

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: August 24, 2023

PREPARED BY: Eric Ceja, Director of Economic Development

REQUEST: CONSIDER APPROVAL OF A TRANSIENT OCCUPANCY TAX (TOT) SHARING AGREEMENT BETWEEN THE CITY OF PALM DESERT AND NEWAGE DESERT SPRINGS, LLC

RECOMMENDATION:

1. Approve the DRAFT TOT Sharing Agreement between the City of Palm Desert and Newage Desert Springs, LLC remitting 50% of incremental TOT generation not to exceed \$10 million to the property owner for the development and expansion of conference/ballroom space at the JW Marriott Desert Springs.
2. Authorize the City Attorney to make non-substantive changes to the Agreement.
3. Authorize the City Manager to execute said Agreement.

BACKGROUND/ANALYSIS:

The JW Marriot Desert Springs occupies 450 acres in the City of Palm Desert and is the premier resort property for the Coachella Valley. With more than 880 rooms, two (2) 18-hole golf courses, spa, and restaurants, the resort is the largest attraction of convention/ballroom space in the Coachella Valley. The resort is also the largest employer in the City of Palm Desert. The resort continues to attract large convention/ballroom space events; however, it is facing new competition from other resorts outside of California and near coastal communities within the State. To retain existing conventions, and attract new convention users, the property owners seek to expand their offerings of convention/ballroom space with a 25,000 square foot expansion. This new convention space will replace an existing ancillary and temporary tent structure used to supplement current convention operations.

To support the construction cost of the new convention/ballroom space the owners have approached the City of Palm Desert for assistance in funding of the new building. The proposal for assistance includes the lesser of 50% reimbursement of new TOT generation or \$10 million and beginning only once the convention/ballroom expansion is complete and receives a Certificate of Occupancy.

The provisions contained within the DRAFT TOT Sharing Agreement include:

- The City's participation of up to 50% of project financing cost through a Transient Occupancy Tax Rebate (TOT).
- The TOT Rebate is based on historical TOT generation from the site based on a look-back clause that allows the City to establish the TOT baseline on the previous 3-years of TOT generation once the structure is complete and receives a Certificate of Occupancy.
- TOT above this baseline will be split 50/50 between the City and Desert Springs Marriott; however, all TOT generation below the baseline will be 100% retained by the City.

- The 50/50 split will cease once half (50%) of project cost are remitted back to Desert Springs. Based on Desert Springs assumptions for construction cost, the City has agreed that the total reimbursement will not exceed \$10 million.
- The term of this agreement is 15-years from issuance of the Certificate of Occupancy for the expanded convention/ballroom space.
- The City will need to verify actual construction costs of the project to determine maximum of the 50/50 split.

If approved, ownership will submit entitlement and construction documents to move forward with expansion of the convention space.

Strategic Plan:

- Economic Development: Priority 1 – *Expand job and business creation opportunities.*
- Economic Development: Priority 3 - *Create and attract entertainment and events to enhance and expand the Palm Desert economy and lifestyle.*
- Land Use, Housing and Open Space: Priority 4 – *Utilize progressive land use policies and standards to support ongoing and future needs.*
- Tourism and Marketing: Priority 4 - *Support the city’s tourism industry through enhancement of its marketing efforts with an allocation of additional city resources, the development of partnerships, and coordination of existing efforts.*

Project Description:

The TOT Sharing Agreement will only apply to the incremental TOT generated once the expansion of the conventions/ballroom space is complete. As such, the only consideration, at this time, is the potential reimbursement of TOT to the property owner once the expansions construction is complete and occupied.

Environment Review:

The approval of a TOT Sharing Agreement is not a project under the California Environmental Quality Act (CEQA) and is not subject to a CEQA review. A separate public hearing by the Planning Commission for entitlement review of the expanded conference/ballroom space will be considered at a later date.

FINANCIAL IMPACT:

Approval of staff’s recommendation will not impact the current TOT received. There is no fiscal impact to what the City currently receives from TOT from the JW Marriott Desert Springs. The tax sharing agreement only impacts the increase in TOT generation upon successful completion of the project. From that point forward, 50% of new TOT generation, not to exceed \$10 million over 15-years, will be remitted back to the property owner.

ATTACHMENTS:

1. DRAFT TOT Sharing Agreement
2. Public Hearing Notice