



PALM DESERT

PALM DESERT HOTEL AND SIGNATURE EVENTS COMMITTEE REGULAR MEETING

MINUTES

Wednesday, April 4, 2018 – 4:00 p.m.
Administrative Conference Room – Palm Desert Civic Center
73510 Fred Waring Drive, Palm Desert, CA 92260

I. CALL TO ORDER

Martín Alvarez called the meeting to order at 4:06 p.m.

II. ROLL CALL

Members Present:

Councilmember Jan Harnik
Councilmember Gina Nestande
Scott White, *Vice Chairman*
Arnold Kirschenbaum
Jim Moran
Tom Tabler

Members Absent:

None

Staff /Others Present:

Lauri Aylaian, *City Manager*
Martín Alvarez, *Director of Economic Development*
David Hermann, *Senior Management Analyst*
Eric Ceja, *Principal Planner*
Robin McCormick, *Recording Secretary*

III. ORAL COMMUNICATIONS

None.

IV. CONSENT CALENDAR

A. MINUTES OF THE MEETING OF OCTOBER 4, 2017

Member Kirschenbaum noted the second paragraph on page 4 should read “some units in a condominium complex” instead of “a 22 unit condominium complex” and the fourth paragraph should say “both guests and owners” instead of “both guests and renters.”

**MINUTES
REGULAR PALM DESERT HOTEL & SIGNATURE EVENTS
COMMITTEE MEETING**

APRIL 4, 2018

Member Kirschenbaum moved, by Minute Motion, to approve the minutes of the October 4, 2017, meeting as amended. Motion was seconded by Member Tabler and carried by a 6-0-1 vote. (AYES: Kirschenbaum, Moran, Nestande, Tabler, and White. NOES: None. ABSENT: Harnik)

V. CONSENT ITEMS HELD OVER

None.

VI. NEW BUSINESS

A. REVIEW OF "CITY'S HOTEL OPERATION INCENTIVE PROGRAM"

Mr. Alvarez began by saying staff has been working on an incentive program to develop new first-class hotels that will align with the City's goals and Envision Palm Desert Strategic Plan. Goals that are in place have been approved by the City Council and with a community engagement process. Envision Palm Desert is a long-term, 20-year plan with a strategic priority of expanding job and business creation opportunities and attracting new and developing tourism markets. Recently approved, is the City's Economic Development Strategic Plan, which sets a goal to market key development sites that the City owns or privately owned sites that are underutilized. In light of these priorities, a draft has been developed to incentivize new first-class hotels along the Highway 111 downtown corridor, including El Paseo, and the Desert Willow lot pads. A "first-class hotel" would be one that provides full service parking, room service, meeting space and banquet services. The program would be a City Ordinance that would rebate 50% of TOT generated annually, with some caps. An agreement with the City would be required, the operator/owner would need to use prevailing wages that are required by law for construction costs, and the maintaining of a 4-diamond rating based upon the AAA hotel rating system. The window of opportunity for hotel developers is to have the hotel operational by 2023.

The caps would be based upon \$100,000 per key built. For example, a 150-room hotel would be eligible up to \$15M in TOT rebates. The rebates would be paid until the \$15M is reached. Based upon the estimates and models run, the payback period would be in the 20 to 21 years range. In these scenarios, financing gaps is the challenge. The seasonality of the tourism is also a challenge. The Committee Member's ideas and comments are what is requested today.

At this point in the meeting, Councilmember Harnik arrived.

Lauri Aylaian added that the City wants to incentivize the development of hotel projects that would not otherwise be done. That is part of the reason for limiting the areas of the City for building a hotel. For example, the areas next to the freeway are already being developed with several hotels. The City also wants to be respectful of existing hoteliers and their businesses. We do not want to incentivize a project to the point where a new developer makes a windfall that is greater than necessary, or incentivize it so deeply that it gouges into existing hotels. It is fair to say that any new hotel project developed with an incentive is given an advantage that existing hotels do not have. The City would not be looking at an incentive program if we thought there was no need for any more hotels. We believe there is room in the market for more hotels and the market will not take care of this without assistance; a financial incentive. We need to find the line of overcoming the handicap of saddling a project with prevailing wage and provide enough of an incentive to make the project more economically attractive and viable; not a windfall and not to the point where existing hoteliers would have to discount room rates to a non-profitable level. We would like to hear from you today as to how this might affect your business, and when the numbers are better developed, you can see if we are missing something.

Responding to Member Kirschenbaum's question regarding prevailing wages, Ms. Aylaian explained that around 2002 the State passed a law, which said that any time a city provides a financial incentive to a developer, that developer has to pay prevailing wage on their construction, not operations, which is essentially union wages. In 2015, the State said this applies to charter cities as well as general law cities. That is when it starting affecting Palm Desert.

Further responding, "prevailing wages" is a legal term where the State establishes the "prevailing" wage rate for each of 40 different trades. This weeds out some of the contractors because they do not want to deal with it. Developing first class hotels in the desert today and the past 10-15 years has not been a profitable enough business to overcome the risk associated with it. The JW Marriott was built in 1987 when it was a completely different economic environment than today. The cost of land and development have gone up dramatically and it is very difficult to get financing for hotels. Before a bank will lend money, one must demonstrate a certain amount of financial viability, and they only loan fifty percent.

Mr. Alvarez added that prevailing wage generally adds 25-30% in labor costs. The City of La Quinta provided land at zero cost, which was an incentive, and they have a significant TOT sharing agreement for two of their current projects.

