

MINUTES

OF THE

SACRAMENTO CITY COUNCIL
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
HOUSING AUTHORITY OF THE CITY OF SACRAMENTO
ECONOMIC DEVELOPMENT COMMISSION
PARKING AUTHORITY OF THE CITY OF SACRAMENTO
SACRAMENTO CITY FINANCING AUTHORITY

SPECIAL MEETING

DECEMBER 10, 1997

CALL TO ORDER

The Special Meeting of the Sacramento City Council was called to order by Mayor Serna at 5:05 p.m. on the above date in the City Council Chamber located at 915 I Street.

ROLL CALL

Present: Council members Cohn, Fargo, Hammond, Kerth, Steinberg, Waters, Yee and Mayor Serna

Absent: None

9.0 STAFF REPORTS

- 9.1 Selection of Convention Center Hotel Developer: (D-1)
- A. Approve selection of the Lankford and Taylor/Public Market Building LLC team, and;
 - B. Authorize the City Manager to enter into an Agreement for Exclusive Right to negotiate (ERN) with Lankford and Taylor/Public Market Building LLC team for a 120-day period to complete an Owners Participation Agreement (OPA) to construct the Convention Center Hotel.
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Betty Masuoka, Deputy City Manager, summarized a chronology of events leading to the selection of the Convention Center Hotel developer after negotiating for approximately 45 days with two development teams: (1) Lankford and Taylor, Public Market Building, LLC (Sheraton); and (2) Asia Pacific Realty/Taylor Properties (Marriot).

In regards to the two developers' Exclusive Right to Negotiate (ERN's), Ms. Masuoka stated that there was a significant amendment proposed by Marriot. They were requiring an additional 30 days to confirm the feasibility of their proposal. Ms. Masuoka said that staff did not accept this change but agreed to transmit Marriot's proposal to the Council. In addition, Marriot had declined to enter into a room blockage agreement.

Ms. Masuoka discussed the following evaluation parameters and selections analyses:

- (1) Project Description: The project size, number of rooms, meeting space and amenities, ballroom and restaurants.

According to Ms. Masuoka, both projects met the industry standards of a convention oriented hotel. Their room counts, ballroom and meeting space, and restaurant and lounge space were substantially the same and would provide the needed amenities.

Ms. Masuoka discussed next the issues of parking and public investment comparisons.

In regards to parking, she said that neither development team had proposed new parking in their original proposals even though they had requested reserved spaces for hotel use. At the urging of staff, both development teams included parking solutions as a part of their proposals.

In regards to public investment, Ms. Masuoka informed the Council that the requested direct cash investment for both projects was approximately the same. Langford and Taylor had requested a cash City investment and had capped that request at \$8.5 million. Marriott had requested the maximum Tax Increment produced by the project (currently estimated at \$7 million) and \$1.5 million of the existing \$2 million dollar tax increment fund.

According to Ms. Masuoka, indirect impacts created by the project would require public funds to remedy or replace existing land, infrastructure and/or improvements. The amounts were estimates at this point.

The Marriott proposal had a \$11.2 million indirect investment which was primarily split between the parking replacement, the land, and lost retail income. Langford and Taylor's indirect investment was \$4.9 million. Of this amount, \$3 million was the net value of the City contribution of the parking garage which would be leased to the developer at a less than market rate. In addition, there was a \$1.9 million amount for the replacement value of the parking places they were requesting as dedicated spaces for the hotel.

Ms. Masuoka stated that staff had met four times with the Ad Hoc Committee during the negotiation period to keep them fully informed and to be apprised of their goals and concerns. In the final meeting held on December 2, 1997, both the development teams were asked to attend the Ad Hoc meeting to answer questions of the Council. With the two projects rated nearly the same, the incremental advantage that Marriott had in marketing and financing did not outweigh the strengths of the Langford and Taylor project; namely, working within good land use policy and historic preservation as well as maintaining the integrity of the City parking garage and parking supply.

Tom Friery, City Treasurer, presented a financial analysis of the project and developers. He said the City was currently in an unusual period. He cautioned that the City should not wait indiscriminately and that this was a good, solid financing package.

Mayor Serna questioned page 8, section 12.9 of Marriott's proposal.

Ms. Masuoka stated that they had added feasibility language and explained its context.

Mayor Serna asked if the City, in fact, had a Marriott proposal.

Ms. Masuoka replied that staff had one proposal that a developer was willing to commit to.

Mayor Serna questioned Mr. Friery about the Sheraton project, asking if Mr. Friery was convinced that there was enough money to finance this project; Mr. Friery replied yes, he was convinced.

Councilman Cohn asked why the City should be putting money into this type of investment and also who had authored the chart on page 13 of the report.

Ms. Masuoka replied that staff had made the chart and that even with conservative assumptions on occupancy rates, staff strongly felt that the City would still realize a 33% return on its investment.

Mr. Cohn asked if the City or the developer was liable for the bond.

