City of La Quinta

CITY / SA/ HA/ FA MEETING DATE: October 7, 2014

ITEM TITLE: OVERVIEW OF SILVERROCK PURCHASE AGREEMENT BUSINESS TERMS WITH MERIWETHER AND THE ROBERT GREEN COMPANY

AGENDA CATEGORY:

BUSINESS SESSION:

CONSENT CALENDAR:

STUDY SESSION: 2

PUBLIC HEARING:

RECOMMENDED ACTION:

Provide direction regarding the SilverRock Resort purchase agreement.

EXECUTIVE SUMMARY:

- On September 16, the City Council held a study session on the SilverRock Resort Development Program.

- The City and developer, Meriwether and the Robert Green Company (Developer), have crafted a development program that includes a luxury hotel with branded luxury residential, a lifestyle hotel and lifestyle branded residential, a conference and shared services facility, a mixed-use village, resort residential village, renovation of the existing Ahmanson Ranch House, construction of a permanent golf clubhouse, as well as associated road and utility infrastructure.

- In order to effectuate the development program, the City must enter into a Purchase, Sale and Development Agreement and Development Agreement with the Developer.

- Guiding principles throughout the negotiations have been to ensure long-term income generation to the City, maintain current levels of resident golf play, and create new recreational opportunities for residents.

- The business terms, contractual safeguards for the City, and return on investment will be presented in greater detail during the Study Session.

FISCAL IMPACT:

The transaction requires City investment of up to $20.1 million in transient occupancy tax (TOT) revenue, from the luxury and lifestyle hotels only, during the first 15 years of the respective hotel operation. Per the adopted Capital Improvement Program, the City is also scheduled to invest up to $7.0 million of former redevelopment agency bond proceeds to extend SilverRock Way (these bond proceeds were designated for this use in 2006).

The City would receive $52.9 million in fee and tax revenue over the same 15-year period: $5,200,000 in development impact fee revenue, $38,700,000 of TOT revenue (after the $20,100,000 TOT rebate), $6,000,000 of sales tax revenue, and $3,000,000 of property tax revenue.

BACKGROUND/ANALYSIS:

The City and Developer are completing a Purchase, Sale and Development Agreement (Agreement). The Agreement will available for public review on October 13, 2014. The reason it is not included with this report is that terms were being finalized. The Agreement will be the subject of a noticed public hearing to be held on November 4, 2014.

The Agreement sets forth the relationship, terms and conditions wherein the City and Developer would implement the development program. This development would be a public/private partnership subject to the changes dictated by the private market. Thus, the Agreement will be a dynamic versus a static document with provisions changing and market conditions change. Cities, in general, desire no change because stakeholders seek minimal risk. But in the post redevelopment world (with redevelopment many cities could be an investor and thus control events) cities must now rely on private financing which changes as market condition change.

The following narrative summarizes what the Agreement would implement.

Development Program/Developer Investment
The projected value of the Development Program is $420 million. The Development Program includes the following:

A. Master Site Infrastructure – infrastructure improvements including mass grading, wet/dry utilities, roads, re-routing of existing golf holes and storm water retention at a cost of $42 million paid by the Developer.

B. Hotels – a 140-room, 5-star quality luxury hotel and spa and a 200-room, 4-star quality lifestyle hotel.

C. Conference – a 71,000 square foot conference center and shared services facility shared by the luxury and lifestyle hotels.

