



Hotel Incentive Policy

Adopted June 1, 2022 (revised 8/17/2022)

Purpose

The Hotel Incentive Policy (HIP) provides rebate incentives to encourage the construction of new hotel development and the rehabilitation and upgrade of existing hotels to help enhance the tourism and travel experience and hospitality services for businesses and residents in the area. The intent of this program is to promote economic development, support business operations, and provide attractive and desirable visitor serving facilities and experiences to enhance the city's economic sustainability.

For new hotel development, the HIP provides cost-sharing of up to 50% of City required off-site improvements. The City's contribution will be deducted from future TOT revenue generation after an established TOT baseline.

For the renovation of existing hotel properties, the HIP provides cost-sharing of up to 50% of costs associated with property improvements needed to obtain a higher quality standard that upgrades the hotel brand*. The City's contribution will be deducted from future TOT revenue generation after an established TOT baseline.

Goals

1. The City supports hotel investment to support sports, recreation and wine tourism and support business development.
2. The City supports the development of unique and specialty lodging facilities such as full-service hotels with conference and restaurant facilities; boutique hotels, Bed and Breakfasts, Airbnb, VRBOs and other short-term lodging rental platforms to increase lodging diversity and promote the area as a tourism destination.
3. The City supports reinvestment into existing hotel properties that support the improvements required to upgrade the quality of hotel rooms and enhance hotel brand inventory.

The City's General Plan Update 2035 and the 2017 Economic Development Blueprint provides direction that support the Hotel Incentive Policy.

2035 General Plan. Policy ED 4-9

Overnight Accommodations. Support the construction of a full range of new lodging facilities to build the local tourism industry, enhancing the City's position as a hub for wine tourism and for visitors attracted to the City's sports facilities.

2035 General Plan. Policy ED 4-11

Tourism Support Services. Actively promote development of tourist-oriented commercial, industrial, and recreational uses and facilities, including such uses as lodging, meeting and conference centers, outdoor restaurants, wine and beer tasting, and farmers' markets.

2035 General Plan. Policy ED 4--A

Bed and Breakfast Establishments. Adopt zoning for bed and breakfast establishments where compatible with existing and planned land uses.

2017 Economic Development Blueprint. Tourism Strategy: Support Lodging.

Ensure General Plan and Zoning Code Address Bed & Breakfasts, Airbnb and Hotel Development (Action #25) to provide clear guidance regarding the rules that apply to short-term room or home rentals through Airbnb or other platforms.

2017 Economic Development Blueprint. Tourism Strategy: Support Lodging.

Develop Plan to Help Upgrade or Transition Aging Hotel Facilities (Action #26) to address safety, State Building Code compliance, and local General Plan and Zoning conformance issues.

2017 Economic Development Blueprint. Tourism Strategy: Support Lodging.

Identify Pre-Zoned Lodging Sites (Action #27) to support the vision of making Morgan Hill and South Silicon Valley a tourism destination and offering diversity among lodging amenities.

HIP Program Parameters & Eligibility

New Hotels

1. Location of new hotel development shall be in conformance with the City's General Plan and Existing Zoning.
2. The City's contribution shall be up to 50% of the costs associated with off-site/public improvements such as: roadways, sidewalks, utility undergrounding and other offsite improvements required of a new hotel construction in a greenfield development.
3. The City's contribution will be in the form of a rebate deducted from future TOT revenue generation after an established TOT baseline and shall be paid within 10 years.
4. The rebate ends after the 50% contribution has been financed or after 10 years, whichever is first. If the Subsidy Cap has not been received by the end of ten (10) years, the incentive program may be extended at the discretion of the City Manager for an additional five (5) years. During the five (5) year extension, the City shall pay to the operator thirty-three percent (33%) of the transient occupancy tax generated above the established TOT baseline until the Subsidy Cap is reached.
5. The baseline will be equal to the corresponding chain scale hotel annual average revenue per guest room in Morgan Hill during the Fiscal Year 2019/2020. Baseline to be updated every five years.
6. Only up to 50% of TOT generated above the baseline will be applied to the rebate.

7. The City Council shall approve Hotel Incentive agreements over \$100,000.
8. The HIP does not limit hotel developments from accessing other local or regional incentive programs.

Existing Hotels

1. Existing hotels must be an established hotel located in Morgan Hill city limits.
2. Participating hotels that are currently branded as a chain may either (a) increase in chain scale or (b) apply for a maximum rebate of \$250,000.
3. Participating hotels that are currently Independent may either (a) obtain a chain brand or (b) apply for a maximum rebate of \$ \$250,000.
4. The City's contribution shall be up to 50% of the costs required to achieve the chain scale upgrade, as supported by the brand's Property Improvement Plan (PIP) document and receipts of completed items listed on the PIP.
5. Hotel upgrades must meet the California Building Code and must obtain required City permits. The City's contribution will be calculated based on the cost estimate submitted to the City for building permits.
6. The City's contribution will be in the form of a rebate deducted from future TOT revenue generation after an established TOT baseline and shall be paid within 10 years.
7. The rebate ends after the 50% contribution has been financed or after 10 years, whichever is first. If the Subsidy Cap has not been received by the end of ten (10) years, the incentive program may be extended at the discretion of the City Manager for an additional five (5) years. During the five (5) year extension, the City shall pay to the operator thirty-three percent (33%) of the transient occupancy tax generated above the established TOT baseline until the Subsidy Cap is reached.
8. The baseline for established hotels will be based on the hotel's average TOT revenue generated in the Fiscal Year 2019/2020.
9. Only up to 50% of TOT generated above the baseline will be applied to the rebate.
10. The City Council shall approve Hotel Incentive agreements over \$100,000.

*** Minimum Quality Standards**

Hotel facilities are evaluated based on STR's published industry U.S. Chain Scales. Chain Scales are determined by each brand's national, systemwide room rates. An independent hotel, regardless of average room rate, is included as a separate "Independent" category. The Chain Scales are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, Economy and Independent.