Ms. Masuoka replied the developer guaranteed the revenue stream and would make up any difference.

Mr. Cohn asked if the developer went bankrupt, would the City be at risk; Ms. Masuoka replied yes, it would.

Mr. Cohn stated that before the final agreement he wanted a second opinion by an independent consultant.

Councilman Waters asked Mr. Friery if Marriott was capable of financing this project themselves.

Mr. Friery replied that was correct, and they could also do the construction.

Mr. Waters asked if Holiday Inns were surveyed.

Ms. Masuoka replied that Holiday Inns were not in as high a ranking as the Sheraton and Marriott Inns.

Mr. Waters asked for answers to the following questions: If Sheraton had acquired the additional property that was needed; what Sheraton agreed to in room blockage; and what Lot E produced in revenue each year.

Ms. Masuoka replied that she would acquire that information and report back to Mr. Waters.

Mr. Waters asked Ms. Masuoka if she had received a letter from Rusty Hammer of the Sacramento Metropolitan Chamber of Commerce stating his concern that someone had produced a letter on the Chamber's letterhead recommending one of the developers.

Ms. Masuoka replied that she had received an unsigned letter over the fax machine and had dismissed it.

Councilman Yee questioned Mr. Friery on whether the proposed developer was over-leveraged, to which Mr. Friery replied absolutely not.

Councilwoman Fargo asked Sam Burns, director of the Convention Center, for his preference in developers. Mr. Burns replied he wanted an additional hotel, and either hotel chain was fine with him.

Ms. Fargo asked Mr. Burns if he felt there should be a room blockage commitment. Mr. Burns replied yes, he did.

Councilman Steinberg asked Ms. Masuoka which hotel had the marketing advantage and to what degree.

Ms. Masuoka replied there were many opinions because there were so many ways to measure the success of a hotel.

David Taylor, speaking on behalf of Sheraton, informed the Council that they had substantial financial investments in this project already, and would purchase the rest of the land needed. He stressed that Sheraton had the capacity, ability and commitment to see this project through. He said members of his team were experts in parking, and felt that Parking Lot E garage would be used in the most efficient manner.

Mr. Taylor reminded the Council that his development team had a lot of experience in the downtown area and that he felt a Sheraton hotel on this site would be a great land use.

Ed Gremlech, representing Sheraton, informed the Council that his company was very excited about this project and about being represented in the downtown Sacramento market. He added that Sheraton had a strong client relationship and that they catered to their clients' needs.

Steven Crowe, representing Asia Pacific Realty - Marriott, spoke of the benefits of the Marriott proposal over Sheraton. He said his hotel would be capable of super charging the convention business in Sacramento. He stressed that Marriott had superior group marketing and said that they were in Sacramento in good faith to build a hotel in the downtown.

Phil Angelides, representing Sheraton, argued in favor of his client's hotel citing that a great deal of investment had already been made for this project. He spoke of a commitment to an ethnically diverse workforce; frequent flyer miles incentives for clients; successfully addressing the parking problem; and of a committed "hometown" development team.

Mr. Crowe rebutted Mr. Angelides testimony by stating his company had a better replacement parking program. He added that because his company was a public company, he needed board approval before he could commit to any major changes.

Jim Luce, Marriott Vice-president for Marketing for the western United States, said he had 17 years experience in this region and was keenly aware of marketing and convention hotels. He argued that Marriott would be able to drive the revenue better than Sheraton.

Councilman Waters asked Ms. Masuoka the cost of the proposed parking structure.

Ms. Masuoka replied that the total investment required by the City would be \$28 million for Sheraton's proposal and \$16 million for Marriott's.

Mr. Crowe, representing Marriott, said the City was giving Lot E away to Sheraton.

Mayor Serna asked Mr. Crowe where his company was proposing to have replacement parking. Mr. Crowe replied at lot C.

Councilman Kerth asked staff to explain the cost of parking, the net loss as outlined on page 11 of the report, and how the loss would affect the surrounding area.

Ms. Masuoka explained the income source from parking revenues and how other assumptions were derived.

Mr. Kerth asked ~~the~~ Marriott about their rejection of the City's room blockage requirement.

Mr. Crowe replied they didn't reject the proposal, rather they needed a 60% group house.

Mr. Kerth argued that the City needed a committed hotel for convention bookings.

Jim Erlacher, Marriott Vice-president for Marketing, replied that they were 30 days away from a commitment on the financing for this project.

Councilman Steinberg stated that he had concerns about marketing and no commitment to room blockage.

Mr. Luce replied that it was difficult to commit to room blockage.

Mayor Serna stated that he was not a proponent of room blockage, per se; however, when a downtown hotel does a great room business yet excludes convention business, it adversely affects the City.

Mr. Luce replied that he was willing to craft an agreement on this issue.

Mr. Steinberg said the City would have a problem of selecting a future hotel that has trouble getting union business.