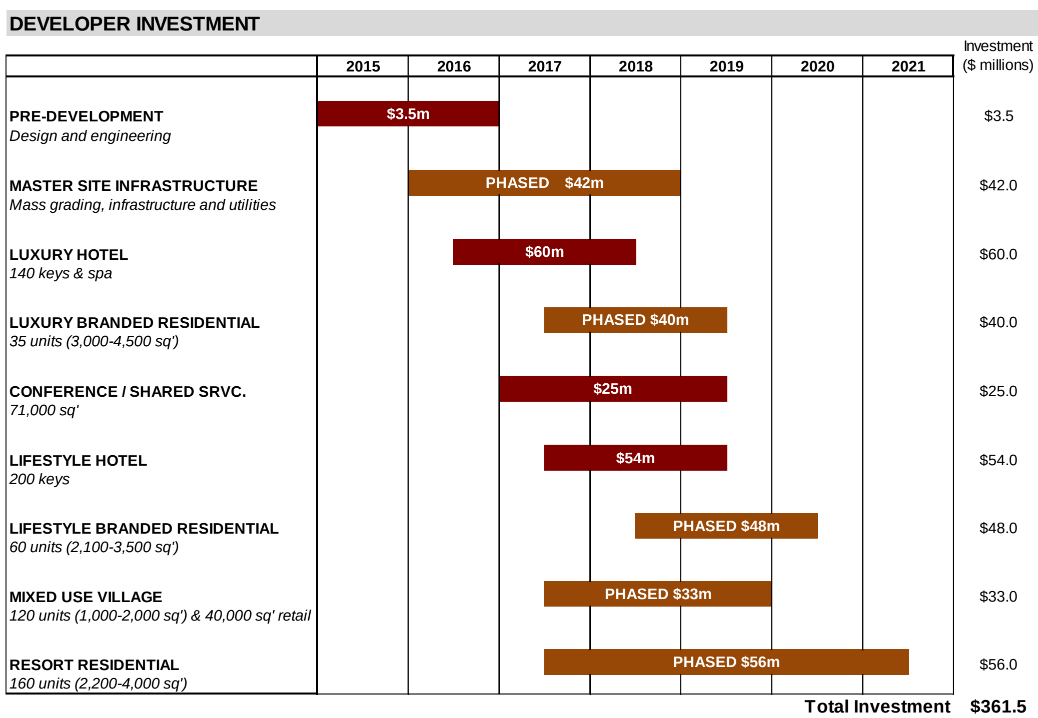
D. Retail – a resort village with 150,000 square feet of resort residential units and up to 40,000 square feet of retail space with recreation areas.

E. Branded Resort Residential –35 luxury and 60 lifestyle branded residential homes that are associated with their respective hotels to be used by owners as well as rented out by the hotels. These units will generate TOT that is not subject to any rebate

F. Resort Residential – 160 resort style homes for use by their owner and rental as TOT generating units not subject to rebate.

G. Ahmanson Ranch House – renovation of the facility as a public event center and serve as an amenity to the luxury hotel.

H. Enhanced Golf Clubhouse – 5,000 square feet of air conditioned space with large outdoor patios and event lawn.



Please note the projected Developer investment is $361.5 million, which is based upon the construction value. As properties sell and the hotels open, this value will increase. The City revenue projections are based upon a higher $420.0 million value to generate the revenue projections.

Arnold Palmer Course Reconfiguration
It is anticipated that three existing golf course holes will have to be relocated or reconfigured in order to accommodate the luxury hotel. The City, Developer and Arnold Palmer Design Group have reviewed this impact and together have discussed a golf hole rerouting plan. If the Agreement is approved, these parties will craft a plan that works for all parties.

TOT Rebate
The Coachella Valley is a seasonal market with high, shoulder and low seasons. The market high season occurs between January and April when weather is desirable and unique special events and festivals increase demand. During the high season, occupancy (approximately 80 percent) and room rates are at their highest levels. May through June and October through December is the shoulder season when both occupancy and rates are off their highs. Finally, the low season runs from July through September and hotels rely on deeply discounted rates to attract opportunistic travellers. The low season has both the lowest occupancy (average 50 percent) and room rates.

Hotel equity and lender partners are very conservative and seek a variety of assurances that they will achieve a set rate of return on their investment (particularly in seasonal markets). In this case, the Developer's lenders are seeking an 11 percent return on cost. In order to ensure this return, the Developer requires a TOT rebate.

The TOT rebate that has been negotiated would span 15 years. In those years less than an 11 percent return on cost is achieved, the City would rebate some or all of the TOT revenue from the luxury and lifestyle hotels. No other City revenue would be used for this rebate. In years 1 through 10, 95 percent of the TOT would be rebated. In years 11 through 15, 75 percent of the TOT would be rebated. TOT rebates are not paid when an 11 percent return is achieved.

PKF, a hotel market expert, validated the need for public investment in luxury and lifestyle hotels, particularly in seasonal markets. Further, they stated that the 11 percent return is at the lower end of what is common (11 percent to 15 percent).

