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Barney Aldridge and Justin Allamano
Aldridge Development
6780 Depot Street #110
Sebastopol, CA 95472

Via email: barney@aldrigedevlopment.net, justin@aldrigedevlopment.net

Dear Barney and Justin:

This letter summarizes the estimated economic and tax impacts of the proposed Barlow Hotel to the City of Sebastopol and Sonoma County. The analysis has been conducted by RRC Associates, and is based on a review of the proposed hotel development; tourism, economic, and fiscal information for Sebastopol and the region; and other data and specified assumptions.

Development Program and Operating Assumptions

The project would be a boutique, full-service hotel with 83 hotel rooms in an array of sizes, along with retail, restaurant, bar, spa, meeting room, rooftop pool and bar, and other spaces and amenities. The hotel would be located at 6782 Sebastopol Avenue in The Barlow district.

The hotel would replace a 36,402 square foot industrial building which is currently leased by Guayaki Yerba Mate and is not open to the public. The existing building is currently primarily used for storage by the tenant and its sublessee tenants. Redevelopment of the property into a hotel is unlikely to displace much employment, sales, or other economic activity, given that the space is not intensively used, the primary tenant has expressed interest in moving regardless of the redevelopment, and business activity by subtenants which is displaced may be relocated to other spaces in The Barlow.

It is also assumed that the Barlow Hotel would not displace economic activity occurring at other businesses in Sebastopol, due to the uniqueness of development and its offerings within the marketplace. Indeed, by adding vibrancy to the area, the Hotel will likely have positive externalities that simulate additional incremental economic activity in The Barlow and the downtown area.

As such, it is assumed that economic activity generated by the Barlow Hotel would be fully incremental, and there is not need to net out any displaced economic activity.

Based on an April 2024 market study conducted by HVS, this economic analysis assumes that the Barlow Hotel would have an annual average occupancy rate of 70% upon project stabilization in 2030, and an average daily rate of \$575 (expressed in 2023 dollars; see Figure 1 to follow).

Figure 1: Barlow Hotel Operating Assumptions Upon Project Stabilization (2030)*

Barlow Hotel Operating Assumptions
83 Rooms
70% Occupancy Rate
\$575 Average Daily Rate
21,207 Annual Room Nights

*Average Daily Rate is expressed in 2023 dollars (as if project were stabilized in 2023). Source: HVS.

Hotel Guest Spend and Economic Impact

Upon project stabilization, guests staying at the Barlow Hotel are projected to spend \$31.4 million annually (net of taxes), including \$23.4 million in Sebastopol and \$8 million elsewhere in Sonoma County.

This spending by Barlow Hotel guests is projected to directly generate \$9.8 million in labor income and support 210 jobs in Sonoma County (Figure 2). These estimates are derived from income:sales and income:job ratios for Sonoma County which are available from federal statistical data sources.

Figure 2: Barlow Hotel – Projected Annual Direct Economic Impacts in Sonoma County Upon Project Stabilization (2030)*

Measure	Direct Impact
Visitor spend (net of taxes)	\$31,400,000
Personal Income	\$9,800,000
Jobs	210

*Visitor spend and personal income are expressed in 2023 dollars (as if project were stabilized in 2023). Source: RRC. Personal income and jobs are derived from guest spend using income:receipts ratios and jobs:income ratios by industry sector in Sonoma County, as estimated from datasets from the US Bureau of Economic Analysis, US Economic Census, and US Census County Business Patterns.

Spending by Barlow Hotel guests is projected to occur across an array of commodities, including rooms and resort fees (\$12.9 million), food and beverage services (\$7.1 million), retail stores (\$4 million), arts/entertainment/recreation (\$3.8 million), local transportation and gas (\$2.2 million), food stores (\$1 million), and air transportation (\$400,000). Spend is projected to occur both within the hotel and at other businesses in Sebastopol and Sonoma County.

Figure 3: Barlow Hotel – Projected Annual Guest Spend (Net of Taxes) Upon Project Stabilization (2030)*

Commodity	Barlow Hotel: Annual Guest Spend		
	In Sebastopol	Elsewhere in county	Sonoma Co. Total
Accommodations	\$12,200,000	\$0	\$12,200,000
Resort Fee	\$700,000	\$0	\$700,000
Food Service	\$5,000,000	\$2,100,000	\$7,100,000
Arts, Entertainment & Recreation	\$1,900,000	\$1,900,000	\$3,800,000
Retail Sales	\$2,000,000	\$2,000,000	\$4,000,000
Local Transportation & Gas	\$1,100,000	\$1,100,000	\$2,200,000
Food Stores	\$500,000	\$500,000	\$1,000,000
Visitor Air Transportation	\$0	\$400,000	\$400,000
TOTAL	\$23,400,000	\$8,000,000	\$31,400,000

*Guest spend is expressed in 2023 dollars (as if project were stabilized in 2023). Source: RRC, as informed by 2022 Sonoma County visitor economic impacts (Dean Runyan Associates) and 2024 HVS Barlow Hotel Study.

