

**KMA SCOPE OF SERVICES
HOTEL FEASIBILITY STUDY
CITY OF COACHELLA**

I. OBJECTIVE

The City of Coachella (City) seeks economic consulting services for a hotel feasibility study to assess the potential to attract the City's first hotel development. The City seeks to establish a hospitality market to capture the growth in tourism, meetings, and special events occurring in the larger Coachella Valley.

II. BACKGROUND

In 2022, the Coachella Valley experienced a resurgence in tourism from pre-pandemic levels. According to HVS, a global hospitality consulting firm, the economic impact from direct visitor spending totaled \$8.7 billion with 30% of this spending dedicated to lodging, including hotels and short-term rentals. Tourism growth in the Coachella Valley is also supported through the increased availability of air travel. In 2020, Southwest Airlines initiated year-round air service to the Palm Springs International Airport (PSP). As a result, additional airlines introduced nonstop services to PSP, for a total of 12 airlines now providing nonstop flights to PSP from 32 destinations. The City of Palm Springs has recently initiated an update to the 2015 Airport Master Plan for the expansion (nearly double the existing capacity) of the PSP to support future demand, continue safe and efficient operations, and address changes in the aviation industry at the local and national level. In addition, large gathering venues such as the opening of the 11,000-seat Acrisure Arena, are likely to attract day and overnight visitors to the Coachella Valley. The Arena plans to host over 120 major events annually, likely to increase both hotel occupancy and Average Daily Rates (ADR) within the Coachella Valley.

The City is hoping to capture the growing tourism, meetings, and special events in the Coachella Valley with the development of the City's first hotel. As background, the City is the easternmost city of the Coachella Valley and is one of California's fastest growing cities. The City is officially bilingual in English and Spanish, with over 90% of the population speaking Spanish. The City hosts popular events such as Cinco de Mayo, the 16 de Septiembre Fiestas Patrias (Mexico's Independence from Spain), and the 12 de Diciembre to celebrate the Virgin Mary. In addition, the City can potentially benefit from nearby large-scale events, such as the Coachella Valley Music and Arts Festival, Stagecoach Festival, BNP Paribas Open, Palm Springs Film Festival, and Tour de Palm Springs. Notably, the Coachella Valley Music and Arts Festival and Stagecoach Festival, both hosted in Indio, have provided additional support for new hotel rooms in Indio.

III. SCOPE OF SERVICES

The following section presents the Keyser Marston Associates, Inc. (KMA) proposed scope of services to conduct a hotel feasibility study for the City.

- (1) *Phase 1: Initiation/Stakeholder Surveys* – At the outset of the assignment, KMA will participate in a meeting with City staff and Visit Greater Palm Springs. As part of this initial phase, we will:
- (a) Review the City’s objectives, review critical background information, identify potential development sites, and discuss key stakeholders to interview.
 - (b) Conduct a field survey and an initial evaluation of potential sites for consideration. This evaluation of potential sites will consider key development factors such as proximity to existing entertainment uses and access to, and/or visibility from, Interstate 10 (I-10) and State Route 86 (SR 86).
- (2) *Phase 2: Hotel Market Assessment* – KMA will conduct a market assessment of hotel development potential in eastern Riverside County (County); the eastern Coachella Valley trade area (Trade Area); neighboring cities such as Indio, La Quinta, and Palm Desert (Neighboring Cities); and the City and its Sphere of Influence (SOI). The market assessment will include:
- (a) A profile of demographic and economic trends, including growth in population, disposable income, visitor nights, and retail sales activity. This will contain a review of recently completed and proposed projects in planning within the City, Neighboring Cities, and Trade Area, including recent hotel proposals in the City such as the unfinished luxury hotel by Glenroy Coachella, LLC and proposed hotel by the Twenty-Nine Palms Band of Mission Indians.
 - (b) An overview of recent hotel market performance for the Coachella Valley submarket, including supply and demand factors, ADR, occupancy trends, and seasonal patterns. This overview will include:
 - A review of third-party data sources available from firms specializing in hospitality, such as Smith Travel Research (STR), HVS Global Hospitality Services (HVS), and Coldwell Banker Richard Ellis (CBRE);
 - Evaluation of short-term rental (Airbnb, Vrbo, etc.) trends in the Coachella Valley and the Trade Area;
 - Identification of existing hotels that operate under a “vacation rental” format through one of the short-term rental platforms;
 - Preparation of selected case studies in the Coachella Valley, including hotel properties that combine residential, condotel, and/or timeshare uses; and
 - Profile of product type, features, and amenities for competitive hotel inventory in the Trade Area and City.

