the parties agree to meet and negotiate in good faith to attempt to reform these Operating Covenants to accomplish the intent of the parties.

2. Waiver. A waiver by either party of the performance of any covenant or condition herein shall not invalidate this Agreement nor shall it be considered a waiver of any other covenants or conditions, nor shall the delay or forbearance by either party in exercising any remedy or right be considered a waiver of, or an estoppel against, the later exercise of such remedy or right.

3. Integration. This Agreement contains the entire Agreement between the parties and neither party relies on any warranty or representation not contained in this Agreement.

4. Third Parties. No third party beneficiaries are intended, and the only parties who are entitled to enforce the provisions of these Operating Covenants are the City, Mortgagees, Participant and their respective successors and assigns.

7.6. GOVERNING LAW. This Agreement shall be governed by the laws of the State of California and is subject to the provisions of Government Code Section 53083.

7.7. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall constitute one original and all of which shall be one and the same instrument.

7.8. TERMINATION. This Agreement may be terminated only (i) by and upon expiration of the Term, (ii) by mutual written agreement of the parties, and (iii) by and pursuant to the provisions of Section 7.9 or 7.10 below. In the event of any such termination, Owner (or its successor, as applicable) shall not be obligated to return any amounts previously paid to it by the City pursuant to the Program.

7.9 DEFAULT BY OWNER. If at any time during the Term, City contends that Owner has committed a material default with respect this Agreement, e.g., by failing to operate the Hotel as a first class hotel, City shall deliver to Owner written notice of default which specifies in detail all facts alleged by City to constitute such default. For a period of thirty days thereafter, Owner will have the right to commence and complete cure of the alleged default; provided, however, if the alleged default is of such a nature as to reasonably require more than sixty days to cure, and the Parties so agree, Owner will have such addition time as is reasonably necessary to complete such cure. Subject to Section 7.11 below, if Owner fails to timely cure such default, City shall then have the right to terminate this Agreement. (To the extent of any inconsistency between the provisions of this Section 7.9 and the provisions of Section 3.1 above, the provisions of this Section 7.9 shall prevail.)

7.10 DEFAULT BY CITY. If at any time during the Term, Owner contends that City has committed a material default with respect this Agreement, Owner may deliver to City written notice of default which specifies in detail all facts alleged by Owner to constitute such default.

For a period of thirty days thereafter, City will have the right to commence and complete cure of the alleged default; provided, however, if the alleged default is of such a nature as to reasonably require more than sixty days to cure, and the Parties so agree, City will have such additional time as is reasonably necessary to complete such cure. Subject to Section 7.11 below, if City fails to timely cure such default, Owner shall then have the right to terminate this Agreement or exercise any and all other rights and remedies available at law and in equity, and each of such rights and remedies shall be cumulative and not exclusive.

7.11 MORTGAGE PROVISIONS. Anything in this Agreement to the contrary notwithstanding, with respect to any recorded mortgage or deed of trust given in good faith and for value and encumbering the Hotel ("Mortgage"), any holder thereof that has delivered to City a copy of such recorded Mortgage and current contact information ("Mortgagee") will be entitled to rights and benefits in accordance with the following:

1. City acknowledges and agrees that the rights and obligations of Owner under this Agreement may, with or without approval by City, be conditionally assigned by Owner to any Mortgagee as security for performance of Mortgage obligations.

2. While any Mortgage remains in effect, City will not amend or modify this Agreement in any material respect without receiving prior written approval from Mortgagee, which approval may not be unreasonably withheld, delayed or conditioned; provided, however, failure by Mortgagee to provide written approval or disapproval (and if disapproval the reasons therefor) within thirty days of delivery of request therefor shall be deemed to constitute approval by Mortgagee.

3. While any Mortgage remains in effect, in the event City delivers to Owner of any notice of default as referenced in either Section 3.1 or 7.9 above, City shall concurrently deliver a copy thereof to Mortgagee.