In addition to this spend by guests, the Barlow Hotel itself is also expected to generate spending by non-lodging guests (including Sebastopol residents and visitors not staying in the hotel), on items like food, beverage and spa services provided by the Barlow Hotel. For conservatism, however, these additional impacts are excluded from the analysis.

In addition to the direct impacts summarized above, the Barlow Hotel is also projected to generate additional economic impacts, including the following:

- Ongoing multiplier impacts triggered by the direct economic impacts summarized above. These include indirect impacts (associated with supply chain activity) and induced impacts (i.e. household spending effects). Estimation of multiplier effects is beyond the scope of this analysis, but such effects within Sonoma County are likely to be 50% of the size of the direct effects (or more).
- One-time economic impacts from the construction of the Barlow Hotel.
- By adding to the vibrancy of the Barlow District and downtown Sebastopol, and expanding the array of offerings in the area (e.g. rooftop experiences at the hotel), the Barlow Hotel may also stimulate additional incremental visitation and spending in these areas by residents and other visitors not staying at the hotel, and potentially additional investment by downtown property owners.

Tax Generation for the City of Sebastopol

Barlow Hotel guests are projected to generate in excess of \$2 million in tax revenues annually for the City of Sebastopol. As summarized further in the tables to follow, these revenues include:

- \$1.548 million in annual TOT taxes (Figure 4)
- \$350,000 in annual sales taxes (Figure 5)
- \$180,000 in annual property taxes (Figure 6)

Combined, these projected tax revenues are equivalent to 19.3% of the City’s total expected General Fund revenue in the 2023/24 approved budget (Figure 7), and 24.3% of the City’s total expected TOT, sales and property tax revenues (Figure 8).

As such, the Barlow Hotel could have a dramatic positive impact on the City’s revenues and financial health. Expanding the City’s financial capacity has been a longstanding goal of the City.

Figure 4: Barlow Hotel – Projected Annual TOT Tax for Sebastopol Upon Project Stabilization (2030)*

TOT Tax	
\$12,900,000	Gross annual room revenue & resort fees
	12% Sebastopol TOT tax rate
\$1,548,000 Barlow Hotel TOT tax generation for Sebastopol	

*Revenues and taxes are expressed in 2023 dollars (as if project were stabilized in 2023).

Figure 5: Barlow Hotel – Projected Annual Sales Tax for Sebastopol Upon Project Stabilization (2030)*

Sales Tax	
\$23,400,000	Aggregate guest spend in Sebastopol
	85% Share of sales which are taxable
	1.75% Sebastopol sales tax rate
\$350,000 Barlow Hotel sales tax generation for Sebastopol	

*Revenues and taxes are expressed in 2023 dollars (as if project were stabilized in 2023).

Figure 6: Barlow Hotel – Projected Annual Property Tax for Sebastopol Upon Completion of Construction (2027)*

Operation	Value	Measure
	\$90,300,000	Barlow Hotel cost (HVS 4/15/2024)
-	<u>\$2,289,684</u>	Current assessed value of Guayaki parcel improvements & personal property
=	\$88,010,316	Net incremental value of Barlow Hotel
/	<u>\$1,650,626,000</u>	Total assessed valuation in Sebastopol, assessment year 2023 to 2024
=	5.5%	Barlow Hotel share of City assessed valuation
*	\$3,241,600	Sebastopol property tax collections, 2023/24 budget
=	\$180,000 Barlow Hotel property tax generation for Sebastopol	

*Revenues and taxes are expressed in 2023 dollars (as if project were stabilized in 2023).

Figure 7: Barlow Hotel – Summary of Projected Annual Tax Generation for Sebastopol

Barlow Hotel: Sebastopol Tax Generation	
\$1,548,000	TOT tax
\$350,000	Sales tax
<u>\$180,000</u>	Incremental Property tax
\$2,078,000	Sum: Barlow Hotel tax generation for Sebastopol
\$10,758,460	Total revenues: Sebastopol 2023/24 approved General Fund budget
19.3%	Barlow Hotel tax generation as a share of General Fund revenues

Note: Barlow Hotel tax generation is reflective of stabilized operations, expressed in 2023 dollars.