Councilwoman Hammond stated that she believed the Sheraton had a stronger commitment to equal opportunity hiring.

Public Testimony:

George Bramson spoke in support of the Sheraton project. He said he was interested in historic preservation of the Public Market, and felt the City should appoint an oversight committee to ensure the quality of the project.

Ed Cox spoke in support of the preservation of the building at 13th and I Streets and said the project should have an architect who was an expert in this field.

Ken Wemmer spoke in support of the Sheraton project. He said the City should strive to minimize the loss of parking, and preserve the Public Market site. He felt that the developer should commit to the support of arts and entertainment as well as to the beautification of 12th Street, an avenue leading to the project site.

Brooks Truitt also spoke in support of the Sheraton project and the preservation of the Public Market site.

Jim Murphy, representing the Sierra Building Trades Council and organized labor, congratulated the Ad Hoc Committee and the staff for their recommendation of the Sheraton Hotel project. He said the Sheraton Hotels had a proven track record.

Maurice Reed, Steve Campas, Dick Mayberry, and Jim Hoag spoke in support of the Sheraton proposal.

Faith Raider spoke against the Marriott Hotel. She said in 1989 in San Francisco, they had committed to hiring locals and low income employees for their hotel. The Redevelopment Agency had to take them to court for non-compliance.

Lee Adler, representing the Sacramento Hotel Association, spoke in favor of the Marriott proposal, saying that they were great marketers.

Mayor Serna asked if Sheraton was poor at marketing. Mr. Adler replied that Sheraton was good, but Marriott was superior.

Mayor Serna said that he felt both proposals were excellent; but, at the recommendation of the Ad Hoc committee and staff, he would support the Sheraton proposal.

Mr. Waters asked the City Treasurer if a 30 day delay would have a adverse financial impact on either developer.

Mr. Friery recommended that the City not wait for 30 days.

A motion was made by Mr. Waters to continue this issue for 30 days. There was no second, so the motion died.

Councilwoman Fargo stated that she favored the Sheraton proposal

Mr. Cohn stated that he felt it was significant that the Ad Hoc committee had unanimously recommended the Sheraton project. He added that a second opinion on the financial analysis was important.

Bill Edgar stated that the City would have to agree to a basic deal first, then there could be third-party negotiation.

Mr. Steinberg agreed that Council should go with the Ad Hoc and staff's recommendation.

A motion was made by Councilwoman Hammond, seconded by Councilwoman Fargo to adopt Resolution 97-670 approving Agreement 97-190 and Redevelopment Agency Resolution 97-043 authorizing the City Manager to enter into an agreement for exclusive right to negotiate (ERN) with Langford and Taylor/Public Market Building LLC team (Sheraton) for a 120 day period to complete an Owners Participation Agreement (OPA) to construct the Convention Center Hotel. The motion carried with a 8-0 roll call vote.

An additional motion was made by Councilwoman Fargo, seconded by Councilwoman Hammond to add three amendments to the project: (1) to direct staff to encourage a sponsorship of a multi-cultural art group or facility and support for the nearby neighborhoods of Washington Heights and Alkali Flats; (2) to follow the appropriate historical preservation standard for the Public Market building, and to adhere to ADA requirements; and (3) to continue to strive to attain a third-party review of the negotiated contract. The motion carried with a 8-0 roll call vote.

RESOLUTION 97-670

SELECTION OF PUBLIC MARKET BUILDING
LLC AND AUTHORIZING AGREEMENT FOR
EXCLUSIVE RIGHT TO NEGOTIATE

REDEVELOPMENT AGENCY RESOLUTION 97-043

SECTION OF PUBLIC MARKET BUILDING
LLC AND AUTHORIZING AGREEMENT FOR
EXCLUSIVE RIGHT TO NEGOTIATE

10.0 CITIZENS ADDRESSING COUNCIL AGENCY OR AUTHORITIES BY PERSONAL APPEARANCE OR TELEPHONICALLY ON MATTERS NOT ON THE AGENDA

NONE

11.0 COUNCIL IDEAS AND QUESTIONS

11.1 Councilwoman Hammond announced that Ethel Phillips Elementary School, located at 2930 21st Avenue, would be having its "Winterfest 97" on Saturday, December 13th from 11:00 a.m. to 3:00 p.m.

12.0 ANNOUNCEMENTS

NONE

ADJOURNMENT

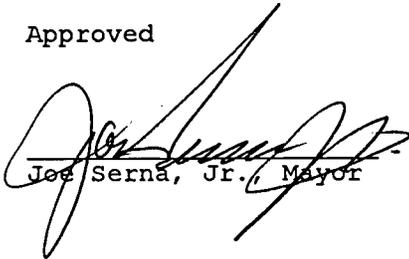
There being no further business to come before the Council, the meeting was adjourned at 10:00 p.m.

Submitted



Valerie A. Burrowes, City Clerk

Approved



Joe Serna, Jr., Mayor