



NEWPORT BEACH

City Council Staff Report

August 14, 2018
Agenda Item No. 17

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Donation Agreement with Crystal Cove Conservancy for Cottage Restoration

ABSTRACT:

In 2013, the City entered into an agreement with the non-profit public benefit organization (formerly the Crystal Cove Alliance, now the Crystal Cove Conservancy at www.crystalcove.org) that operates the master concession contract (cottage rentals and food service) through its for profit subsidiary, Crystal Cove Management Company, at the Crystal Cove State Park Historic District.

The 2013-2018 agreement provided that a general fund contribution of \$20,000 per year for five years would be provided to the Conservancy to help the Conservancy to restore more of the cottages. As a result, overall transient occupancy taxes (TOT) to the City would grow and produce more general fund revenue, as more cottages came on line for rental. This Agreement expired in 2018. At the conclusion of this contract, The Conservancy was paying \$130,000 annually in TOT to the City of Newport Beach. The Conservancy wishes to extend the donation agreement for five more years at a larger dollar amount (\$50,000 per year) to allow the Conservancy to add to its funding package with a goal of restoring the last seventeen (17) "North Beach" cottages.

RECOMMENDATION:

- a) Find this action is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly; and
- b) Authorize the City Manager to execute the proposed Agreement between the City and the Crystal Cove Conservancy to assist the Conservancy with Phase III cottage restoration efforts by providing \$50,000 to the Conservancy (solely for infrastructure and restoration purposes) for each of five (5) years.

FUNDING REQUIREMENTS:

The first \$50,000 installment will be due and paid on July 1, 2019. As such, it should be budgeted in FY19-20 and each year after that for a total of five years. It should be expensed to the City Council's Special Department Expense account, 01005005-841046.

DISCUSSION:

In May 2013, the City Council entered into a five-year agreement with the Crystal Cove Conservancy to donate general funds to The Conservancy. The Conservancy has a unique business model where revenue from the existing concession contract reinvests earned revenue back into the park to create a self-sustaining model. Currently, Crystal Cove Conservancy maintains all the historic structures and common areas within the historic district through this funding mechanism.

The concept was to consider the TOT impacts of adding more cottages to the rental reservation system, but instead of a direct TOT rebate, the Council and the Finance Department decided upon a simpler General Fund contribution (all TOT revenue goes into the General Fund).

The agreement stated that The Conservancy was then to invest the funds into cottage renovation (including this Phase III program), helping The Conservancy bring more cottages on-line and therefore creating more TOT in the long run. This agreement ended in 2018, and the Conservancy seeks to extend and expand it, again with the goal of restoring more cottages. Seventeen (17) cottages along "North Beach" remain to be restored, in what would be the final phase of the Crystal Cove cottage restoration effort.

About TOT. Generally, the City collects a 10% Transient Occupancy Tax (TOT) on stays of thirty (30) days or less in the community. The City then returns about 18% of the TOT revenue collected to Visit Newport Beach (VNB), the domestic marketing organization for the community. VNB uses the revenue to promote Newport Beach and its hotels and short-term residential rentals.

The City's adopted FY 2018-19 budget estimates that the City will receive about \$27 million in hotel-related TOT, with another \$2.7 million coming from residential vacation rentals. VNB would then receive about \$4.8M of the hotel TOT, and \$578K of the residential TOT. The net to the City is then \$24.3M in TOT. This becomes a General Fund revenue source, available for any general government purpose.

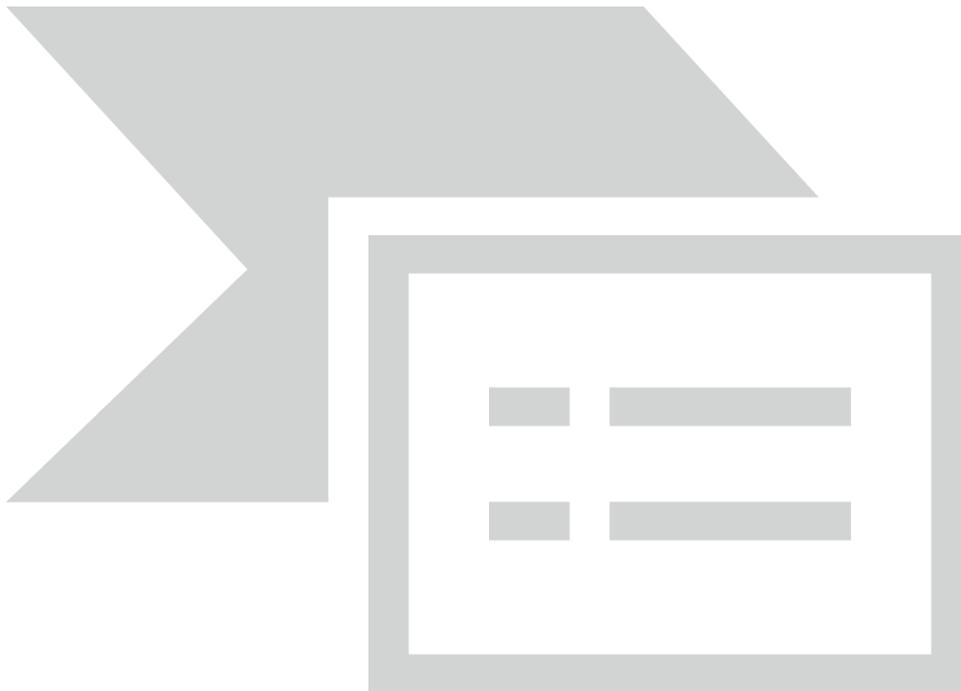
About the Crystal Cove Historic District. The Crystal Cove Historic District lies in the southeastern part of Newport Beach within Crystal Cove State Park. It consists of 46 cottages that are listed on the National Register of Historic Places and are owned by California State Parks but managed by the non-profit Crystal Cove Conservancy (formerly the Crystal Cove Alliance). Since June 2006 certain restored cottages have been open to the public at a relatively low rate for overnight rentals. The rentals are subject to the City's TOT collection.

