



## City Council AGENDA REPORT

**DATE:** 6/6/2024

**AGENDA OF:** 6/25/2024

**DEPARTMENT:** Planning and Community Development

**SUBJECT:** **302, 310, 314, 322, 324, 326, 328 Front Street: CP24-0097** (APN 005-151-29, -34, -35, -43, -48, -51) Major Modification to Previously Approved Application File Number CP21-0051 to Amend the Conditions of Approval to Add Voluntary Public Benefits to the Previously-Approved Six-Story, 232-Room Hotel Project with Restaurant, Bar, Banquet, and Other Related Facilities located in the CBD (Central Business District) Zone District. (Environmental Determination: Categorical Exemption, Section 15332 & Statutory Exemption 15061(b)(3)) Applicant: SCFS Venture LLC (PL)

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**RECOMMENDATION:** Motion to adopt a resolution approving application CP24-0097 based on the attached Findings and Conditions of Approval.

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**BACKGROUND:** On March 26, 2024, the City Council approved application file number CP21-0051, which included a project to demolish a commercial building and construct a new six-story hotel with 232 rooms, three floors of underground parking, ground floor retail, banquet and conference space, a restaurant, bar, café, and associated hotel amenities such as a gym, spa, riverwalk amenities, and rooftop pool/bar.

Following the Council approval, three separate letters of appeal were received by the Coastal Commission, appealing the Coastal Permit approval to the Coastal Commission. One of the central issues raised by the appeals was the project's lack of on-site, low-cost visitor accommodations. The applicant and city staff have met with the local Coastal Commission staff over the past few weeks to determine how best to address this issue, and the applicants have offered several voluntary benefits as additions to the approved application's previous conditions of approval. While the proposed revisions to the application would qualify as a Minor Modification that could be approved administratively at the staff level, the applicants have applied for a Major Modification requiring approval by the City Council in the interest of full transparency and to allow for public comment at a public hearing.

**DISCUSSION:** Coastal Act Section 30213 states:

*Lower cost visitor and recreational facilities shall be protected, encouraged, and, where feasible, provided. Developments providing public recreational opportunities are preferred.*

*The commission shall not: (1) require that overnight room rentals be fixed at an amount certain for any privately owned and operated hotel, motel, or other similar visitor-serving facility located on either public or private lands; or (2) establish or approve any method for the identification of low or moderate income persons for the purpose of determining eligibility for overnight room rentals in any such facilities.*

The term “low-cost visitor and recreational facilities” can apply to both physical public access, which is abundant in the City (i.e., the Boardwalk, West Cliff Drive Path, Small Craft Harbor, Wharf, and Monterey Bay Marine Sanctuary Exploration Center), as well as visitor serving accommodations. Interestingly, most of the City’s Local Coastal Program (LCP) policies addressing visitor accommodations seek to upgrade existing hotel facilities and attract quality hotel and conference facilities, though Policy ED5.2.3 seeks to ensure “the retention of moderately-priced accommodations.” The proposed project balances these two goals through the hotel room rates, the inclusion of conference facilities, and the overall package of visitor serving amenity and overnight accommodation improvements and monetary contributions.

Aside from the very specific development standards addressing pedestrian connectivity in the Downtown Plan, none of the LCP policies or implementing ordinances include specific objective standards articulating how the Coastal Act low-cost visitor facilities policy can be implemented through conditions of approval. Nevertheless, the applicant and City have recognized the importance of low-cost visitor serving amenities and addressed the issue through the incorporation of conditions of approval. Prior to the City Council approval on March 26, 2024, the applicants worked closely with City and Coastal Commission staff to address the Coastal Act and LCP policy with voluntary measures approved as Condition #84 in the Council’s initial project approval (see attachment titled “Conditions of Approval Approved by the City Council on March 26, 2024”). While staff (and the Council, through their initial approval) believed the original package of amenities and contributions was consistent with both the Coastal Act and the LCP, the applicant’s proposed additional, voluntary conditions further expand the project’s approach in providing low-cost visitor accommodations.

In response to the appeals to Coastal Commission, the applicants are proposing modifications to the previously approved condition #84 to include additional voluntary benefits and modify some of the language for simplification. A new set of conditions of approval with the proposed detailed modifications is attached as “Resolution with Findings and New Conditions of Approval with Proposed Conditions Included.” The following summarizes the changes to the voluntary benefits now offered to help ensure the overnight accommodations are available at a range of price points in the Coastal Zone:

- The final plans shall include no less than six (6) family suites that can accommodate families and include kitchenettes so that families can prepare meals.
  - This offering was part of the initial approvals and did not change. It should be noted that condition #81 which is repetitive has been corrected to be consistent with #84(A).
- Pay an in-lieu fee for low-cost visitor accommodations in the amount of \$5,000,000.
  - This offering previously required a long mathematical formula to calculate, including inflationary increases and deductions for various contributions. The formula has been removed, and the dollar amount is now specified.
- Standard double-occupancy low-cost rate rooms shall be made available for a minimum of 3,650 guest nights per year.
  - This is a new offering.
- The low-cost room availability shall be evenly distributed across the four quarters of the fiscal year (minimum of 912 rooms during any one quarter of the year).
  - This is a new offering.
- Underserved communities shall have access to standard double-occupancy rooms at the minimum operation cost (estimated to be \$80/night) for a minimum of 150 guest nights per year (minimum of 37 rooms during any one quarter of the year).
  - This is a new offering.
- Annual report to be submitted to the City and Coastal Commission that provides an analysis of the usage of low-cost accommodations.
  - This is a new offering.

