The City of Monterey proposes to provide an Economic Development Subsidy pursuant to Government Code section 53083. The project site is located at 2101 North Fremont Street (the Property) and currently includes a closed 18 room hotel and restaurant. The Property owner proposes to demolish the existing hotel and restaurant and construct a new 25,000 square foot, 4-story, 42 guest room branded hotel and 42 space surface parking lot.

Beneficiary Name: Lakshmi Hotel Partners, Inc.

Beneficiary Address: 4258 Cesar Chavez St, San Francisco, CA 94131

Economic Development Subsidy Start and End Dates

The economic development subsidy will start on the first day of business operation and terminate seven years after the first day of business operation. The economic development subsidy will be memorialized in an Agreement that will be effective if approved by the City Council.

Description of Economic Development Subsidy

Monterey City Code section 35-11 establishes a Transient Occupancy Tax (TOT) for visitor accommodation facilities. Each transient is subject to and shall pay a tax of 12%. In summary, this means that hotel and motel guests pay 12% of the room rate in taxes which the hotel/motel then remits to the City. The proposed Economic Development Subsidy will credit the Owner TOT.

During the first year of the Hotel’s operation, City shall credit back to the Owner up to $100,000 of TOT remitted to the City. For years 2-7 of the Property’s operation, the City shall credit back to Owner up to $75,000 annually of TOT remitted to the City. The credit back to Owner shall only apply to TOT collected by Owner and remitted to City over $125,000. The total credit received by Owner over the first seven (7) years of operation of the Property, which is the duration of the economic development subsidy, shall not exceed $550,000 or two-percent (2%) of the total project cost, whichever is lesser. Before the issuance of any Certificate of Occupancy, the Owner shall notify the City in writing of the total project cost to calculate and administer the TOT credit obligations.

Economic Development Subsidy Public Purpose:

The existing hotel and restaurant have been closed for almost 12 months. The City has not received TOT since June 2021 from this site. TOT is the primary funding source for the City’s General Fund to provide a wide variety of essential community services such as fire, police, recreation, library, and general government services. In addition, 16% of the total TOT collected is allocated to the Neighborhood and Community Program established by the City Charter subsection 6.6(c) to improve the residential neighborhoods of the City and to provide for capital projects of community-wide benefit.
As illustrated in the chart below, the total General Fund FY 2021-2022 revenue was estimated to be $79.02 million in the 2021-2022 budget. The top five revenues in FY 2021-2022 are TOT, fees & charges, property tax, sales tax and intergovernmental revenues. The chart below shows that the top 5 General Fund revenue sources make up more than 80% of the total General Fund revenues.

Table 1
Fiscal Year 2021-2022
General Fund Revenues by Source

These funding sources are not estimated to cover the City’s general fund costs. The 2021-2022 budget estimated the following shortfalls overtime:

Table 2
General Fund Estimates
The City proposes to provide a TOT credit to the Owner to enable the hotel to be constructed. Once operational, the hotel will dramatically increase TOT collected from the site over the project’s life. Increasing TOT is important to ensure the City’s long term fiscal viability.

The public purpose of providing such credits back to the Owner is the economic benefit that accrues to businesses and citizens of Monterey. Increased TOT will fund essential public services.

The location of the proposed hotel in the North-Fremont business district represents the first major development in this area for more than 40 years. Recent City investments created new sidewalks, dedicated bike lanes, new center medians and reconstructed street with the intent to revitalize this area. The project will be also the first to restore and rehabilitate Monterey’s existing inventory of smaller hotels and motels. The City hopes that the AVID hotel will not only serve as a catalyst for a business district in need of investment but also as a model for other hotels and motels to upgrade their respective facilities.

**Net Tax Revenue Accruing:**

The developer estimates that the Avid Hotel project will have an annual gross income of $3.5m-3.8m based on average daily rates (ADR) and normalized historical occupancies that are in place with the comparable set in the marketplace. The City of Monterey estimates it will receive $250,000 annually based on the TOT rate of 12%. This does not include the additional taxes that are imposed on hotels by the City of Monterey such as the Conference Center Facilities District (CCFD) Tax that ranges from 0.8% to 4.15% depending on the location of the hotel. The AVID hotel would pay .8% CCFD tax. Additionally, there is a Tourism Improvement District Fund that ranges from $1.00-2.00 a night depending on their room. Based on the Monterey County Hospitality Association this brings the total tax rate to an equivalent of 15%.
In summary, the net tax revenue accruing over a 40-year period is approximately $18,300,315 assuming a very conservative CPI.

Table 3
Net Tax Revenue Accruing

<table>
<thead>
<tr>
<th>Operational Year</th>
<th>Anticipated TOT</th>
<th>CPI Adj 3%</th>
<th>Anticipated TOT w/Annual 3%</th>
<th>Less Tax Credit</th>
<th>Revenue to the City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$250,000</td>
<td>$0</td>
<td>$250,000</td>
<td>($100,000)</td>
<td>$150,000</td>
</tr>
<tr>
<td>Years 2 - 7</td>
<td>$1,617,102</td>
<td>$48,513</td>
<td>$1,665,616</td>
<td>($450,000)</td>
<td>$1,215,616</td>
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<tr>
<td>Years 8 - 10</td>
<td>$922,674</td>
<td>$27,680</td>
<td>$950,354</td>
<td>$0</td>
<td>$950,354</td>
</tr>
<tr>
<td>Years 11 - 20</td>
<td>$3,739,441</td>
<td>$112,183</td>
<td>$3,851,624</td>
<td>$0</td>
<td>$3,851,624</td>
</tr>
<tr>
<td>Years 21 - 30</td>
<td>$5,025,495</td>
<td>$150,765</td>
<td>$5,176,260</td>
<td>$0</td>
<td>$5,176,260</td>
</tr>
<tr>
<td>Years 31 - 40</td>
<td>$6,753,846</td>
<td>$202,615</td>
<td>$6,956,461</td>
<td>$0</td>
<td>$6,956,461</td>
</tr>
<tr>
<td>Total</td>
<td>$18,308,558</td>
<td>$541,757</td>
<td>$18,850,315</td>
<td>($550,000)</td>
<td>$18,300,315</td>
</tr>
</tbody>
</table>

Net Number of Jobs Created:
The proposed 42 room hotel will generate an estimated 45 positions (34 full time positions and 11 part time positions, including:

Full time jobs (34 positions):
- General Manager
- Assistant Manager
- Front Desk Manager
- Front Desk Staff (8 persons)
- Night Auditor
- Housekeeping Manger
- Laundry Attendant
- Housekeepers (12 persons)
- Houseman (2 persons)
- Accountant
- Controller
- Maintenance (2 persons)
- Revenue Manager
- Director of Sales

Part time jobs (11 positions):
- Front Desk Manager
- Front Desk Staff (4 persons)
- Night Auditors (2 persons)
- Housekeepers (2 persons)
- Maintenance (2 persons)

The City will issue a report on this subsidy within five years of its approval.

This document shall be available to the public and be posted on the City’s internet web site for the entire term of the subsidy.