



DEVELOPMENT OF A HOTEL INCENTIVE POLICY

Tuesday, March 25, 2025



Staff Recommendation

Staff is requesting City Council direction regarding the development of a draft Hotel Incentive Policy. This policy will aim to attract high-quality hotel developments that will contribute to the City's economic growth, generate substantial Transient Occupancy Tax (TOT) revenues, and enhance the local business environment.



Background

Importance of Transient Occupancy Tax (TOT)

- A key revenue source for municipal services, infrastructure, and community programs.
- TOT rate in Watsonville: **12%** (collected from hotel guests).
- Expected TOT revenue for Watsonville: **\$1.6 million this fiscal year.**

Current Hotel Landscape in Watsonville

- The city currently has **eight hotels** operating.
- Limited supply of **high-quality hotels** reduces potential revenue and visitor spending.

Economic Impact of New Hotel Developments

- Generates **hundreds of thousands of dollars** in annual TOT revenue.
- Stimulates **millions of dollars** in local business activity.
- Creates jobs and enhances Watsonville's tourism appeal.



Challenges & Opportunities

Barriers to Hotel Development

- Current **economic and financial conditions** make it difficult for developers to secure affordable financing.
- High construction and operational costs require additional financial support.

Benefits of Hotels

- Attracts **business and leisure travelers**.
- Expands the **City's tax base**.
- Encourages additional investment in local businesses and infrastructure.



Hotel Incentive Policies in Other Cities

Morgan Hill

- City covers **up to 50% of infrastructure costs** (roads, sidewalks, utilities).
- Costs repaid through **TOT revenue rebates** for up to 10 years.
- Program may extend **an additional 5 years** if subsidy cap is not met.

Dublin

- TOT rebates of **up to 70%** for **4-star hotels**, **50%** for **3-star hotels**.
- Rebates last **up to 20 years** for **4-star hotels**, **15 years** for **3-star hotels**.
- Renovated hotels receive TOT rebates for **up to 10 years**.

Santa Ana

- Targets **4-star or higher hotels** for economic incentives.
- Uses **50% of Hotel Visitors' Tax (HVT) incremental revenue** to fill funding gaps.
- Incentives are **customized** based on project feasibility and impact.



Proposed Policy & Incentive Options for Watsonville

TOT Revenue-Sharing Agreements

- **40% - 60% TOT rebate** for **4-star hotels** after a revenue threshold is met.
- **20% - 40% TOT rebate** for **3-star hotels** to support mid-tier developments.
- Case-by-case negotiations to ensure **maximum economic benefit**.

Hotel Renovation Incentives

- TOT rebates for **existing hotels** to encourage renovations and modernization.
- Leads to **higher occupancy rates** and increased TOT revenue over time.

Public Improvement Support

- The City may assist in **infrastructure improvements** such as:
 - Upgraded roads, sidewalks, and utilities.
 - Improved parking facilities and access.
- Support through **reimbursement agreements or TOT rebates**.



Proposed Policy & Incentive Options for Watsonville (Continued)

Grant Support for Hotel Developers

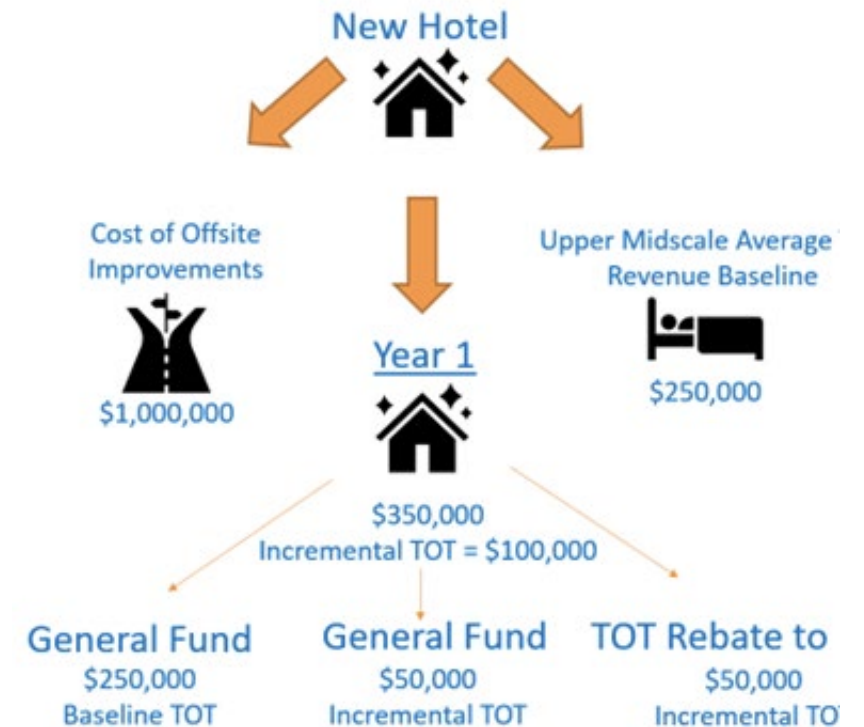
- The City can assist in securing **state, federal, and private grants**.
- Helps fund projects that align with economic development, tourism, and sustainability goals.
- Can serve as **co-applicants** on grant applications to improve funding success rates.

Leveraging the City's Revolving Loan Fund

- Financial support for hotel renovations through **low-interest loans**.
- Encourages upgrades to **aging hotel infrastructure** to increase competitiveness.

TOT Sharing example

- City's policy establishes base line TOT for a 4 star-hotel at a set rate (for Example \$250,000).
- New proposed hotel requires \$1 million in offsite improvements.
- Once complete the hotel will generate \$350k in TOT.
 - City's general fund would receive the \$250,000 base line TOT.
 - The remaining \$100,000 will be evenly distributed (50/50) until the **agreed-upon time or amount is met**
 - City's general fund would receive \$50,000 (additional to the base line)
 - Developer would receive the remaining \$50,000 as a TOT rebate





Strategic & Financial Considerations

Strategic Plan Alignment

- Economic Development
- Infrastructure & Environment
- Fiscal Health

Financial Impact

- **No immediate cost** to the City for developing the policy.
- TOT-sharing agreements may temporarily **reduce short-term revenue** but will:
 - Increase **long-term TOT collections**.
 - Boost **local business activity** and job creation.
 - Enhance the **City's overall economic vitality**.

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