Today, 24 accommodations are open and reservable at CCSP (these range from separate cottages to dorm-style accommodations and rooms in larger units). Prices today range from \$36/night for dorm-style accommodations to \$251/night for an individual cottage that can house up to nine (9) people. All reservations for cottage rentals are managed by ReserveCalifornia.com.

Rentals have consistently stayed at about 98% occupancy, even during weekdays in wintertime. This high occupancy is driven in part because of the location and in part because the stays are relatively affordable, as directed by the California Coastal Commission. In addition, Crystal Cove Conservancy was the organization that spearheaded getting the Luxury Resort Plan stopped in 2001 and has held at their core mission to provide low cost overnight accommodations in an authentically restored Historic District.

The Phase III Effort. Restoring the remaining seventeen (17) cottages is estimated to cost about \$35,000,000. More specifically and as shown in Table 1 (amounts provided by the CC Conservancy):

Table 1



Upon completion of the final 17 cottages on the North Beach, all cottages will be maintained in this same manner as the cottages and other infrastructure today. No funding from the state's general fund will be needed to maintain all 46 cottages.

On June 8, 2018, the Packard Foundation approved a \$10M low interest loan with \$5M tied to pledges that The Conservancy is currently working to obtain. As of the time of this staff report, about \$1.2M in pledges have been secured, leaving a balance of \$3.8M still to achieve.

If approved, the \$50,000/year donation for the next 5 years will satisfy an additional \$250,000 towards this pledge requirement.

About TOT today, and TOT estimates into the future. The cottages produce about \$129,000 in TOT each year to the City (including the amount that the City sends to VNB and net of the City’s General Fund contribution to the Conservancy). With small room rental rate increases as well as increasing the amount of Phase III cottages that may come online and be ready for reservation, the Conservancy projects that TOT may grow to over \$330K per year by 2024/25 (see **Table 2**, again with amounts provided by The CC Conservancy).

To reach that higher amount on the timeline shown below, The Conservancy has asked that the City enter into a new agreement with The Conservancy that would contribute \$50,000 in City General Funds for each of five years (for a total of \$250,000). The intention is to use the funds for restoration but also to help secure the Packard Foundation 1% construction loan and other commitments. Again, with the additional cottages brought online for rental, the City could expect to see increased TOT overall from the cottages as well as encouraging and supporting this unique low-cost visitor-serving amenity in our city and region. Our Local Coastal Program and the California Coastal Act all encourage additional low-cost visitor-serving accommodations where practicable (NBMC §21.048.025[C]).

In addition, the City of Newport Beach will be recognized on the Donor Recognition Panel located at the project site.

Table 2

**Crystal Cove Conservancy and Crystal Cove Beach Cottages
 City of Newport Beach
 Transient Occupancy Tax Projections**

	Years	Revenue	10% TOT	
Actual	2016/17	\$ 1,297,412	\$ 129,745	
Actual	2017/18	\$ 1,306,712	\$ 130,671	
Projection	2018/19	\$ 1,385,000	\$ 138,500	
Projection	2019/20	\$ 1,426,000	\$ 142,600	
Projection	2020/21	\$ 1,468,000	\$ 146,800	
Projection	2021/22	\$ 1,512,000	\$ 151,200	
Projection	2022/23	\$ 1,557,000	\$ 155,700	
Projection	2023/24	\$ 2,404,000	\$ 240,400	50% of Phase III online
Projection	2024/25	\$ 3,301,000	\$ 330,100	100% of Phase III online
Projection	2025/26	\$ 3,400,000	\$ 340,000	
Projection	2026/27	\$ 3,502,000	\$ 350,200	
Projection	2027/28	\$ 3,607,000	\$ 360,700	

*Note: Revenues are escalated at the rate of 3% per year.

As in 2013, should the Council wish to pursue this, the recommendation before the City Council today would not involve the rebating of TOT, but rather a contribution from the General Fund. The proposed agreement that would enact this contribution is Attachment A.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

This agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the Council considers the item).

ATTACHMENT:

Attachment A – Proposed Agreement