- (c) Field surveys of the City and Trade Area, with a focus on potential development sites, competitive inventory, and existing amenities and services available to hotel guests.
 - (d) Identification of availability or deficiency of major infrastructure and amenities, including access/transportation (I-10/SR 111/SR 86; Jacqueline Cochran Regional Airport), restaurants, entertainment, recreation, etc.
 - (e) Market survey and supplementary stakeholder interviews to understand the demand for meeting and event space within the Trade Area, including:
 - Case studies for comparable facilities that may be relevant to development potential within Coachella Valley; and
 - A qualitative evaluation of the potential demand for indoor/outdoor meeting/banquet space within the Trade Area and City.
 - (f) Preparation of a hotel room demand forecast that will analyze existing and potential hotel market demand by market segment, including tourism/leisure, commercial/corporate, group/convention, and/or government.
 - (g) Recommendation of appropriate type, number of rooms, room size, features, amenities, and market segment for potential hotel(s) for the specific sites identified in Phase 1.
 - (h) Identification of potential branding themes and specific market niches that may be applicable to potential hotel(s). This will include identification of specific hotel flags/brands (e.g., Hyatt Place, Hilton/Hampton Inn, Marriott, etc.) most appropriate for the specific sites identified in Phase 1.
- (3) *Phase 3: Financial Feasibility* – KMA will undertake financial feasibility analyses of up to three (3) prototypical hotel development prototypes to be considered in the City. Subject to the findings of the market assessment, one or more of these prototypes may include a mix of uses or ownership formats such as residential, condotel, or timeshare. The financial feasibility analyses will include:
- (a) An estimate of development costs (land acquisition, directs, indirects, and financing); stabilized income and expenses; target return; and identification of any financing gap. These estimates will incorporate site-specific infrastructure costs to be provided by City staff. They will also reflect development costs with and without prevailing wages. In addition, the KMA pro forma analyses will include a 15-year cash flow projection for the hotel operation, showing the estimated economic return to the developer and the potential Transient Occupancy Tax (TOT) generated to the City.

- (b) In the event of a financing gap, KMA will test up to three (3) TOT sharing formulas for each prototype hotel. This task will demonstrate the enhanced feasibility of each prototype hotel, while assuring a guaranteed minimum flow of TOT revenues to the City.
- (4) *Phase 4: Financing Approaches* – to supplement the financial feasibility analysis, KMA will evaluate various levels of financing approaches that will incentivize hotel development within the City, including, but not limited to: TOT sharing, tax-exempt bonds, grants and subsidies, and tourism and entertainment districts. This evaluation will consider comparable hotel financing structures such as the tax-exempt and taxable revenue bonds utilized to construct Hotel Polaris in Colorado Springs, Colorado.
- (5) *Phase 5: Findings and Recommendations* – KMA will summarize the key findings from the Phase 2 market assessment, Phase 3 financial feasibility analysis, and Phase 4 financing approaches. The summary will include:
- (a) Key findings of the market assessment in terms of the market demand forecast and recommended hotel product type for specific sites and the Trade Area.
 - (b) Outcomes of the financing gap analysis and corresponding TOT sharing scenarios.
 - (c) Recommended key steps, including prerequisites for financing and development, for the City and other parties to implement and attract the specific hotel type(s).
- (6) *Phase 6: Report and Presentation* – KMA will prepare a report to include an executive summary, narrative discussion, and supporting tables and exhibits. This phase will include:
- (a) One (1) Administrative Draft, one (1) Draft, and one (1) Final Draft of the report, submitted in PDF format only.
 - (b) Preparation of a presentation summarizing the methodology, analyses, findings, and recommendations from both the market assessment and financial feasibility evaluation.
 - (c) Attendance and presentation at one (1) City Council meeting.

IV. DATA REQUIREMENTS

KMA requires the following data items from the City and Visit Greater Palm Springs:

City

- Recommendations of key stakeholders to interview (event organizers, brokers, property owners, etc.)

- List of commercial and residential projects in the pipeline
- Project information for the unfinished luxury hotel by Glenroy Coachella, LLC and the proposed hotel by the Twenty-Nine Palms Band of Mission Indians
- 10-year history of TOT data for existing visitor accommodations/short-term rentals (Airbnb, Vrbo, etc.)
- Map of potential candidate sites/locations for hotel development considered by the City

Visit Greater Palm Springs

- Recommendations of key stakeholders to interview (hotel operators, event managers, etc.)
- Updated Economic Impact Reports (Tourism 2023)
- Updated Short-Term Vacation Rental Economic Impact Reports (2023)
- If available, 10-year history of number of overnight vs. day visitors

V. BUDGET

KMA proposes to complete the above scope of services on a time-and-materials basis in accordance with the attached hourly billing rate schedule. Our total budget requirement is \$79,500, including reimbursables, as broken out below.