4. Delivery of any such notice of default notwithstanding, City will not terminate or initiate or pursue any action to terminate this Agreement as long as Mortgagee diligently (i) declares a default by Owner under the Mortgage, (ii) pursues foreclosure and/or other appropriate actions under the Mortgage, (iii) pays to City all amounts that would otherwise have been payable by Owner to City, and (iv) cures non-monetary defaults.

7.12 Operator Provisions. City acknowledges and agrees that operational obligations of Owner may, with or without consent of City, be assigned by Owner to any entity owned or wholly controlled by Owner or its Members or the Virgin Hotel or with the consent of City to a Hotel Operator of Owner's choice, and, in connection therewith, such Hotel Operator may assume all or part of Owner's Hotel operation obligations under this Agreement; provided, however, Owner shall retain ultimate responsibility for such Hotel operation obligations. City agrees that while any Hotel Operator agreement is in effect, and provided that City has been put on notice of such agreement and received contact information for such Operator, in the event City delivers to Owner of any notice of default as referenced in either Section 3.1 or 7.9 above, City shall concurrently deliver a copy thereof to the Operator.

7.13 RESERVED.

7.14 Cooperation. Each party agrees to and shall do and perform such other and further acts and properly execute and deliver such other and further documents as may be reasonably necessary, expedient or convenient to implement and/or effectuate the intents and purposes hereof. City and Owner agree to cooperate with each other and/or with any Mortgagee or proposed Mortgagee, in a manner consistent with concepts and principles of good faith, fair dealing and commercial reasonableness, with respect to consideration, implementation and execution of any modification(s) to this Agreement reasonably requested by the City, Owner, Mortgagee or proposed Mortgagee.

7.15 Reasonable Approvals. Whenever this Agreement requires or calls for the approval or consent of any party hereto, such approval shall not be unreasonably withheld, delayed or conditioned.

7.16 Binding Arbitration. In the event of any dispute or controversy arising out of or relating to this Agreement, or the breach or performance of it, the parties shall reasonably attempt to resolve such dispute or controversy without resort to third party review or resolution. The parties shall first meet and confer on any such dispute or controversy. Such meeting(s) shall include any principal of the Owner and, at the discretion of the City, may include the City Manager and/or the City Council, either as a whole or through an ad hoc subcommittee designated by the City Council. Upon a determination by the parties that they are or will be unable to resolve the dispute or controversy on their own, then the parties shall submit the dispute, controversy or any remaining unresolved matter to binding arbitration, to be held in the Coachella Valley, and be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association.

7.17 Incorporation of Recitals and Exhibits. Each of the recitals set forth above and each of the exhibits attached hereto are agreed to and made part of this Agreement.

7.18 Authority. Each party represents and warrants to the other that such party has full right, power and authority to sign, execute and enter into this Agreement.

IN WITNESS WHEREOF, the City and Owner have executed this Operations Covenant by duly authorized representatives on the date first written hereinabove.

"CITY"

THE CITY OF PALM SPRINGS,
a municipal corporation and charter city

By: _____

City Manager

ATTEST:

City Clerk

APPROVED AS TO FORM:

WOODRUFF, SPRADLIN & SMART

By: _____
Douglas C. Holland, Esq.
City Attorney

"OWNER"

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[END OF SIGNATURES]

ACKNOWLEDGMENT

State of California)
County of _____)

On _____, before me, _____,
(insert name of notary)

Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that he/she/they executed the same
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

ACKNOWLEDGMENT

State of California)
County of _____)

On _____, before me, _____,
(insert name of notary)

Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that he/she/they executed the same
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

**CITY OF PALM SPRINGS
PUBLIC NOTIFICATION**



Date: May 4, 2016
Subject: Virgin Hotel (AC Hotel)

AFFIDAVIT OF PUBLICATION

I, Kathie Hart, MMC, Chief Deputy City Clerk, of the City of Palm Springs, California, do hereby certify that a copy of the attached Notice of Public Hearing was published in the Desert Sun on April 23 and April 30, 2016.

I declare under penalty of perjury that the foregoing is true and correct.

A handwritten signature in black ink, appearing to read "Kathie Hart", is written over a horizontal line.