Land Sale
The City would sell approximately 145 acres of property for $1.00 per parcel (the number of parcels has yet to be determined). The former Redevelopment Agency used tax-exempt bonds to purchase the land and fund the subsequent improvements. Internal Revenue Service regulations restrict the income the City may receive from property purchased an improved with tax exempt bonds. Land sale income is one of these restrictions, which results in the land sale income of $1.00 per parcel. This would be the case regardless of the developer.

Resident Golf
Since the negotiations first began, the City insisted and the Developer has agreed that the current resident card status would not change. The number of golf rounds and resident access to tee times would remain the same. During the past three years, approximately 14,000 rounds annually have been played by residents, which amount to 30 percent of total play at the course. Going forward, that same 30 percent amount will remain dedicated to resident play with the same preference.

Contractual Safeguards
Staff has negotiated contractual safeguards in order to safeguard the City. These safeguards include the following:

- The Developer will only be able to purchase the land in phases after they demonstrate ability to perform per the project milestones.

- Proof of financing must be demonstrated prior to construction of all development components.

- The Developer's financial statements will be auditable and based of industry standards as a monitoring mechanism of the TOT rebate.

- All project components must start and be completed within designated timeframes.

- The City reserves the right to re-purchase the property from the Developer should they default in anyway.

- All project components must have the necessary contractor and performance bonds, completion guarantees, and be fully insured.

City Return
As stated in the Fiscal Impact, the City will receive an estimated $52.9 million in net new revenue from Development Impact Fees, TOT, sales tax and property tax over a 15-year period. Thereafter, the City will receive 100 percent of TOT, resulting in combined annual tax revenues approaching $6 million annually.

Attachment 1 outlines the distribution of revenues collected during project development and the 15-year TOT rebate period. The City would capture approximately 70 percent of project revenue. In addition, Attachment 2 illustrates the timeline by which the revenue would be remitted to the City. Beginning in 2016, the City would receive Development Impact Fee revenue. Once the luxury hotel is brought online in 2018, the City will begin receiving TOT, sales tax and additional Development Impact Fee revenue.

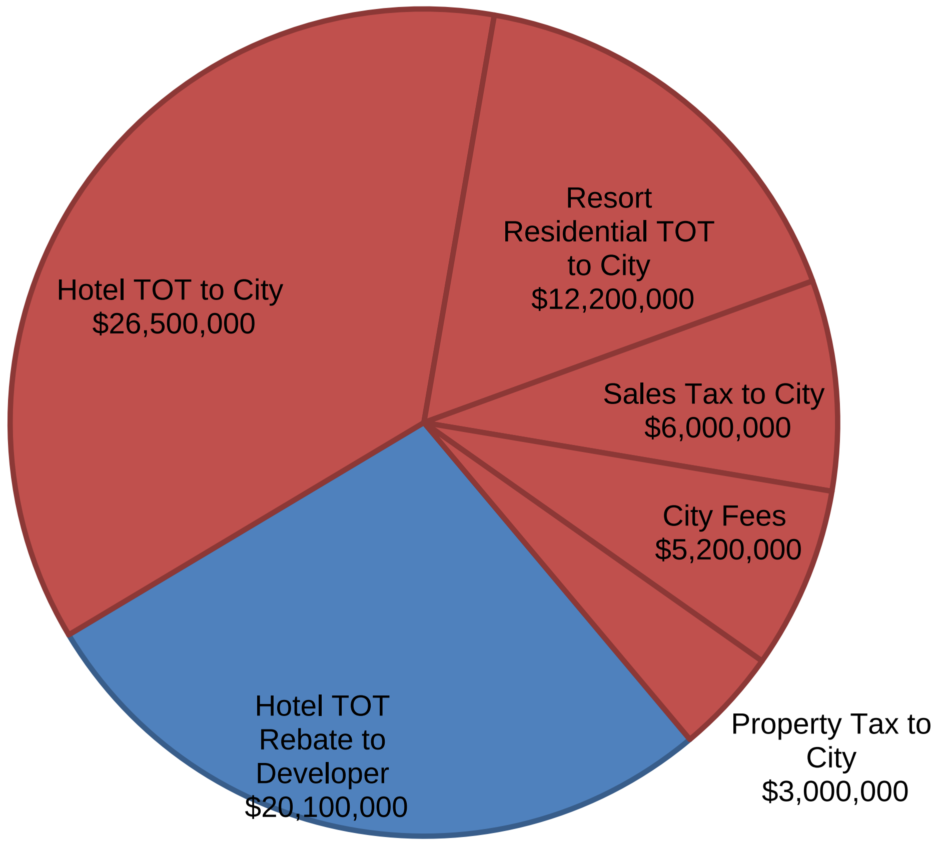
<u>ALTERNATIVES:</u>

As this is a study session item seeking direction from the City Council, staff does not recommend an alternative.

