



## Legislation Details (With Text)

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**Title:** Consider the request to adopt the resolution authorizing the City Manager to execute amendments on behalf of the City to extend the existing hotel tax rebate agreements with Embassy Suites, Hotel Arista, Hotel Indigo, and Marriott for an additional two years

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**Attachments:** 1. NDP Letter 2024\_02\_28, 2. Resolution Hotel Rebate Tax Amendments 2024\_03\_05

Date	Ver.	Action By	Action	Result
3/5/2024	1	City Council	approved	Pass

### CITY COUNCIL AGENDA ITEM

#### **ACTION REQUESTED:**

Consider the request to adopt the resolution authorizing the City Manager to execute amendments on behalf of the City to extend the existing hotel tax rebate agreements with Embassy Suites, Hotel Arista, Hotel Indigo, and Marriott for an additional two years

**DEPARTMENT:** City Manager's Office

**SUBMITTED BY:** Douglas Krieger, City Manager

#### **BOARD/COMMISSION REVIEW:**

N/A

#### **BACKGROUND:**

The City previously entered into development incentive agreements with the owners of four local hotels: Embassy Suites, Hotel Arista, Hotel Indigo, and Marriott. Each agreement was established during the development or redevelopment of the subject property. Each is a standalone agreement with unique terms and conditions. While the incentives granted under the agreements are similar, none have any direct relationship or dependency with each other.

The financial incentive common among all four agreements is a 20-year rebate by the City of Naperville of their local hotel/motel taxes and State of Illinois sales taxes received by the City of Naperville. The table below summarizes the four existing agreements.

Development	Inception Year	Term (years)	Taxes Eligible for Rebate	Maximum Incentive	Expiration Year
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Embassy Suites	2015	20	100% of hotel, 75% of sales	\$7.5M	2035
Hotel Arista	2008	20	100% of hotel, 50% of sales	\$7.5M	2028
Hotel Indigo	2017	20	100% of hotel, 50% of sales	\$7.5M	2037
Marriott	2012	20	100% of hotel, 100% of sales*	\$10M	2032

*\*Rebate of annual amounts exceeding 2009 base revenue; rebate reduced to 50% after first \$7.5M is paid*

On a quarterly basis, the Finance Department analyzes tax receipts for each subject property and issues payments according to the terms of the agreements. Those payments are netted against the revenues collected. From April 1, 2020, to March 31, 2022, hotel revenue plummeted as the pandemic brought the hospitality industry to a near standstill. As a result, all four hotels experienced significant setbacks in recapturing revenues through the rebate agreements.

The owners have collectively requested extensions to the existing agreements based on the unprecedented nature of the global pandemic and its economic impacts.

### **DISCUSSION:**

The Naperville Development Partnership (NDP) has taken the lead in negotiating extensions to the existing agreements. Based on those negotiations, NDP recommends the following for City Council consideration:

- A two-year extension on each of the four hotel incentive agreements.
- The two years would be added to the end of each agreement to address the COVID impact from April 1, 2020, through March 31, 2022, less the amount of any rebates the hotels received during that period.
- The extension would not increase the total incentive amount, and all other initial agreement terms would remain unchanged.

A letter from NDP is attached.

Staff analyzed each of the four rebate agreements, and the pandemic's impact during the period noted above is undeniable. In 2020, hotel rebates averaged 70% less than the amount rebated in 2019. In 2021, rebates remained 40% lower than in 2019. As of December 31, 2023, rebates for all four hotels exceed the amount rebated in 2019.

Staff's analysis indicates that two of the four hotels are likely to reach the full rebate called for in their agreement within the initial 20-year term, barring another unforeseen economic downturn; however, staff recommends that any extension be equitable across all agreements. The table below summarizes the agreements with the above extension reflected.

Development	Inception Year	Term (years)	Current Expiration	Extended Expiration
Embassy Suites	2015	20	2035	2037

Hotel Arista	2008	20	2028	2030
Hotel Indigo	2017	20	2037	2039
Marriott	2012	20	2032	2034

*\*Exact dates as defined in the current agreement, plus two years*

If the City Council supports the proposed extensions, staff recommends that the City Council adopt the proposed resolution authorizing the City Manager to extend the existing hotel tax rebate agreements between the City and the owners of the four hotels for an additional 24 months beyond the expiration period currently provided in each hotel's respective hotel tax rebate agreement with the City, less the amount of any rebates from the City that the hotels received during the period of April 1, 2020 through March 31, 2022 and without increasing the maximum incentive amount or any other terms in the respective current incentive agreements.

**FISCAL IMPACT:**

There is no immediate fiscal impact to the proposed extension as the oldest of the agreements is not set to expire until 2028. However, as the agreements expire, the previously rebated taxes would be retained as revenue by the City. The four subject hotels generate approximately \$2 million in rebateable taxes annually (in 2024 dollars). Any extension of the rebate agreements would result in a delay in the City realizing that revenue.