File #: 16-0296, **Version:** 1

Recommendation to receive and file a report on a proposed Transient Occupancy Tax Incentive Program. (Citywide)

With the dissolution of the Redevelopment Agency and elimination of the State Enterprise Zone Program in California, municipalities have largely curtailed economic development incentives for business attraction. One type of economic incentive that has been utilized in the City is the Retail Sales Tax Incentive Program. This program was established by the City Council on March 17, 1992, to encourage large-scale retail development, improve retail sales tax productivity, and stimulate private investment in the retail section of the City's economy.

Used as a business retention or attraction tool, the program allows either a developer or end user seeking to complete a commercial project, to request economic incentives from the City. The City undertakes an analysis to determine if the project has an economic need. If such a need exists, the City may choose to participate in a sales tax sharing agreement, whereby it will rebate up to 50 percent of sales tax revenue generated by the business and received by the City, in excess of the first $50,000 or its existing sales tax base, whichever is higher. The agreement would continue for a period of 15 years, or until the need is met, whichever first occurs. Since inception of the program, the City has entered into nine tax sharing agreements pursuant to the Retail Sales Tax Incentive Program, five of which are still active.

Another area of the City's economy that would likely benefit by a similar incentive is hospitality, specifically hotel development. The tourism industry is one of the most highly taxed and labor intensive sectors of the economy. For the past few years, the City has been focused on bringing additional hotels to Long Beach. This has been challenging because even with significant private capital available to be invested in the high-risk hotel and tourism industry, the return on investment is often insufficient to compel development. As a result, an economic gap exists that is often impossible to bridge without public participation. Public participation may be accomplished through a public/private partnership, public financing or public incentives in order for the developer to achieve a reasonable return on their high-risk investment.

Among the City revenues that can be expected to increase with the development of a hotel project is the Transient Occupancy Tax (TOT). Many cities in the local area, including Los Angeles, Anaheim and San Diego, utilize future TOT revenue from a hotel project to contribute to the project cash flows, increase the project's return on investment, and make the project financially feasible. This incentive traditionally takes the form of a TOT Sharing Agreement. City Council may consider a TOT Incentive Program that would generally mirror the Retail Sales Tax Incentive Program in cost cap and length of term, though details can be unique to each project.

City staff believes that a TOT Incentive Program would be appropriate to consider based on the general characteristics identified below:

· Available to new hotels, with desired location, design, and operational characteristics, a minimum of 100 rooms, a projected minimum TOT generation of $500,000, and an identified financial gap;

· The amount of TOT to be shared will not exceed 50 percent of the net incremental growth in the hotel's TOT received by the City; and\

· The TOT Sharing Agreement shall expire upon reaching the agreed upon limit of City participation or a period of time to be identified in a study, whichever first occurs.

To develop a specific TOT Incentive Program for Long Beach, a study should be conducted that provides the following information:

· An analysis of the specific Long Beach hotel market identifying the need and the general type and characteristics of any financial gaps that need to be addressed for that need;

· An analysis that identifies the location, design, and operational characteristics for hotels more likely to meet City goals, and encourages economic development; and

· Approaches used by other cities to address those needs through an incentive program, and specific recommendations for the City based on analysis results.

Staff intends to engage an expert consultant to perform this analysis, primarily for hotels in the Downtown Long Beach area. Staff will return to the City Council with the results of the study and specific recommendations for a TOT Incentive Program, and/or other recommended actions to best encourage needed hotel development.

This matter was reviewed by Principal Deputy City Attorney Gary J. Anderson and by Assistant Finance Director Lea Eriksen on March 22, 2016.

City Council action on this matter is not time critical.

The cost of the marketing and needs study to be conducted is expected to be less than $60,000, and will be paid for from within existing departmental resources. The fiscal impact of a TOT Incentive Program will be analyzed as part of the anticipated study, but the overall intent is for the fiscal impact to be positive.

Approve recommendation.

MICHAEL P. CONWAY
DIRECTOR OF ECONOMIC AND PROPERTY DEVELOPMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER