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Fiscal Analysis of the Proposed Hotel Bella Project

Prepared for:

City of Pacific Grove, CA

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SUMMARY

INTRODUCTION

This report was commissioned by the City of Pacific Grove and is intended to estimate the potential cost/revenue balance for the City government of the proposed Hotel Bella project. The analysis evaluates the proposed project at full development and operation and compares the resulting tax revenues and City service costs to the existing retail use in the American Tin Cannery Building. In preparing the study, Applied Development Economics (ADE) met with City staff and received data from local authorities in the tourism industry, including the Monterey County Convention and Visitor Bureau, the Monterey Bay Aquarium and the Pacific Grove Chamber of Commerce. ADE also met with the Project Sponsor, Domaine Hospitality Partners, to obtain a detailed description of the Hotel Bella project. ADE has offices in Monterey and Walnut Creek and has been serving local communities with independent economic analysis for more than 30 years.

PROJECT DESCRIPTION

The project is proposed by Domaine Hospitality Partners (DHP), LLC, and would be a full service upscale hotel built on the site of the current American Tin Cannery Outlets retail building and parking lot. The hotel would include 160 suites, divisible to 225 separate rooms, with approximately 293,500 sq.ft. of building space, plus 110,000 sq.ft. of underground parking. In addition, the project would include an art museum, a visitor center devoted to marine sciences with activities for youth, restaurants and cafes, an exhibition hall/ ballroom meeting space and a spa/ fitness center. The project would be built to LEED Platinum standards and is anticipated to employ 300 workers.

SUMMARY OF FISCAL IMPACTS

The project is intended to serve the upper end of the lodging market on the Monterey Peninsula and would compete with only five or six other hotels of similar stature in the area. Based on market data for that group of hotels, the project is anticipated to achieve an average room rate of \$625 (2015 dollars) and a 70 percent occupancy rate. Since the project is a combination of single rooms and suites, there is some question as to whether these operating revenues would be achieved for all 225 rooms or instead for the 160 suites. ADE estimates a high and low range of City revenues and costs depending on what level of market performance is achieved. At full operation, the project would generate \$2.5 to \$3.6 million in annual Transient Occupancy taxes (TOT) for the City of Pacific Grove. The project would also produce \$443,100 in annual property taxes and between \$209,400 and \$294,000 in annual sales tax, depending on how much ancillary shopping the hotel guests do in Pacific Grove.

The project would be replacing an active retail use on the site and it is anticipated that there would be very little increase in City service demands from the proposed project. While there may be an increase in calls for service for certain City functions, no City departments would need to add staff to address the service increase.

The net fiscal effect of the project would be annual surplus General Fund revenues of \$3.0 million to \$4.1 million. In comparison, the existing retail use is estimated to produce net revenue of about \$301,100 per year. The proposed project would increase City General Fund revenues by at least 16 percent while increasing City costs less than two percent.

The project would need to acquire or lease a portion of the right of way (ROW) of Sloat Avenue (about 19,200 sq.ft.) to accommodate the project design. This could be accomplished through either sale or lease of the ROW by the City to the project developer. Additional appraisal analysis would be needed to determine the fair market value of this property. Based on recent sales of similar land in Pacific Grove, the market value is likely to be around \$25.00 per sq.ft., or \$480,000.

PROJECT DESCRIPTION

The project is proposed by Domaine Hospitality Partners (DHP), LLC, and would be a full service “Ultra Luxury” Hotel built on the site of the current American Tin Cannery Outlets retail building and parking lot. This site is immediately across the street from the Hopkins Marine Station and is southwest across the street from the Monterey Bay Aquarium. The hotel would include 160 suites, divisible to 225 separate rooms. The rooms are designed to be especially large, at 550 sq.ft. on average, and every room will have a view of the ocean. In addition, the project would include an art museum, a visitor center devoted to marine sciences with activities for youth, restaurants and cafes, an exhibition hall/ ballroom meeting space and a spa/ fitness center. The project would be built to LEED Platinum standards.

The gross sq.ft. for each component of the project is approximately as follows:

Hotel rooms	195,000 sq.ft.
Reception/common area	40,000 sq.ft.
Food/Beverage	20,500 sq.ft.
Spa/Fitness Center	10,000 sq.ft.
Ball room	15,000 sq.ft.
Museum	5,000 sq.ft.
Visitor Center	<u>8,000 sq.ft.</u>
Total Building Area	293,500 sq.ft.

The parking will be underground and provide 250 spaces in 110,000 sq.ft.

The project sponsor anticipates the project will employ 300 workers. This is consistent with ADE’s independent analysis which estimated a range of 255 or 330 jobs, based on sources such as the Urban Land Institute.

The project would need to acquire 19,200 sq.ft. of right-of-way for Sloat Avenue, to connect the project site into a single development plan.

EXISTING SITE USES

The project site consists of three parcels (APNs 006-234-005, 006-231-001, 006-234-004), which are currently occupied by the American Tin Cannery Building and related parking. The American Tin Cannery Building is a retail outlet center with some restaurant and entertainment uses as well. The site where the retail space is located is approximately 128,000 sq.ft. The building has some mezzanine space but most of the businesses are located on the ground floor. Overall, the building is currently underutilized, and the assessed value for all three parcels combined is about \$9.9 million. At full operation of the retail center, we would expect it to support about 100 retail and restaurant jobs and generate about \$25 million in taxable sales. Domaine Hospitality Partners has indicated that one of the current restaurant uses would be retained onsite in the hotel project and assistance would be provided to help other retail businesses relocate in Pacific Grove.

FISCAL ANALYSIS

FISCAL SETTING

Total General Fund revenues for the City of Pacific Grove are estimated to be \$19.6 million in the current 2015-2016 Fiscal Year (Table 1). The property tax is the single largest revenues source, at \$5.8 million, followed by the Transient Occupancy Tax (TOT) which is paid by hotels in the City, at \$4.5 million. Sales tax is the third largest revenue source at \$3.6 million.

TABLE 1: PACIFIC GROVE GENERAL FUND BUDGET, FISCAL YEAR 2015-2016	
REVENUES	BUDGET
GENERAL FUND	
Taxes	
Property Tax	\$5,837,000
Transient Occupancy Tax	\$4,558,000
Sales Tax	\$3,605,000
Utility Users Tax	\$1,457,000
Franchise Tax	\$929,000
Business License Tax	\$337,000
Other Taxes	\$106,000
Licenses & Permits	\$454,000
Fines and Forfeitures	\$51,000
Intergovernmental	\$168,000
Charges for Service	\$1,013,000
Interest Earnings and Rents	\$446,000
Miscellaneous Revenues	\$608,000
TOTAL REVENUES	\$19,569,000
EXPENDITURES	BUDGET
General Government	\$2,654,629
Police Dept.	\$3,717,860
Fire Services	\$2,028,131
Public Works	\$2,937,030
Community Development	\$1,415,506
Library	\$644,569
Recreation	\$294,637
Museum	\$163,458
Capital Outlay	\$170,000
Debt Principal	\$1,418,492
Debt Interest	\$900,066
POB	\$1,875,000
CalPERS Unfunded Liability	\$1,220,513
TOTAL EXPENDITURES	\$19,439,891
TOTAL NET	\$129,109

Source: Fiscal year 2016-2017 Budget Schedule and Five Year Forecast. Patricia Maitland, Finance Director, memorandum to the Mayor and Members of the City Council. February 17, 2016.

Public safety is the largest expenditure category for the General Fund, with \$3.7 million in police costs and \$2.0 million for fire protection services, for which Pacific Grove contracts with the Monterey Fire Department. Public Works, at \$2.9 million, includes street and facilities maintenance, park maintenance, storm water management and maintenance of water and wastewater distribution and collection infrastructure. The General Government category, at \$2.6 million, includes a number of City Departments including the City Council, City Manager, City Clerk/Human Resources, City Attorney, Finance and Information Services. The Community Development Department processes development applications and maintains and updates the City planning documents, including the General Plan and Zoning. The City also funds the library, a museum and a variety of parks and recreation programs serving residents and visitors alike.

The budget also includes principal and interest payments on prior bonds issued by the City as well as Pension Obligation Bonds (POB) to cover future staff pension obligations of the City. In addition, has an unfunded pension obligation through CalPERS, which has been programmed for payment on an annual basis.

Although the budget is balanced on an annual basis, the City indicates that a number of services and facilities maintenance categories are currently underfunded. As a whole, the City's financial forecast estimates that another \$1.5 million annually would be needed to fully fund all City services.

PROPOSED PROJECT FISCAL IMPACTS

As noted above, hotels in Pacific Grove pay a Transient Occupancy Tax (TOT) to the City, which is equal to 10 percent of room revenues. This is the typically single largest City revenue source from hotels. Secondly, visitors to the City spend money on restaurants and retail items, which generate sales tax for the City. This only occurs when visitors patronize food and retail establishments within the City boundaries of Pacific Grove, but visitor spending is estimated to generate \$73.6 million in taxable sales per year in Pacific Grove, accounting for 38 percent of all sales taxes in the City General Fund.¹

The following sections discuss each of the major revenues in the order presented in Table 1 above, followed by a discussion of City service costs that may be affected by the proposed project.

PROPERTY TAX

The City General Fund receives two forms of property tax from property owners in Pacific Grove. The first is the base property tax, set by Proposition 13 at one percent of assessed value. However, this base property tax is shared among a number of taxing agencies besides the City, including the County of Monterey, the local school districts, Monterey Peninsula College, Monterey Regional Parks, and Monterey County Water Resources Agency among others. The City of Pacific Grove receives an average of 15.8 cents on the dollar of the base property tax.² Secondly, the City receives an additional share of property tax from the state in lieu of motor vehicle fees through a prior state budget

¹ Dean Runyan Associates

² City of Pacific Grove, *Recommended Operating and Capital Project Budget Fiscal Year 2015-2016*. May 20, 2015. p. 42.

agreement from the Schwarzenegger Administration. This share of property tax increases as the City assessed value increases annually, and currently represents an additional 30 percent over the base property tax the City receives.

Under Proposition 13, the assessed value of the proposed project should be set at market value at the time the project is completed. The Project Sponsor, DHP, has indicated that the total development cost of the project will be \$215 million.³ This is an average of \$732 per sq.ft. of building space in the project, or \$533 per sq.ft. including the underground parking structure. These figures are within industry averages for LEED Platinum construction and the upscale market segment targeted by the project.

Market value would be expected to exceed the development cost, but for purposes of providing a conservative estimate of potential property tax revenues, ADE has used the \$215 million figure as the estimated assessed value. On this basis, the project would produce \$339,700 in base property tax per year for the City plus \$103,400 in property tax in lieu of vehicle license fees. The property currently produces an estimated \$20,400 in combined annual property taxes for the City, so the net gain in property tax from the Hotel Bella project would be \$422,700.

TRANSIENT OCCUPANCY TAX (TOT)

The City levies a tax of ten percent on room revenues for all lodging in Pacific Grove. The City currently has 1,065 commercial hotel rooms, not including time share properties or residential vocational rentals. The commercial hotel rooms have an average room rate of \$129.84 and an occupancy rate of 70 percent.⁴ While the overall occupancy rate is well above industry standards of 65 percent, several existing properties in Pacific Grove are very old and are underperforming. Better properties in Pacific Grove enjoy an occupancy rate ranging from 78-82 percent, which help to offset the lower performance of the older properties and maintain the overall occupancy at 70 percent.

The Hotel Bella project is intended to serve the upper end of the lodging market, not only for Monterey County but the entire State. Very few properties of similar quality existing in the Monterey Peninsula, but a selection of comparable facilities would include:

- The Lodge at Pebble Beach
- The Inn at Spanish Bay
- Casa Palmero at Pebble Beach
- The Intercontinental
- Ventana in Big Sur

Smith Travel Research, a well-recognized hotel data service, indicates that for this group of hotels, the average daily room rate as of December 2015 was \$582.40 with 75.2 percent occupancy. The average revenue per available room (REVPAR) was \$438.18. Other than the Intercontinental, which was built

³ Michael Crall, Managing Partner and Chief Development Officer, Domaine Hospitality Partners, LLC., personal communication, March 17, 2016.