In answer to Member Kirschenbaum, Ms. Aylaian said the agreement with Hotel Paseo was signed before the January 2015 date when the prevailing wage law was applied to charter cities. An incentive was provided to them so that they could get loans. She went on to say that this program is similar to what Palm Springs offered when they were entitling hotels. Some of the developers took

advantage of the program and some did not. They also had an incentive program for hotel renovations based on the class of the hotel. At this point, Palm Desert's goal and focus is to get hotels in the two locations previously noted to stimulate economic growth. The door is always open for someone to make a proposal if incremental TOT increases can be demonstrated. A deal could be done without something being in the Municipal Code, but part of the reason for not having success with Desert Willow is that an incentive is not approved after someone has developed concepts, plans and architectural drawings. If the incentive is in the Municipal Code, we are much more likely to get people take advantage of that.

Member Tabler indicated he would approach his owners and Marriott with a partnership where everyone has skin in the game. The greater Coachella Valley is not at 80% occupancy, so competition creates risk. Supply and demand need to be in balance.

Member White added that limited service properties are detrimental in that they don't drive new demand. A large property that doesn't drive new demand or is not the right product will dilute the other properties. He would like to see in this program someone like the JW Marriott adding a new product, such as a water park. He is amazed that no one has done a water park in this area.

Councilmember Harnik would like to see a matching program for existing small hotels that need to be brought to a higher level.

Member White said that the boutique properties in Palm Springs are making a huge difference to the downtown. Wanderlust health conference is there because they wanted boutique hotels. Brand Week is also there because they wanted independent boutique hotels. There is a huge opportunity on El Paseo to enhance the existing hotels and attract smaller boutique hotels.

Ms. Aylaian stated that the way the ordinance is drafted now the small properties would not get any assistance. If there were a desire to also assist boutique hotels, we would have to define the target hotel differently.

Councilmember Harnik said something such as matching funds or TOT rebates should also be there for smaller existing properties in addition to the proposed program.

Member Kirschenbaum asked if the criteria were changed to encompass the development of boutique hotels at the two sites, would that accomplish what the City is trying to do.

Mr. Alvarez said the language could be worked to address boutique hotels.

Member White said there should be more latitude when looking at a project to not put constraints on a decision. Concentration on El Paseo with boutique hotels would create a vibe and would be a game changer as it has been for Palm Springs.

Ms. Aylaian said we need a good definition for a “boutique” hotel. It is an appropriate recommendation of the Committee that a program be brought to boutique-type products, especially in the commercial core.

Member White suggested doing two separate programs, one for El Paseo and one for Desert Willow. The one for El Paseo could have broader definitions, perhaps saying the hotel needs to be brought up to a level similar to an existing hotel as an example.

Ms. Aylaian said we want to make it such that it is in the Municipal Code so that the developer knows the City Council will approve their project if they meet the standards.

Councilmember Harnik added that restaurateurs on El Paseo would be thrilled with smaller hotels that did not have a restaurant. There would probably have to be a hotel overlay to define those boundaries.

Mr. Alvarez said he appreciates all the comments and staff will work on some alternate options.

B. UPDATE ON PROPOSED LAZY RIVER / WATER EXPERIENCE – JW MARRIOTT DESERT SPRINGS

Member Tabler began by saying the JW Marriott project has gone through the preliminary stages of the pro forma and feasibility study. In addition to existing pools, the whole area will be renovated to include a lazy river and water experience component, and pop jets and water slides for kids in a fun family area. Next month he will bring renderings and design work to show the Committee. There are 22 million people in our drive market and we need to give them a reason to come here in the summer. The San Antonio JW Marriott built an \$18M water experience and did 120,000 leisure room nights. San Antonio’s pool season is 4 to 5 months long, where ours is 8 to 9 months. Comparing building a ballroom space to a water experience, the second penciled out better for occupancy. The lazy river project will move forward first, and then they will look at a ballroom space afterwards. This will cover them in summer weekday, where it is needed most. It also raises the rate on summer weekends. It is all incremental revenue, no displacement, and six points in occupancy for the lazy river alone. The lazy river will be $\frac{1}{2}$ to $\frac{3}{4}$ miles long and will hold 300-400 people at one time. ROI is 2 to 2 $\frac{1}{2}$ years. Also planned is to replace the tent with a hard-sided multi-use pavilion, gaining 5,000 – 6,000 square feet.

C. DISCUSS HOLIDAY OPPORTUNITIES

Member Tabler continued by saying the Marriott would like to do a light show set to music around where the boats go now. They would like to open it up to the public. The boats could be themed and sponsored. They would like to start out with something small to see if it can grow year after year. They tried to do it last year but ran out of time. The initial investment would be about \$100,000. Orders for supplies need to be placed now to have them in time for the holidays.

Ms. Aylaian thought this would also be good for the community.

VII. CONTINUED BUSINESS

None

VIII. OLD BUSINESS

None

IX. REPORTS FROM CITY COUNCIL LIAISONS

A. City Council

Councilmember Gina Nestande said she is happy to be a part of this Committee. She is motivated to get things happening in the summer.

X. REPORTS AND REMARKS

A. Chair

None.

B. Committee Members

None.

C. Staff

Mr. Alvarez noted that the election of Chair and Vice-Chair would be on the next meeting's agenda.

XI. INFORMATIONAL ITEMS

None.

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XII. NEXT REGULAR MEETING DATE – June 6, 2018 @ 4:00 p.m.

XIII. ADJOURNMENT

With Committee concurrence, the meeting was adjourned at 5:10 p.m.

Robin McCormick, Recording Secretary