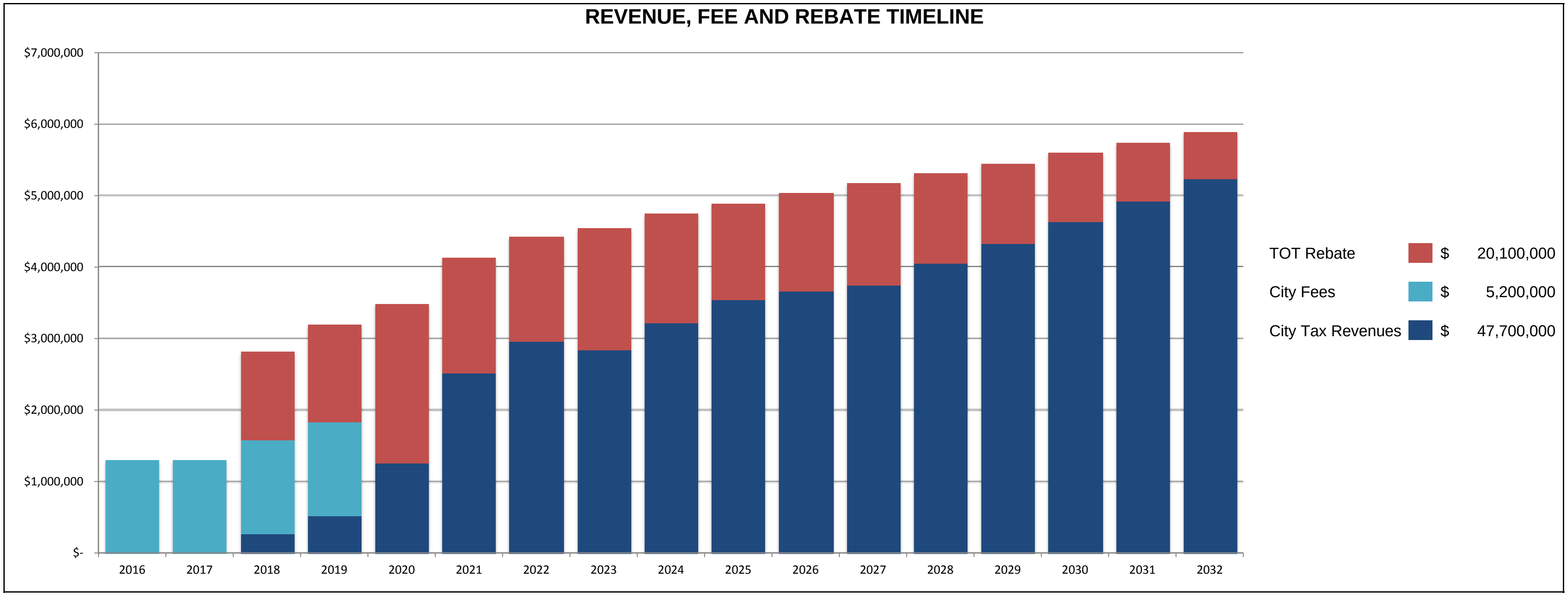
Report prepared by: Chris Escobedo, Assistant to City Manager
Report approved for submission by: Frank J. Spevacek, City Manager

Attachments: 1. Distribution of Revenue Chart
2. Timeline of Revenue to City

DISTRIBUTION OF REVENUES COLLECTED DURING THE FIRST 15-YEARS OF OPERATION RESULTING FROM THE DEVELOPMENT OF SILVERROCK



TOTAL CITY REVENUES	$	52,900,000	72%
TOTAL REBATE	$	20,100,000	28%


REVENUE, FEE AND REBATE TIMELINE
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
TOT Rebate $ 20,100,000
City Fees $ 5,200,000
City Tax Revenues $ 47,700,000