



Agenda Cover Memorandum

Meeting Date: May 28, 2019

Meeting Type: Committee of the Whole City Council Budget Workshop

Item Title: Discuss Potential Hotel Development and Incentives

Item Type: Transfer Budget Amendment Purchase Order Other

Action Requested: Approval For Discussion Feedback Requested For Your Information

Staff Contact: Jim Brown, C.P.&D. Director Phone: (847) 318-5296 Email: jbrown@parkridge.us

Background:

In January of this year the City was approached by a group of investors interested in establishing a boutique hotel at 1424-1440 Higgins Road, i.e. on the Mr. K's Landscaping site. Members of the group provided their vision for the project. It would be a small, boutique hotel of perhaps 100-125 rooms; the hotel would not have a full-service restaurant but would feature a small breakfast area and perhaps a bar. Members also described potential revenue that the hotel would generate based on the number of rooms, industry standard of room occupancy rate for type and location of hotel, and market room rate for such a hotel.

At this meeting, the group indicated they had had contact with a real estate broker regarding the site, but were still far apart on a purchase price. Assuming they could negotiate a suitable price, members of the group inquired about: (1) the zoning and development approval processes; and (2) whether the City would consider development incentives for the project. I advised at the time that approval via the City's planned unit development/special use process would probably be most appropriate manner for approval. (See below.)

The investor group was advised of the City's policy on incentives. (CPS31 attached.)

On April 16 members of the investor group signed a contract for the property. The city manager and I then advised them—if the group desired to pursue development incentives—to submit in writing specific requests. At the end of April I received a letter from the Scarlett Hotel Group which included a list of specific requests.

The city manager reviewed the letter, and in early May responded with our thoughts on each request. It was made clear at that time that any potential incentives would need to be fully justified and approved by the City Council. We also urged the representatives of the group to appear at the Committee of the Whole for a discussion on the project, its potential to the City, and development incentives.

Discussion:

Staff's recommendation is that this discussion should not delve into the specifics of any potential incentives at this time. Rather, the questions to discuss—per our recommendation—are the following:

- Is the City willing to start the negotiations for an incentive agreement for the hotel project?
- And, if so, what types of potential incentives would the City be willing to negotiate, e.g. rebate of hotel tax?

Benefits of a Hotel in Park Ridge:

Although the City is approximately six miles from terminals at O'Hare International Airport, no hotels are located in Park Ridge. This situation in neighboring communities is quite different. Numerous hotels are located in Rosemont, Arlington Heights, Niles, and Elk Grove. Hotels occupy the Chicago side of Higgins Road, but there are none on the Park Ridge side. To date, Park Ridge has missed out on hotels bolstering existing revenue streams and in creating new ones. There are also potential economic development advantages to local businesses that could benefit from a steady stream of visitors to a Park Ridge hotel. In particular restaurants would benefit from the influx of hotel patrons.



The City has a 4% hotel tax. This is low compared to other nearby municipalities (see attached sheet). Raising the City's rate for the hotel tax to be comparable to these communities could result in a revenue stream to the City of over \$250,000 per year. (See attached sheet).

If the property were redeveloped, the amount of property tax collected would also increase. Moreover, the amount of property taxes paid to the school districts would increase, with virtually no additional burden on the school districts.

Potential Incentives:

City staff has made it clear to the hotel development representatives that incentives for the project are in no way certain, and are in fact non-typical to date in Park Ridge. However, the project certainly has merit and the requested incentives are worthy of Council consideration.

Scarlett Hotel Group (SHG) has requested the following:

- *That the City create a planned unit development for the site within five months.*

Comment: The subject property is zoned B-2. Hotels require special use approval in the B-2 district. Planned unit developments are special uses—the approval process provides a discretionary review by the City to which conditions of approval can be attached. Furthermore, planned unit development approval can be granted for specific projects with very specific design considerations. Staff has advised SHG that, from the City's perspective, a planned unit development would be the most appropriate way to request land use approval. While the staff did not guarantee any timeframe for approval, we did note to SHG that most special use requests (a PUD is a special use) can be approved within three-five months.

- *That the City amend the local hotel tax from 4% to 9%, and that the tax be rebated to SHG for a duration of seven years.*

Comment: Staff feels the increase in the City's hotel tax warrants consideration based upon comparable data. (See attached table.) The City currently has no hotels, and an increase would put the City's tax in line with surrounding communities' rates. While staff feels some rebate of the hotel tax warrants consideration, the rebate schedule would need to be negotiated so that there is an immediate benefit to the City.

- *That the City waive building permit fees.*

Comment: Building permit fees for the project could amount to over \$200,000. Staff feels this incentive warrants consideration, but that the City should seek to cover at least its own labor costs in reviewing the building plans, outsourcing to consultants, and labor costs for inspections.

- *That the City pay for a third party market feasibility study, estimated at circa \$15,000.*

Comment: Staff finds it in the best interests of the City to have a market feasibility study conducted. The question is who should pay for it? Given the relatively low cost of such a study, and the fact that the City's engagement of a consultant could eliminate or reduce questions regarding the validity of a study that a developer has paid for, staff feels this proposed incentive warrants consideration.

- *That the City should pay for architectural/design fees up to \$250,000.*

Comment: Staff feels that this incentive does not warrant consideration by the City.