⁴ Moe Ammar, President, Pacific Grove Chamber of Commerce and Tourist Centers, personal communication, March 17, 2016. These figures are based on regular lodging surveys conducted by the Chamber of Commerce.

in 2008, all of these comparable properties are more than 30 years old. With LEED Platinum certification and its location overlooking the ocean and adjacent to the Monterey Bay Aquarium, the proposed Hotel Bella would be expected to compete well with these other upscale lodging properties. The project sponsors anticipate an average room rate of \$625 (\$2015) and a 70 percent occupancy rate, which yield a REVPAR figure of \$437.50, virtually identical to the existing comparable properties.

The 70 percent occupancy rate for 225 rooms would mean that at full operation the hotel would support 57,488 room nights. Based on data provided by Destination Analytics for the Monterey County Convention and Visitors Bureau, the average visiting party in Monterey County has 2.64 persons. The hotel, therefore, could support 151,772 visitor nights per year in Pacific Grove. It is possible, however, that in order to achieve this level of occupancy and party size, the hotel would not be able to subdivide all of the suites. At a minimum, if we assume 160 rooms, the hotel would support 40,880 room nights and 107,927 guest nights. ADE has used this range of performance to estimate the potential City costs and revenues.

The Monterey Bay Aquarium would likely be one major source of guests for the hotel. Hotel Bella is proposed to include a visitor center specifically tailored to youth and families interested in additional marine sciences experiences as part of their visit to the Aquarium. In 2014, the Aquarium hosted nearly 2.1 million visitors, of which nearly half spent the night in an area hotel.⁵ In 2015, the Aquarium estimates its visitors spent \$8.2 million in Pacific Grove on lodging, food and retail purchases.⁶ The Aquarium has implemented a sophisticated digital marketing program that in 2014 is estimated to have attracted 351,000 additional guests. Part of this marketing is targeted to upper income households and 38 percent of Aquarium visitors have a household income of \$100,000 or more, compared to 22 percent for the State average. The projected visitor levels at the Hotel Bella represent less than ten percent of the annual visitors to the Aquarium, which does not account for all the other attractions on the Monterey Peninsula, including golf, racing events at Laguna Seca, wine tasting, and other pursuits that attract higher income individuals and families to the area.

At full operation, based on the 2015 dollar average room rate of \$625, the total room revenues for the proposed project would be \$25.5 to \$35.9 million (160 to 225 rooms at 70 percent occupancy), generating \$2,550,000 to \$3,590,000 in annual TOT revenues for the City of Pacific Grove. It would likely take several years after initial project development to achieve this full operating level.

SALES TAX

The proposed project includes 20,500 sq.ft. of food service space which would generate taxable sales for Pacific Grove. This would be a combination of fine dining and more casual food opportunities and may be expected to generate average taxable sales revenue of \$7.5 million per year.⁷ These onsite taxable sales would generate \$150,000 per year in sales tax for Pacific Grove. However, it is likely that visitors to the hotel would make other retail and food purchases at existing businesses in Pacific Grove. It is difficult to estimate this spending because the project is located at the border between the

⁵ Monterey Bay Aquarium, *Guest and Community Highlights*. 2014.

⁶ Data provided by Mimi Hahn, Vice President of Marketing, Monterey Bay Aquarium.

⁷ Urban land Institute, *Dollars and Cents of Shopping Centers*, sales per square foot data for eating establishments, escalated to 2015 dollars.

cities of Pacific Grove and Monterey, and is very close to the Cannery Row area in Monterey that would attract a lot of the spending from the Hotel Bella guests. Therefore, one possibility is that the City of Pacific Grove would only receive sales tax from purchases at the hotel itself, estimated above at \$150,000 per year. The project sponsor (DHP) has indicated, however, that they intend to actively encourage their guests to patronize restaurants and shops in Downtown Pacific Grove, so there is also some possibility the City will capture some of the ancillary offsite spending from guests at the hotel. ADE has prepared estimates of this total spending potential as described below.

PACIFIC GROVE VISITOR SPENDING PROFILE

The spending estimates for the existing Pacific Grove visitors primarily rely on visitor spending impact studies done for Monterey County by Dean Runyan Associates and Destination Analytics.

The Dean Runyan study is an expanded version of the annual *Travel Impacts by County* publication that they produce on behalf of the California Division of Tourism. The version of the Dean Runyan Associates report used in this analysis was separately produced for the Monterey County Convention and Visitors Bureau in April 2015. The report identified the spending estimates at a detailed level for Monterey County, and included a separate accounting of the summary visitor spending for Pacific Grove. The Dean Runyan Associates report also included the estimated Transient Occupancy Tax (TOT) collections and tax rates for each jurisdiction in Monterey County.

In addition, this report uses the latest *Lodging Guest Visitor Profile* prepared by Destination Analytics for the Monterey County Convention and Visitors Bureau in January 2016. The visitor profile includes data on demographic profiles, visitor activities, spending, trip characteristics, travel party profiles, planning resources, and opinions about Monterey County. From this study, ADE primarily used the average spending benchmarks for different categories by party and per visitor (see the upper part of Table 2 below). Typically visitor spending for retail goods, services and restaurants is correlated to the amount spent on hotel accommodations. The average room rate in Pacific Grove currently is lower than the County average; therefore, we would expect visitors in Pacific Grove to spend slightly less (\$461 per party) than other visitors to the County on average (\$560 per party).

For 2014, the Dean Runyan Associates report estimates the total spending by existing Pacific Grove visitors at \$150 million per year. From the City TOT collections data, we estimate that \$37.3 million of that spending occurs for accommodations, and that \$112.7 million is spent for all other visitor spending categories. The largest spending categories for existing Pacific Grove visitors were food service, retail sales, and arts and entertainment (see the lower part of Table 2 below).

EXISTING ACCOMMODATIONS SPENDING PROFILE

In order to estimate the existing accommodations spending, ADE relied on the 2014 TOT collections data and a tabulation of the lodging room inventory and average room rates conducted by the City of Pacific Grove Chamber of Commerce. As indicated in the discussion of TOT revenue above, data provided by the Chamber indicates that Pacific Grove has a total room inventory of 1,079 rooms (excluding time-share rentals that did not provide room rates) and a weighted average room rate of \$130 per night.

Compared with the estimated accommodations revenue of \$37.3 million, the analysis estimated a total annual room-night count of 287,387. This works out to an occupancy equivalency of about 73 percent, slightly higher than the recent figures obtained by the Chamber of Commerce in its lodging survey. The Destination Analytics data indicates that the mean party size for Monterey County visitors is 2.64 persons. Applying this to the room-night total, the estimated number of existing guest-nights in Pacific Grove totals 758,725.

TABLE 2: ESTIMATES OF VISITOR SPENDING FOR PACIFIC GROVE AND MONTEREY COUNTY		
MARKET INTELLIGENCE BENCHMARKS (MONTEREY COUNTY)	DAILY SPENDING PER PARTY	DAILY SPENDING PER PERSON
Hotel	\$232.98	\$88.24
Restaurant	\$147.82	\$55.99
Retail Purchase	\$88.48	\$33.51
Entertainment and Sightseeing	\$38.63	\$14.63
Gas, Parking, and Local Transportation	\$20.71	\$7.84
Car Rental	\$18.59	\$7.06
Other	\$16.87	\$6.39
Total	\$564.08	\$213.66
Adjusted Total (Based on Pacific Grove Room Rate)	\$460.94	\$174.60
Pacific Grove 2014 Transient Occupancy Tax	\$3,731,500	
Accommodations Revenues	\$37,315,000	
Pacific Grove Average Room Rate	\$129.84	
Adjusted Room Nights (Pacific Grove)	287,387	
Equivalent Vacancy Rate (Pacific Grove)	73.0%	
Mean Days Per Stay (Monterey County)	2.30	
Mean Persons Per Party (Monterey County)	2.64	
DISTRIBUTION OF VISITOR SPENDING (DEAN RUNYAN ASSOCIATES)	2014 PACIFIC GROVE (ESTIMATED)	2014 MONTEREY COUNTY
Accommodations	\$37,315,000	\$624,000,000
Food Service	\$44,551,297	\$733,000,000
Food Stores	\$4,193,778	\$69,000,000
Ground Transport	\$13,006,791	\$214,000,000
Arts and Entertainment	\$20,786,553	\$342,000,000
Retail Sales	\$29,052,551	\$478,000,000
Air Transportation	\$1,094,029	\$18,000,000
Total	\$150,000,000	\$2,478,000,000
Total Excluding Accommodations	\$112,685,000	\$1,854,000,000

Source: ADE, Inc., based on data from Dean Runyan Associates, Destination Analytics, the City of Pacific Grove and the Pacific Grove Chamber of Commerce.

PROJECTED HOTEL BELLA VISITOR SPENDING PROFILE

Based on the estimates of non-accommodations spending for current Pacific Grove lodging guests, as shown in the lower portion of Table 2, ADE estimates that the taxable sales per guest night is about

\$97.00, which includes spending on restaurants (\$44.5 million) and retail sales (\$29.0 million).⁸ If Pacific Grove restaurants and retailers were able to capture this same amount of spending from Hotel Bella guests, it would generate \$10.5 million to \$14.7 million in taxable sales and \$209,400 to \$294,000 per year in sales tax for the City (Table 3).

There is a potential that taxable purchases by Hotel Bella Guests could be significantly higher than these estimates. As noted earlier, visitor spending tends to increase as lodging expenditures increase, reflecting the fact that higher income visitors spend more on average. With the higher high room rates projected for Hotel Bella, taxable sales could be as high as \$466.96 per guest night, generating \$108.5 million annually in total taxable sales. This may be a reflection of the true value of the project for the regional economy, but it is not clear that this level of spending would occur in Pacific Grove. Shopping areas in Carmel and Monterey would provide substantial competition for the types of upscale spending reflected in these figures.

TABLE 3: PROJECTION OF VISITOR SPENDING FOR HOTEL BELLA PROJECT		
PROJECTED HOTEL SCENARIO	PROJECTED	PROJECTED
Non Accommodations Spending	High	Low
Food Service	\$8,911,833	\$6,337,303
Food Stores	\$838,904	\$596,554
Ground Transport	\$2,601,817	\$1,850,181
Arts and Entertainment	\$4,158,045	\$2,956,832
Retail Sales	\$5,811,536	\$4,132,648
Air Transportation	\$218,844	\$155,623
Total Non-Accommodations	\$22,540,979	\$16,029,141
Total With Accommodations	\$58,470,667	\$41,579,141
Estimated Room-Nights	\$57,488	40,880
Estimated Guest-Nights	151,772	107,927
Daily Total Spending Per Guest-Night	\$385.25	\$385.25
Taxable Retail Spending Per Guest Night	\$97.01	\$97.01

Source: ADE, Inc.

To summarize, ADE projects that lodging guests in the proposed project would spend between \$10.5 and \$14.7 million on taxable purchases, including food and beverage service, in Pacific Grove. This would generate between \$209,400 and \$294,000.⁹ Included in these figures are about \$150,000 in sales taxes that would be generated onsite at the hotel.

For comparison, ADE estimates that the existing retail use of the site would generate about \$312,500 per year in sales tax if fully occupied. The site is not fully occupied so the actual revenue the City receives from the American Tin Cannery Building is less.

⁸ \$73.5 million in combined taxable purchases divided by 758,725 total existing guest nights in Pacific Grove = \$97.01 per guest night.

⁹ Note: The base City share of sales tax is one percent of taxable sales (with the end of the triple flip state provision in 2016), but Pacific Grove has a local sales tax measure (Measure U passed in 2008) that effectively increase its local share to two percent.

