

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: February 27, 2025

PREPARED BY: Mariela Salazar, Management Analyst, Economic Development

SUBJECT: PUBLIC HEARING REGARDING THE ECONOMIC SUBSIDY REPORT AND AN AGREEMENT FOR DISBURSEMENT AND USE OF FUNDS BETWEEN THE CITY OF PALM DESERT AND FINE QUALITY FOODS, INC. DBA PAPA DAN'S PIZZA AND PASTA PURSUANT TO GOVERNMENT CODE SECTION 53083; CONSIDERATION OF

RECOMMENDATION:

1. Hold the Public Hearing.
2. Approve the allocation of \$200,000 from the Invest Palm Desert Program for financial assistance towards the reconstruction of Papa Dan's Pizza and Pasta.
3. Adopt a Resolution entitled, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ACCEPTING THE ECONOMIC DEVELOPMENT SUBSIDY REPORT PREPARED PURSUANT TO GOVERNMENT CODE SECTION 53083 REGARDING AN AGREEMENT FOR DISBURSEMENT AND USE OF FUNDS BY AND BETWEEN THE CITY OF PALM DESERT AND FINE QUALITY FOODS, INC. DBA PAPA DAN'S PIZZA AND PASTA.
4. Adopt a Resolution entitled, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, APPROVING AN AGREEMENT FOR DISBURSEMENT AND USE OF FUNDS BY AND BETWEEN THE CITY OF PALM DESERT AND FINE QUALITY FOODS, INC. DBA PAPA DAN'S PIZZA AND PASTA.
5. Authorize the Director of Finance to transfer \$200,000 from the Business Enhancement Program Account No. 4254430-4387500 to Account No. 4254430-4393000 for the approved amount.
6. Find that the above activities do not constitute a project under the California Environmental Quality Act (CEQA) and alternatively are categorically exempt from review under section 15301 (Existing Facilities)
7. Direct staff to file and post a Notice of Exemption consistent with the above-stated CEQA findings within five (5) working days of this approval.
8. Authorize the City Manager or designee to execute all documents required to effectuate the funds.

BACKGROUND/ANALYSIS:

Invest Palm Desert is the City of Palm Desert's Economic Development incentive program that provides a dedicated funding source for business support services. Invest Palm Desert was established to enhance the City of Palm Desert's ability to promote economic development, facilitate the growth of businesses that provide high-quality jobs, ensure a strong economic base to support services to its residents, aid in the diversification of the City's economy, and promote an improved quality of life within the City. The program is open to all Palm Desert based businesses and potential business looking to locate within the City.

As the result of a fire and complete destruction of the business, Papa Dan's owner, Ira Mosley, has applied for assistance through the City's Invest Palm Desert Program. Papa Dan's Pizza and Pasta has been a cornerstone of the Palm Desert community for 40 years serving as a gathering place for residents and visitors. The restaurant has been a local fixture known for its family-friendly environment and quality food. On April 17, 2024, the Plaza de Monterey Shopping Center experienced a fire, resulting in the destruction of a building that housed five (5) businesses including Papa Dan's. This destruction of this building led to a complete halt in operations leaving forty-five (45) employees without work. Papa Dan's was able to secure a new tenant space within the same center; however, the owners are facing extensive financial challenges in covering new construction costs.

Papa Dan's is requesting approval of financial assistance in the amount of \$200,000 from the Invest Palm Desert Program. The following Capital Improvements expenditures are identified in table A below:

Contribution	Amount
Insurance	\$650,000.00
Potential City Contribution	\$200,000.00
Private Equity (Ira)	\$167,166.00
Loans/Private Entities	\$461,939.63
Total Cost of Contributions	\$1,440,105.63

Under the Invest Palm Desert Program, Papa Dan's qualifies for the Capital Improvement incentive due to its location in a Planned Commercial location and the supporting documents for financial assistance. The Capital Improvement requirement states: "Applicants may apply for a matching grant of 1:1 from the City up to a dollar amount that totals 50% of the requested hard costs of permanent capital improvements or rehabilitation. Permanent capital improvements can include elements such as facade enhancements, interior capital improvements, or other hard costs associated with rehabilitation, renovation, or redevelopment of a commercial or industrial building or structure".

The agreement with Papa Dan's for use of City funds includes a local source provision that requires Papa Dan's to contract and purchase necessary equipment from Palm Desert based businesses. With at least 1% of sales tax generated by use of Palm Desert based businesses the City can expect approximately \$4,938 to be remitted back to the City. The local source provisions also ensure that several Palm Desert based businesses also benefit from use of these City funds, as view on table B.

Expense	Amount	Source
Cornerstone Restaurant Supply and Design	\$397,730.84	
Signarama	\$12,770.07	
Placencia Mirror and Glass	\$44,770.00	

Picard	\$71,954.72	Insurance/Private Equity
S&G Plumbing Services	\$38,500.00	
Innovation Building and Design	\$874,380.00	Insurance/Private Equity
Total	\$1,440,105.63	

The approved funding from the Invest Palm Desert Program provides a significant contribution toward recovery, but additional financial support is essential to bridge the gap and expedite the rebuilding process. Supporting Papa Dan's through this recovery effort aligns with the City's commitment to fostering a vibrant local economy, aiding small businesses, and maintaining the economic vitality of key commercial areas.