- *That the City rebate any of its own incremental increase in property taxes collected for a period of seven years (this does not include rebating any portion of other taxing bodies' taxes).*



Comment: For 2017, the subject property's tax bill was \$82,589, of which \$6,847 (8.29% went to the City). The request is that any increase above this would be rebated to the developer. In general, staff finds this incentive worthy of consideration with a negotiated schedule. Potential property tax revenue to the City for a hotel on the site has been estimated at \$56,000 (see attached CP&D letter).

Council Policy Statement No 31 regarding potential economic development incentives is attached. Given the great potential in revenue to the City and other taxing bodies with relatively no impact to the City (other than perhaps adjacent properties), staff feels the discussion and negotiation of incentives warrants consideration, and that staff, including the city attorney, be authorized to enter into development incentive negotiations. However, prior to the approval of any incentive agreement, the developer should demonstrate why incentives are necessary or desirable to ensure the success of the hotel project.

Next Steps:

Staff envisions—with Council concurrence—two approval tracks for the project: one for the PUD, which would go through the Planning & Zoning Commission; and one for the incentive agreement, which would be negotiated by staff and periodically brought to the City Council/COW for status updates and further guidance. Ultimately the two approvals (one a PUD ordinance and the other a development agreement) could be tied to each other and approved at the same Council meeting. A market feasibility study should also be initiated.

Additionally, the City should consider raising its hotel tax from 4% to 7-9%.

Recommendation:

Discuss potential hotel development and incentives and provide guidance to staff on next steps.

Attachment(s), if any:

- CPS No. 31, Economic Incentive Agreements
- Potential hotel tax revenue
- CP&D letter 021-19, RE: Higgins Road Tax Research, dated 6 May 2019

COUNCIL POLICY STATEMENT

Policy No. 31
General Subject: General
Specific Subject: Economic Incentive Agreements
Date Approved: November 7, 1994
Date Revised: October 7, 1996

PURPOSE

To establish a policy under which incentives may be offered for business expansion or development within the City limits.

POLICY STATEMENT

In order to improve the City's economic base, the City Council may offer incentives for business development within City limits. The benefits to the City for offering economic development incentives may include increasing sales tax receipts, improving the property tax base, helping the City to remain economically viable and competitive with surrounding communities, attracting additional retail business into the City, providing additional goods and services to Park Ridge residents, and protecting or increasing the revenue base of the City.

The City of Park Ridge shall require any economic development investments provide a demonstrable quantitative and qualitative return on the City's investment to be realized during a reasonable period of time after such investment.

Whether the City participates in the agreement, and if it participates, the amount or nature of the incentive will be determined on a case-by-case basis. The City's participation in the incentive agreement should be necessary to assure the feasibility of a private business to expand or develop within Park Ridge.

Potential Hotel Tax Revenue

Rooms	110	110	110	110	120
Room rate	115	115	115	115	120
Occupancy rate	0.75	0.75	0.75	0.75	0.75
Daily revenue	9,488	9,488	9,488	9,488	10,800
Annual hotel room revenue	3,462,938	3,462,938	3,462,938	3,462,938	3,942,000
Hotel tax rate	0.04	0.07	0.08	0.09	0.09
Annual hotel tax revenue	\$138,518	\$242,406	\$277,035	\$311,664	\$354,780



DATE: 6 May 2019 021-19

TO: Jim Brown, Director, CP&D

FROM: John Carlisle, Planner, CP&D

SUBJECT: 1440 Higgins Road Tax Research

REFERENCE: Fiscal Impact Report from Teska Associates dated 5 September 2017 for Zoning Case 17-11-PD

1. To support decision-making regarding a potential future use of property at 1440 Higgins Road, I researched the following:

- a. Property tax projection for a hotel as presented in a 2017 fiscal impact report created by Teska Associates
- b. Hotel/motel tax rates from nearby municipalities in the northwest/O'Hare submarket

2. PROPERTY TAX PROJECTION

According to Page 22 of the reference report, the estimated annual property tax revenue to the City of Park Ridge for a hotel use at this property is \$56,316. Projected annual revenue for other taxing bodies is included in the attachment.

3. HOTEL/MOTEL TAX RATES

The table on Page 2 shows the hotel/motel tax rates of nearby municipalities. The existing rate for Park Ridge is the lowest rate in the table.

Typically, these taxes are levied on every locally licensed and registered hotel/motel for all room rentals for stays of less than 30 days. Short-term rentals such as Airbnb are allowed in some municipalities with a surcharge or separate rate, but these are not included in the data. The taxes are levied in addition to the State of Illinois six percent (6%) tax and the Cook County one percent (1%) tax on all rooms, except for the portions of Elk Grove Village and Schaumburg that are not in Cook County.

Table. Local hotel/motel tax rates in vicinity

Municipality/Name of Tax	Rate (%)
Arlington Heights	5
Chicago	--
<i>City of Chicago Base Hotel Tax</i>	4.5
<i>IL Sports Facility Auth</i>	2
<i>McCormick Pl & Navy Pier</i>	2.5
<i>Municipal Hotel Tax (Additional)</i>	1
Total	10
Des Plaines	7
Elk Grove Village	12
Mount Prospect	6
Niles	6
Park Ridge (existing)	4
Rolling Meadows	8
Rosemont	7
Schaumburg	8
Schiller Park	7

ATTACHMENT

1. Page 21 from "1440 W. Higgins Road Fiscal Impact Analysis." Teska Associates, 5 Sept. 2017.