OTHER REVENUES

There are several additional revenues which the proposed project would likely generate for the City of Pacific Grove, the utility users tax, the franchise tax and the business license tax. The first two are city taxes on utility use, including not only gas and electric, but also cable TV, water and solid waste collection. The proposed hotel, as a quasi residential use, will generate a share of all these taxes, estimated for this analysis on a per capita basis at \$25,200 to \$35,500 for the utility users tax and \$16,100 to \$22,600 per year for the various franchise taxes. In addition, the proposed project would be subject to the City business license tax. This tax is charged on the business gross receipts but is capped at \$3,000 per year. For purposes of this analysis, ADE has assumed all activity on the site would be under a single business license. If the restaurants or other functions onsite are organized as separate businesses, the business license tax may be higher than \$3,000 per year total. For comparison, ADE estimated that the retail businesses currently onsite pay as much as \$16,600 in business license tax based on the maximum gross receipts estimated for the retail uses. Finally, the City would earn a small amount of interest income on revenue generated by the project, estimated at about \$6,200 to \$6,800 per year.

COSTS FOR CITY SERVICES

The American Tin Cannery Building is an existing active land use in Pacific Grove which exerts a certain demand for City services currently. The proposed Hotel Bella project would be a more intensive land use but would likely not require a measurably higher level of service, based on discussion with City service departments. ADE discussed the project with the City Police Department, the Fire Department, and the Public Works Department and in no cases were there any requirements for additional City staff or major facilities anticipated.¹⁰ This assessment relates to the ongoing services provided to the project if built, not the efforts of City staff required during the project review and approval process.

To illustrate the relative effect of the trade-off between the existing retail and the proposed hotel use, ADE has performed a brief average cost analysis for City services. This is based on a per-capita estimate of what the City of Pacific Grove spends to provide services to both residential and non-residential land uses in the City. In this analysis, residential land uses are quantified by the number of residents in the City while businesses are defined by the number of jobs they produce. In general, businesses, as represented by full time equivalent jobs, require about half the level of service as the residential population, primarily due to the shorter duration of the workday compared to the non-work hours occupied by the residential population. Retail businesses, however, often require a higher level of police protection than do other types of businesses due to the potential for shoplifting, robbery and parking lot incidents. Hotel visitors are similar to the residential population in that they spend more time in the City than do workers and are subject to traffic incidences, medical emergencies and other potential public safety calls for service. They also patronize City recreational and cultural amenities such as the museum and City parks and generate a certain level of both cost and revenues associated with those facilities.

¹⁰ Personal communications with: Commander Rory Lakind, Pacific Grove Police Department, Daniel Gho, Public Works Director, and David Reade, Fire Marshall, City of Monterey Fire Department (under contract to Pacific Grove).

The results of this service cost analysis are shown in the lower portion of Table 4 below. The cost analysis includes both direct services such as police and fire protection as well as General Government costs that are estimated as an overhead factor on other direct costs. The proposed hotel would generate an incremental level of direct service costs for the City, but for each Department the costs levels do not constitute a full additional staff position and would instead be absorbed by existing staff. This is particularly true when looking at the net impact in the right hand column of the Table, which factors out the estimated existing cost of serving the American Tin Cannery Building. The cost figures in Table 4 are not indicative of actual expenditures the City would need to make to serve the proposed project, but represent the level of effort, which is relatively minor, that would be needed from existing City staff and resources.

SUMMARY OF CITY COSTS AND REVENUES

As previewed in the discussion above, Table 4 summarizes the projected revenues and net fiscal impact of the proposed project, in comparison to the existing retail use at the American Tin Cannery Building. The revenue estimates include both the low and high estimates based on 160 vs. 225 rooms and result in a net revenue benefit ranging from \$3.0, million to \$4.1 million per year. The existing retail use is estimated to produce net revenues of \$301,100 per year, which would result in a net impact of the proposed project of \$2.7 million to \$3.8 million per year.