Kathie Hart, MMC
Chief Deputy City Clerk

AFFIDAVIT OF POSTING

I, Kathie Hart, MMC, Chief Deputy City Clerk, of the City of Palm Springs, California, do hereby certify that a copy of the attached Notice of Public Hearing was posted at City Hall, 3200 E. Tahquitz Canyon Drive, on the exterior legal notice posting board, and in the Office of the City Clerk on April 21, 2016.

I declare under penalty of perjury that the foregoing is true and correct.

A handwritten signature in black ink, appearing to read "Kathie Hart", is written over a horizontal line.

Kathie Hart, MMC
Chief Deputy City Clerk

NOTICE OF PUBLIC HEARING
CITY COUNCIL
CITY OF PALM SPRINGS

HOTEL INCENTIVE PROGRAM AMENDED AND RESTATED COVENANT
PALM SPRINGS PROMENADE, LLC
THE DOWNTOWN PALM SPRINGS SPECIFIC PLAN
TRANSFER FROM THE AC HOTEL TO THE VIRGIN HOTEL

NOTICE IS HEREBY GIVEN that the City Council of the City of Palm Springs, California, will hold a public hearing at its meeting of May 4, 2016. The City Council meeting begins at 6:00 p.m., in the Council Chamber at City Hall, 3200 E. Tahquitz Canyon Way, Palm Springs.

The purpose of this hearing is to consider approving an Amended and Restated Operations Covenant, amending and restating the existing approved operations covenant between the City Palm Springs and Palm Springs Promenade, LLC, transferring the rights and obligations under the operations covenant from the AC Hotel on Block F of the Downtown Palm Springs Specific Plan to the Virgin Hotel on Block B-1 of the Downtown Palm Springs Specific Plan.

On December 30, 2014, the City and Palm Springs Promenade, LLC, entered into an Operations Covenant for an AC Hotel for Block F of the Downtown Palm Springs Specific Plan. Palm Springs Promenade LLC has requested the Operations Covenant be amended to transfer the rights and obligations to a new Virgin Hotel to contain approximately 142 hotel rooms on Block B-1 of the Downtown Palm Springs Specific Plan. The existing restrictions upon the use and operation of the hotel for a thirty (30) year period and the provisions for a seventy-five percent (75%) share of the new transient occupancy tax collected up to a maximum amount of fifty million dollars (\$50 million) will remain in effect

The City of Palm Springs adopted Chapter 5.26 of the Palm Springs Municipal Code to provide a Hotel Operations Incentive Program for the operation and maintenance of hotel facilities that enhance the tourist and travel experience for visitors to the City, maximize the use of the City's Convention Center, provide attractive and desirable visitor facilities and experiences, and assist the City in achieving its tourism goals.

REVIEW OF INFORMATION: The staff report and other supporting documents regarding this matter are available for public review at the City Hall between the hours of 8:00 a.m. and 6:00 p.m., Monday through Thursday. Please contact the Office of the City Clerk at (760) 323-8204 if you would like to schedule an appointment to review these documents.

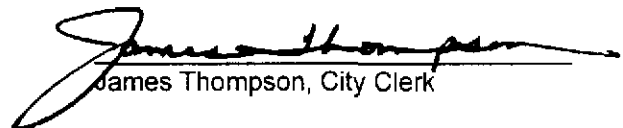
At the hearing any person may present oral or written testimony. The City Council will consider all objections or protests, if any, for approval of the Agreement. Response to this notice can be made verbally at the Public Hearing and/or in writing before the hearing. Written comments can be made to the City Council by letter (for mail or hand delivery) to:

James Thompson, City Clerk
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262

Any challenge in court of the proposal may be limited to raising only those issues raised at the public hearing described in this notice, or in written correspondence delivered to the City Clerk at, or prior, to the public hearing. (Government Code Section 65009(b)(2)).

An opportunity will be given at said hearing for all interested persons to be heard. Questions regarding this case may be directed to Lauri Aylaian at (760) 323-8228.

Si necesita ayuda con esta carta, porfavor llame a la Ciudad de Palm Springs y puede hablar con Felipe Primera telefono (760) 323-8253.


James Thompson, City Clerk