Figure 8: Barlow Hotel – Projected Annual Tax Generation as a Percentage of Sebastopol General Fund Revenues

Tax Generation	Barlow Hotel	2023/24 City Budget	Barlow Hotel as a % of City
TOT tax	\$1,548,000	\$500,000	309.6%
Sales tax	\$350,000	\$4,794,560	7.3%
Property tax	<u>\$180,000</u>	<u>\$3,241,600</u>	5.6%
Sum	\$2,078,000	\$8,536,160	24.3%
Other Sebastopol municipal revenues	<u>\$0*</u>	<u>\$2,222,300</u>	0.0%
Total Sebastopol municipal revenues	\$2,078,000	\$10,758,460	19.3%

Note: Barlow Hotel tax generation is reflective of stabilized operations, expressed in 2023 dollars. *Barlow Hotel may generate small amounts of additional revenues, e.g. license and permit revenue.

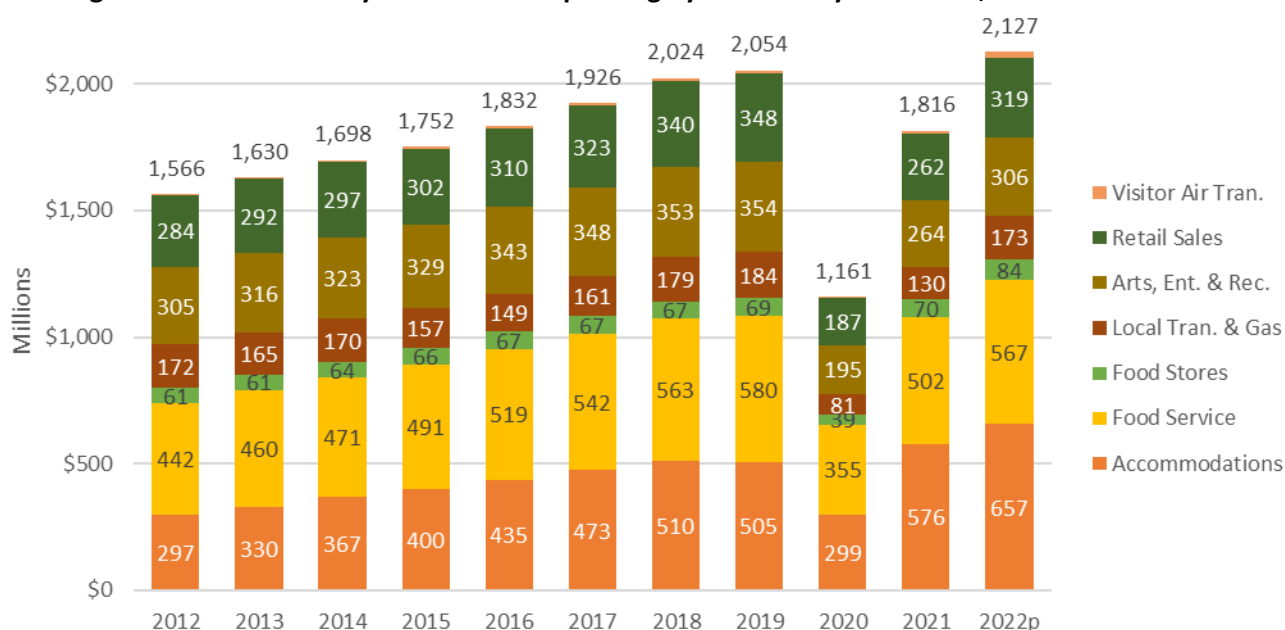
Selected Background Tourism Information

Following are selected notable datapoints that illustrate the large size of Sonoma County's tourism industry, and the potential for Sebastopol to capture a larger slice of this economic activity via the Barlow Hotel. The information presented here is by no means exhaustive, but rather is intended to provide a bit of additional context.

As illustrated in Figure 9 to follow, Sonoma County generated an estimated \$2.127 billion in visitor travel spending in 2022, including \$657 million in spending on accommodations. Spend has climbed substantially over the long term, notwithstanding a sharp contraction during the Covid pandemic.

As of February 2024, Sonoma County's lodging base included 124 hotel properties with an aggregate of 7,862 rooms, according to STR and as republished by Visit California. As of Q3 2023, an additional 26 lodging properties with 1,742 rooms were in various states of planning and development in Sonoma County, an indication that developers see additional market potential. In addition to hotels, Sonoma County's lodging inventory also includes a large number of short-term rentals.

Figure 9: Sonoma County Visitor Travel Spending by Commodity Purchased, 2012-2022



Source: Dean Runyan Associates. 2022 data is preliminary.

As illustrated in Figure 10, Sebastopol captured just \$4.4 million in taxable lodging spending in the most recent four quarter period, or 0.8% of total taxable lodging sales in Sonoma County as a whole. The Barlow Hotel would likely roughly triple that transient occupancy spending and associated TOT taxes in Sebastopol.