The specific language in the attachment provides additional details of the proposed voluntary condition. Other conditions of approval remain unaffected by this change, including some that also address low-cost accommodations and visitor amenities, such as Condition #77, which provides for a \$50,000 contribution to the Santa Cruz Hostel Society and an annual payment of \$10,000 for ten years to fund the “Santa Cruz” downtown and beach shuttle program, as well as other amenities such as free public bike rentals for the first 90 minutes and free public Wi-Fi.

While not related to low-cost accommodations, Condition #29 also requires a mandatory contribution of approximately \$227,500 to the City’s affordable housing trust fund, and it includes a voluntary offering as part of the condition whereby the applicant will provide no fewer than four market rate units at an affordable, subsidized rate for employees for a period of 20 years.

Because this application involves a Major Modification to the entitlements approved by City Council on March 26, 2024, all the findings will need to be re-adopted, though finding no. 5 (Coastal Permit) has been updated to acknowledge some of the enhanced visitor-serving conditions volunteered by the applicant. The updated findings and conditions are underlined in the attached resolution.

**ENVIRONMENTAL REVIEW:** A California Environmental Quality Act (CEQA) Categorical Exemption Review was prepared by *Dudek*. The review determined that the project is categorically exempt from environmental review under Article 19 of the CEQA Guidelines, Section 15332, related to infill development. More information on the City’s prior CEQA determination is available online as part of the March 26, 2024 Council agenda materials. The

proposed changes to the conditions of approval address room rates and revised voluntary contributions towards low-cost accommodations, and they do not affect the initial CEQA determination. This Major Modification is also covered under the “common sense” CEQA exemption in CEQA Guidelines Section 15061(b)(3) in that it has no possibility that the action will have a significant effect on the environment.

**HEALTH IN ALL POLICIES (HiAP):** HiAP is a collaborative approach to improving the health of all people by incorporating health considerations into decision-making across sectors and policy areas. HiAP is based on 3 pillars: equity, public health, and sustainability. The goal of HiAP is to ensure that all decision-makers are informed about the health, equity, and sustainability impacts of various policy options during the policy development process. The project supports the pillar of equity by providing a range of jobs that cater to diverse backgrounds, by being a visitor-serving use available to all income levels, and by providing various amenities (restaurant/bar/meeting rooms/conference/café/outdoor extension area) that are all open and available to the public at large. The newly offered low-cost accommodations further promote the HiAP equity component. The development is on a site that is improved with sidewalks and street trees and that is close to public transportation, commercial goods and services, and recreational areas. Development in this central location encourages a sustainable and healthy lifestyle by promoting alternative forms of transportation by providing key pedestrian and bike connections via the Maple Paseo and Riverwalk which connect the downtown and other neighborhoods along the levee. The hotel will generate significant Transit Occupancy Tax which can be used to further HiAP objectives. Additionally, the applicant has volunteered financial contributions to the Santa Cruz Hostel Society and the Boys and Girls Clubs of Santa Cruz County, as well agreed to offer tower viewers on site to view the river habitat as well as provide bike rentals that are free of charge to the public for the first 90 minutes. Therefore, the project is consistent with the three pillars of the HiAP and is recommended as an efficient use of the land.

**SUMMARY AND RECOMMENDATION:** Staff supports the modifications to the Conditions of Approval and recommends approval based on the attached Findings and Conditions of Approval.

**FISCAL IMPACT:** The applicant has paid fees to compensate for costs associated with staff time processing this application. The project will contribute to increased property tax and sales tax revenue to the City, and the project developer will be required to pay City impact fees. The project’s primary revenue generation will come from transient occupancy tax (TOT). The applicant projects that the first full year of TOT revenue to the City will be approximately \$2.4 million, with annual TOT revenues expected to increase from that point. The project would result in a substantial annual net fiscal benefit, and the revenue will allow the City to spend funds on a wide range of services. As detailed in the separate and associated staff report, the sale of the properties by the City to the developer would generate \$2.55 million. In addition, the hotel occupants will generate sales for downtown restaurants and retail businesses, and that will result in sales tax for the City.

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**ATTACHMENTS:**

1. RESOLUTION WITH FINDINGS AND CONDITIONS OF APPROVAL WITH PROPOSED CONDITIONS INCLUDED
2. CONDITIONS OF APPROVAL AS APPROVED BY THE CITY COUNCIL ON MARCH 26, 2024