As noted in the project description, the project would need to acquire or lease a portion of the right of way (ROW) of Sloat Avenue (about 19,200 sq.ft.) to accommodate the project design. This could be accomplished through either sale or lease of the ROW by the City to the project developer. Additional appraisal analysis would be needed to determine the fair market value of this property. Based on recent sales of similar land in Pacific Grove, without water service, the market value is likely to be around \$25.00 per sq.ft., or \$480,000.¹¹

¹¹ Records obtained by ADE from the Multiple Listing Service include three recent sales of land without water service in Pacific Grove. The sales values ranged from \$6 per sq.ft. for a 1.94 acre site to \$40 per sq.ft. for a 3,500 sq.ft. site. The third parcel was about 0.5 acre, similar to the size of the Sloat ROW, and sold for \$25 per sq.ft.

TABLE 4: SUMMARY OF PROJECTED COSTS AND REVENUES FOR THE CITY OF PACIFIC GROVE					
REVENUES	PROPOSED HOTEL		EXISTING RETAIL	NET CHANGE FOR THE CITY	
	Low	HIGH		Low	HIGH
Taxes					
Property Tax	\$339,700	\$339,700	\$15,600	\$324,100	\$324,100
Property Tax in lieu of VLF	\$103,400	\$103,400	\$4,700	\$98,700	\$98,700
Sales Tax	\$209,400	\$294,000	\$312,500	(\$103,100)	(\$18,500)
Transient Occupancy Tax	\$2,555,000	\$3,593,000	\$0	\$2,555,000	\$3,593,000
Utility Users Tax	\$25,200	\$35,500	\$3,900	\$21,300	\$31,600
Franchise Tax	\$16,100	\$22,600	\$2,500	\$13,600	\$20,100
Business License Tax	\$3,000	\$3,000	\$16,600	(\$13,600)	(\$13,600)
Interest Earnings	\$6,300	\$6,800	\$400	\$5,900	\$6,400
TOTAL REVENUES	\$3,258,100	\$4,398,000	\$356,200	\$2,901,900	\$4,041,800
EXPENDITURES					
General Government	\$43,500	\$60,600	\$10,400	\$33,100	\$50,200
Police Dept.	\$64,400	\$90,600	\$29,600	\$34,800	\$61,000
Fire Services	\$34,100	\$47,900	\$5,200	\$28,900	\$42,700
Public Works	\$50,900	\$71,500	\$7,800	\$43,100	\$63,700
Community Development	\$20,400	\$26,100	\$2,200	\$18,200	\$23,900
Library	\$12,400	\$17,400	\$0	\$12,400	\$17,400
Recreation	\$4,100	\$5,800	\$0	\$4,100	\$5,800
Museum	\$3,100	\$4,400	\$0	\$3,100	\$4,400
TOTAL EXPENDITURES	\$232,900	\$324,400	\$55,200	\$177,700	\$269,200
TOTAL NET SURPLUS REVENUES	\$3,025,200	\$4,073,600	\$301,000	\$2,724,200	\$3,772,600

Source: ADE, Inc.

CONCLUSION

The proposed Hotel Bella project would create a net surplus of revenues for the City of Pacific Grove equal to 15 to 20 percent of existing City General Fund revenues and well in excess of the budget shortfall estimated at \$1.5 million in the current City budget forecast. Hotels, and the tourism industry in general, often serve as economic engines for local communities in the sense that they attract spending from outside the region, which in turn supports local jobs and incomes in retail and service businesses throughout the community. Similarly, for City government the tax structure for lodging and tourism is beneficial because the added transient occupancy tax and sales tax revenues often exceed the cost of services for the visiting population. For Pacific Grove, which already has an extensive base of lodging facilities and related visitor amenities, including restaurants, cultural attractions and recreational opportunities, little additional expense is required to provide services to the incremental growth in visitors from the proposed project. However, on the revenue side the Hotel Bella project would add a segment of the lodging market to Pacific Grove that doesn't currently exist, in terms of attracting high income families and creating the potential for TOT and sales tax revenues that far exceed any measure of service cost obligation for the City.