Figure 10: Sonoma County TOT Collections by Community, Q4 2022 – Q3 2023

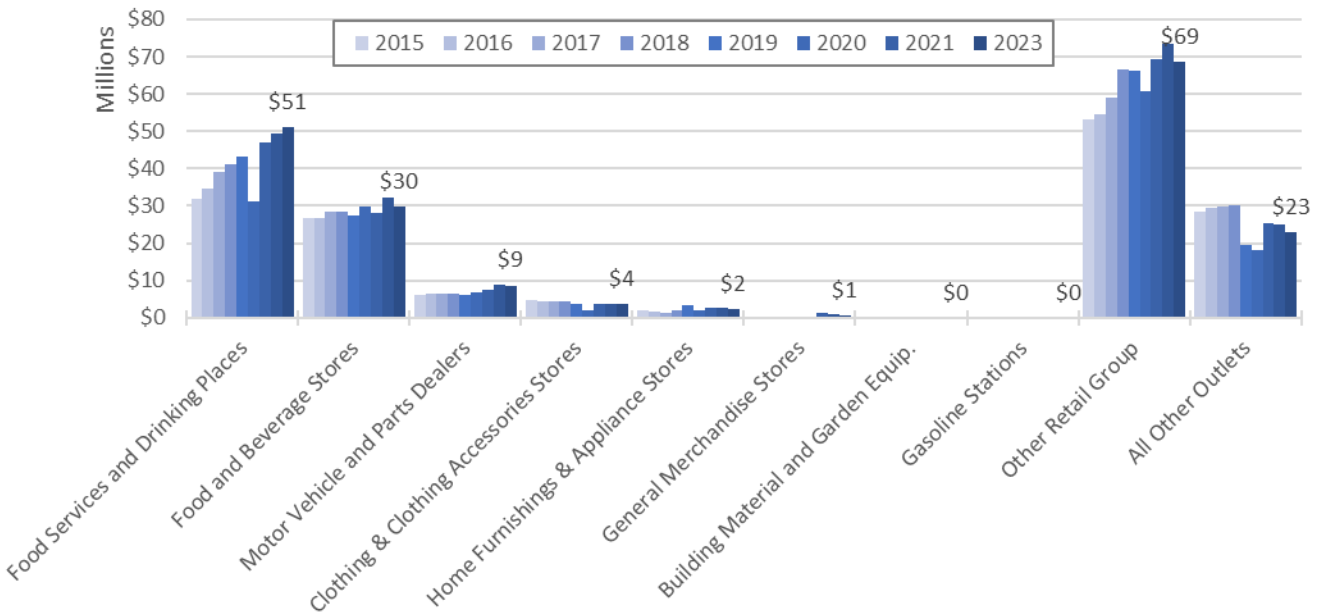
Community	TOT Tax rate	TOT Revenue		Taxable Lodging Sales	
		Amount	Share	Amount	Share
Cloverdale	10%	\$227,037	0.4%	\$2,270,370	0.4%
Healdsburg	14%	\$8,836,634	14.3%	\$63,118,814	12.1%
Petaluma	10%	\$3,479,985	5.6%	\$34,799,850	6.7%
Rohnert Park	12%	\$3,892,713	6.3%	\$32,439,275	6.2%
Santa Rosa	9%	\$5,985,250	9.7%	\$66,502,778	12.7%
Sebastopol	12%	\$531,512	0.9%	\$4,429,267	0.8%
Sonoma	13%	\$6,166,611	10.0%	\$47,435,469	9.1%
Windsor	12%	\$2,792,215	4.5%	\$23,268,458	4.5%
Unincorporated County	12%	\$29,730,818	48.2%	\$247,756,817	47.5%
SONOMA COUNTY TOTAL		\$61,642,775	100.0%	\$522,021,098	100.0%

Source: Sonoma County Economic Development Board.

It is worth noting that Sebastopol has a large and growing restaurant industry. Restaurants and drinking places account for the largest source of taxable sales in Sebastopol, and sales have been growing steadily for several years (Figure 11). As tourists are an important market for restaurants, and culinary experiences are a key element of the Sonoma County tourism draw,

there is a natural synergy between the local hotel and restaurant sectors. The Barlow Hotel is likely to further enhance the economic success of Sebastopol’s restaurants by bringing additional visitors to town.

Figure 11: Sebastopol Taxable Sales by Industry Sector, 2015 – 2023*



*Note: Hotels and other lodging accommodations are not subject to sales tax.
 Source: California Department of Tax and Fee Information.

Conclusion

As summarized above, the Barlow Hotel project is likely to generate substantial economic and tax benefits for the City of Sebastopol. While Sonoma County has a large and vibrant accommodations industry, Sebastopol currently has a minimal presence in that industry. The City is likely to benefit substantially economically and financially with one or more hotel offerings, including the Barlow Hotel.

Regards
 RRC Associates

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