Phase	Budget
Phase 1 – Initiation/Stakeholder Surveys	\$6,500
Phase 2 – Market Assessment	\$25,500
Phase 3 – Financial Feasibility	\$27,500
Phase 4 – Financing Approaches	\$4,500
Phase 5 – Recommendations	\$5,000
Phase 6 – Report and Presentation	\$7,500
Subtotal (Phases 1-6)	\$76,500
Add: Reimbursables	\$3,000
Grand Total	\$79,500

This budget includes the following limitations:

- Up to two (2) in-person meetings with City and Visit Greater Palm Springs staff
- Up to four (4) virtual meetings with City and Visit Greater Palm Springs staff
- Maximum of one (1) City Council meeting

VI. SCHEDULE

KMA anticipates completion of our Administrative Draft report within 120 calendar days from contract authorization and receipt of relevant background data.

VII. LIMITING CONDITIONS

In accepting this proposal/contract, the City represents, acknowledges, and agrees that:

1. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).
2. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.
3. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.

VIII. FIRM PROFILE

KMA is a real estate advisory firm founded in 1973 with specialized focus on public/private partnerships. From offices in San Diego, Los Angeles, and Berkeley, KMA has served over 700 clients on more than 2,500 projects. Representative public sector clients include nearly every major municipality in California, as well as housing authorities, transit districts, counties, special districts, port authorities, and colleges and universities.

Now in our 50th year, KMA offers a wide array of integrated services to our public agency clients, working collaboratively with them to help them make informed, strategic, market-based decisions. Our objective is to provide decision makers with sound advice supported by strong technical analysis of all economic factors that impact success, including market conditions, financial investment requirements, community needs and benefits, and development issues. The longevity of our client relationships throughout the State attests to the quality and responsiveness of KMA's work.

KMA's major service areas include:

- ✓ Land Use Economics
- ✓ Affordable Housing Transactions and Policy Evaluation
- ✓ Disposition Strategies and Developer Negotiations
- ✓ Public/Private Partnerships (P3s)
- ✓ Infrastructure Financing Districts
- ✓ Fiscal and Economic Impact Analysis

A unique strength of KMA is the depth, continuity, and availability of our principals, who all have decades of experience analyzing and solving complex real estate economic issues. Their personal involvement in every assignment is a key factor in the firm's ongoing success. For more information about KMA, please visit our website at www.keysermarston.com.

IX. QUALIFICATIONS

Client: City of Indio

Project: Midscale Hotel Demand Assessment

KMA worked with the City of Indio to evaluate the market and financial feasibility of a midscale hotel within the City. This evaluation included a review of demographic and economic trends, evaluation of regional and local hotel markets, and interviews with key stakeholders. KMA projected the supportable demand for midscale, upper midscale, and upscale hotels over a 10-year period and prepared a financial feasibility analysis for a midscale hotel.



Client: City of Indio

Project: Transient Occupancy Tax (TOT) Sharing

KMA assisted the City of Indio with analyses supporting potential TOT sharing agreements for the development of several hotels in the City, including the Fairfield Inn & Suites (built in 2018) and Hampton Inn & Suites (built in 2020). These analyses involved reviewing developer financial pro forma models, preparing an independent financial analysis, and determining the magnitude of feasibility gap. KMA also tested alternative TOT sharing scenarios between the City and developer in order to enhance project feasibility.



Client: City of Oceanside

Project: Mission Pacific Hotel and Seabird Resort

KMA assisted the City of Oceanside with the financial feasibility analysis and negotiation of business terms for the Mission Pacific Hotel and The Seabird Resort. The two adjacent hotels opened in May 2021, featuring 387 hotel keys, restaurants, retail, public gardens, luxury spa, and 22,000 SF of event space. Located at the base of the historic Oceanside Pier, the hotels comprise the largest newly constructed beachfront development on the San Diego coastline in over 20 years.



Client: San Diego Unified Port District

Project: Gaylord Pacific Resort and Convention Center, Chula Vista Bayfront

KMA worked with the San Diego Unified Port District, City of Chula Vista, and RIDA Development to evaluate, negotiate, and document the planned development of the Gaylord Pacific Resort and Convention Center on the Chula Vista Bayfront. The \$1.2 billion development – which will encompass a 1,600-room hotel, a 275,000-SF convention center, and new public parks – broke ground in July 2022. Over the course of the predevelopment feasibility evaluation and developer negotiations, KMA prepared and presented numerous analyses and studies to agency senior staff, Port Commissioners, City Councilmembers, and other stakeholders in both individual briefings, Closed Sessions, and/or public meetings.



Client: City of Imperial Beach

Project: Breakwater Hotel

KMA prepared an Economic Development Subsidy Report, financial feasibility analysis, and reviewed an amendment to the Purchase and Sale Agreement for a proposed 101-room hotel located west of the Breakwater Town Center in the City of Imperial Beach. As part of the Economic Development Subsidy Report and financial feasibility analysis, KMA estimated the proposed subsidy to the Developer, projected tax revenues to the City, and evaluated the Developer's rate of return relative to hotel industry standards. Additionally, KMA prepared an assessment of potential financial impact of a proposed land use change from a retail use to a hotel use as part of an amendment to the Purchase and Sale Agreement.

