

TO: Mayor and Council Members
Marlene Best, City Manager
Shawn Hagerty, City Attorney

FROM: Annette Ortiz, CMC, City Clerk

DATE: April 24, 2023

SUBJ: UPDATED COUNCIL MEETING MATERIALS – APRIL 26, 2023

PUBLIC HEARING:

- (15) Public Hearing to Consider a Resolution Approving a Hotel Operating Agreement with Excel Acquisitions, LP, Accepting the Accompanying Economic Development Subsidy Report Prepared Pursuant to Government Code Section 53083, and Finding that the Action is Not Subject to the California Environmental Quality Act (“CEQA”). (City Manager – Best)**

The attached Economic Development Subsidy Report replaces the one issued with your original Agenda packet.



**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083**

**FOR A HOTEL OPERATING AGREEMENT
BY AND BETWEEN
CITY OF SANTEE
AND
EXCEL ACQUISITIONS, LP**

Pursuant to Government Code Section 53083, the City Council of the City of Santee must hold a noticed public hearing and, prior to the public hearing, provide all of the following information in written form and available to the public and through the City's website, regarding a proposed economic development subsidy to be provided by the City pursuant to a Hotel Operating Agreement by and between the City of Santee and Excel Acquisitions, LP ("Agreement"). Notice was published in the local newspaper for a public hearing to be held on April 26, 2023.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy, as further described in number 2 below.

- 1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.**

The Agreement is with Excel Acquisitions, a limited partnership ("Excel"). Excel is the sole beneficiary of the economic development subsidy.

Excel Acquisitions, LP.
10174 Old Grove Road
San Diego, CA 92131

- 2. The start and end dates and schedule, if applicable, for the economic development subsidy.**

If the Agreement is approved by the City Council, no later than the 60th day from the end of the calendar quarter following the date Excel's hotel ("Hotel") is open for business (no later than June 8, 2027), the City shall pay the Incentive Payment (defined in the next paragraph) to Excel. The Agreement will continue until (1) Excel receives the 40th Incentive Payment, effectively a 10-year term; or (2) after the Incentive Payments reach the cap amount of \$2,500,000; whichever occurs first.

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 economic development subsidy shall be a maximum of Two Million Five Hundred Thousand Dollars (\$2,500,000) which will be paid to Excel in quarterly "Incentive Payments" in the amount equal to 85% of the net TOT revenue collected by Excel and received by the City from operation of the Hotel. The payments will continue for a period of 40 quarters (or 10-years), or until the cap amount of \$2,500,000 has been paid, whichever occurs first. From that point forward, the City will receive 100% of the annual TOT revenue stream generated by the Hotel. For the first 10-year period, it is estimated the project would generate a total of \$3,177,328 in TOT revenues, with \$2,500,000 supporting the Incentive Payments, and with a balance of \$677,328 paid to the City. However, commencing in Year 11, the City would retain 100% of the estimated TOT revenue of \$344,531, and the total revenue for Years 11-15 would reach \$1,775,114. The cumulative total of TOT revenues to the City for Years 1-15 are estimated at over \$2.45 million.

The City has further determined that the ongoing revenue stream and economic benefits from the operation of the Hotel will more than exceed the investment of \$2.5 million in economic subsidy payments over the ten-year period. These projected revenues are further explained in Section 5.

4. A statement of the public purposes for the economic development subsidy.

This project will address a long-standing need for a larger scale hotel to serve the community. Currently, the City has only three hotels ranging from 47 room to 57 rooms (158 rooms total), and the most-recently constructed hotel was completed in 1988. Santee Sportsplex USA is located less than a mile from this hotel site, and draws close to 400,000 annual visitors and books over 50 major tournaments a year, in addition to hosting sports teams and special event. Prior to this project, local Santee hotels have not been able to successfully compete to be a designated hotel for visiting sports teams. This has been a significant loss to the local economy, in terms of hotel guests and related spending. This 97-room all-suites hotel would be ideally suited for visiting teams and their families and would enable the City to retain a share of hotel stays generated by the Sportsplex.

The economic development subsidy will ensure that Excel operates the Hotel within the City for a period of not less than 10 years, and this will become a centerpiece development within the Santee Town Center and a key hospitality development supporting the new Arts and Entertainment District.

As a visitor-serving, hospitality use, this will contribute to the economic vitality of Santee, by enhancing local spending and providing an ongoing revenue stream to the City in Transient Occupancy Tax, Sales Tax and Property Tax.

The City has determined that the operation of the Hotel will generate substantial revenue for the City, allow for the retention and creation of new jobs, and result in community and public improvements that might not otherwise be available to the community for many years.

Further, the operation of the Hotel serves the additional public purpose of fostering a business and civic environment that may attract additional businesses and investment in the community due to the availability of the increased public and private services and economic activity resulting therefrom, thereby assisting the City in its goal of furthering the development of the community.

5. The projected tax revenue to the local agency as a result of the economic development subsidy.

Transient Occupancy Tax will comprise the largest revenue stream from the Hotel, and this will also support the \$2.5 million economic development subsidy payments over an estimated 10-year period. For that first 10-year period, it is estimated the City would receive \$677,328 in TOT revenues after deducting the quarterly "Incentive Payments". Commencing in Year 11, the City would retain 100% of the estimated TOT revenue of \$344,531, and the City would continue receiving 100% of the TOT revenue stream from that point forward.

The value of the new improvements associated with the Hotel is estimated at \$15.9 million, along with the Land value of \$1.4 million, for an Assessed Value of approximately \$17.3 million. This will result in additional real property taxes in the amount of \$43,000 in the first year, reaching a cumulative total of \$225,000 in property tax revenues over the first five years.

The City will also receive \$712,385 in Development Impact Fees as a result of development of the Hotel.

As an all-suites, limited service product, the Hotel will not directly generate significant sale tax revenues to the City. However, it will generate indirect sales tax revenue through hotel guests and their local taxable purchases. For example, 97 rooms at 65% occupancy would result in 63 occupied rooms with 1.5 guests per room, for 93 guests on a daily basis. On an average, hotel guests spend about \$42 in taxable expenditures for restaurant, gasoline and incidental purchases on a daily basis. Then assume at least half those purchases would be retained locally, for an additional \$720,510 in taxable local purchases annually, and indirect Sales Tax revenue of \$7,926.

6. The estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

The operation of the Hotel within the City is anticipated to result in approximately 21 new hospitality jobs over the term of the agreement. For this type of limited service, all-suites property, the employees per room factor would be .22, resulting in 21 employees servicing this 97-room hotel. Of these, 14 would be full-time or salaried positions (about 65%), and 7 would be part-time or shift workers. The job creation factor is on the lower range because it is an all-suites product with no restaurant and limited service.

Additionally, there will be job creation benefits from the development of the hotel during the 14-18 month estimated construction period will support over 60 temporary construction jobs during that period.

These workers will contribute to the local economy on a daily basis with local spending on food, gasoline and goods and services.