The reconstruction of Papa Dan's will also generate positive economic ripple effects, including the return of 40-45 jobs for employees and the attraction of patrons back to the area, which will benefit surrounding businesses.

Agreement Protections:

The agreement between the City of Palm Desert and Fine Quality Foods Inc. (Papa Dan's Pizza and Pasta) contains the following protections for the City:

1. **Use of Funds:** The funds disbursed by the City must only be used for capital improvements specified in Table B and cannot be used for other purposes.
2. **Conditions Precedent to Disbursement:** The City has several conditions that must be met before disbursing funds, including certifications and evidence of compliance by the Recipient. This gives the City control over the allocation and use of funds.
3. **Local Contracting Requirement:** The Recipient must contract businesses located in Palm Desert, ensuring economic benefit to the local economy.
4. **Minimum Investment:** The Recipient is required to invest at least \$1.2 million in the reconstruction of the business.
5. **Five-Year Operating Requirement:** The Recipient must operate continuously for at least five years. If the business fails to commence operations or ceases operation within this period, the City can demand repayment of \$100,000, secured by a clawback agreement.
6. **Right to Inspect and Audit:** The City retains the right to inspect and audit the Recipient's records to ensure compliance. The City can access land, facilities, or improvements related to the use of funds.
7. **Indemnification:** The Recipient must indemnify the City against any liabilities arising from the use of funds or the implementation of the agreement.

These clauses ensure that the City maintains oversight, control, and protection in case of non-compliance or improper use of funds.

If Papa Dan's were to be sold during the duration of the 5-year agreement, the agreement and terms will be passed on to the new owner. The agreement also includes provisions about tax responsibility, non-discrimination, and assignment restrictions.

Legal Review:

This report has been reviewed by the City Attorney's Office.

CEQA REVIEW:

Staff recommends the City council determine that the actions are not subject to the California Environment Quality Act ("Public Resources Code section 21000 et seq.") ("CEQA") because they do not qualify as a "project" under CEQA. The State CEQA Guidelines provide that "[a]n activity is not subject to CEQA if... the activity is not a project as defined in section 15378." (State CEQA Guidelines, § 15060(c).) Here, the actions do not qualify as a "project" as defined in State CEQA Guidelines section 15378 for at least two different reasons:

First, Section 15378 defines a project as an activity that "has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment." (State CEQA Guidelines, § 15378(a).) Here, the acceptance of the EDS Report and approval of an agreement to disburse funds to assist a restaurant with interior improvements will not result in any physical changes to the environment. Accordingly, the actions are not a "project" subject to CEQA. (State CEQA Guidelines, § 15060(c).) Second, Section 15378 explicitly excludes from its definition of "project" the following: "organizational or administrative activities of governments that will not result in indirect physical changes in the environment." (State CEQA Guidelines, § 15378(b)(5).) The actions constitute a organizational or administrative activity that will not result in a physical change in the environment, and it therefore is not subject to CEQA. (Ibid.)

Even if the actions were considered a "project" subject to CEQA, they would be categorically exempt pursuant to State CEQA Guidelines section 15301. Class 1 (Existing Facilities). Class includes the "operation, repair, maintenance, or minor alteration of existing private structures... involving negligible or no expansion of existing or former use." While section 15301 provides examples, such as "interior or exterior alterations," it does not limit the scope of eligible project to those examples. The proposed actions involve modifications to the interior of a private structure. The improvements are confined to the existing private space and do not introduce new uses or intensify current operations. Therefore, the actions meet the criteria for the Class 1 categorical exemption which is shown in table A, allocating funds towards these capital improvements.

Further, none of the exceptions outlined in CEQA Guidelines section 15300.2 apply. There is no possibility of a significant cumulative impact as staff does not anticipate that other projects of the same type will take place at the project site or in the surrounding area. The property does not present any unusual circumstances such as unusual resources, an unusual location, or unusual

physical qualities inherent to the project site that might result in significant impacts. The project area is developed and does not contain any environmentally sensitive areas. The project would not damage any scenic resources, including trees, historic buildings, rock outcroppings or similar resources, within a highway officially designated as a state scenic highway. The project is not located on a hazardous waste site or any other site included on a list compiled pursuant to Government Code section 65962.5 and the proposed project will not cause a substantial adverse impact change in the significance of a historical resource because there are no historical resources near the proposed project such that project impacts would not have any substantial adverse changes in the significance of a historical resource.

A notice of exemption (NOE) will be filed with the County Recorder's Office and submitted to the State Clearinghouse within five (5) workdays should the project receive final approval.

FINANCIAL IMPACT:

Based on Papa Dan's historical sales tax revenues, staff projects the establishment will generate approximately \$100,000 in sales tax revenue for the City in the next 5 years. To support the restaurant and its employees, staff is requesting City Council's approval for financial assistance in the amount of \$200,000 to aid in the reconstruction of Papa Dan's.

Additionally, once Papa Dan's is in operation for 10 years, the City is expected to recover the full \$200,000 investment.

Funds are available in the Business Enhancement Program and may be transferred to Account No. 4254430-4393000 for this purpose.

ATTACHMENTS:

1. Papa Dan's Invest Palm Desert Application
2. Letter to City Council
3. Capital Improvements Supporting Documents
4. Papa Dan's Agreement for Recipients of Funds
5. Papa Dan's Economic Subsidy Report
6. Papa Dan's Resolution Approving Agreement
7. Papa Dan's Resolution Accepting Economic Subsidy Report