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**CITY OF SACRAMENTO
CALIFORNIA**

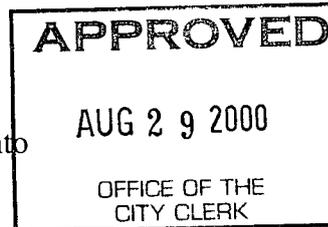
DOWNTOWN AND REGIONAL ENTERPRISE DEPARTMENT
DEVELOPMENT GROUP

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August 29, 2000

City Council
Redevelopment Agency of the City of Sacramento
Sacramento, California



Honorable Members in Session:

SUBJECT: AMENDMENT OF DISPOSITION AND DEVELOPMENT AGREEMENT FOR
THE EMBASSY SUITES RIVERFRONT HOTEL PROJECT

LOCATION AND COUNCIL DISTRICT: Southeast corner of Capitol Mall and Front
Street, District 1

RECOMMENDATION:

Staff recommends adoption of the attached resolution, which authorizes the Deputy City Manager to amend the Disposition and Development Agreement (DDA) for the Embassy Suites Riverfront Hotel Project between the Agency and Sacramento Hotel Partners, to transfer \$2,900,000 from the Merged Downtown Development Assistance Project to the Riverfront Hotel Project for unanticipated, additional project costs.

CONTACT PERSONS:

Traci Michel, Sr. Management Analyst, 264-8645
Wendy Saunders, Downtown Development Group Manager, 264-8196

FOR COUNCIL MEETING OF: August 29, 2000

SUMMARY:

This report requests actions to allow development of a full-service hotel located on the riverfront within the Merged Downtown Redevelopment Project Area. Staff recommends authorizing the Deputy City Manager to amend the DDA for the Riverfront Hotel Project between the Agency and Sacramento Hotel Partners, LLC to transfer \$2,900,000 from the Merged Downtown Development Assistance Project to the Riverfront Hotel Project for unanticipated, additional project costs.

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Riverfront Hotel DDA Amendment

BACKGROUND:

On February 23, 1999, and May 11, 1999, the City Council approved a DDA and subsequent Amendment respectively between the Agency and Sacramento Hotel Partners (formerly Promus Hotel Corporation) for the development of a full-service hotel located on the riverfront within the Merged Downtown Redevelopment Project Area. The DDA and subsequent Amendment detailed the following responsibilities:

Sacramento Hotel Partners Responsibilities

Sacramento Hotel Partners (Developer) is responsible for developing and providing a hotel on the 1.6-acre site, including:

- Constructing a 249-room, full-service hotel to serve the Sacramento region;
- Participating in the City's Art in Public Places Program (*complete*);
- Obtaining private construction and permanent financing for the project (*complete*);
- Obtaining all entitlements, subject to the appropriate approval process, required for the project (*complete*); and
- Completing all necessary environmental analysis for the project (*complete*).

The total budget for the project was estimated at approximately \$35,000,000.

Agency Responsibilities

The Agency is responsible for assisting Sacramento Hotel Partners with developing the site, including:

- Transferring the site to the Sacramento Hotel Partners (*completed upon construction commencement*);
- Design and construction of all off-site improvements (*design complete*);
- Completing all remaining toxic remediation currently required for the site (*complete*); and
- Providing \$450,000 of tax increment funds for the enhancement of materials used at the exterior base of the building (*complete*).

Since the groundbreaking took place in September, 1999, a number of unanticipated items have influenced the construction schedule and project costs:

- The Hilton Hotel Corporation purchased the Promus Hotel Corporation resulting in new legal agreements between Hilton and the Developer and an assignment of new staff that needed to be acquainted with the project. This merger has not changed either the City's or the Developer's rights and obligations regarding the project.
- Based on comments received from Caltrans, revisions to the left turn access lane for the hotel site resulted in additional traffic and signal feasibility studies and design. Caltrans' approved the revisions in June.

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- The revisions to the left turn lane also resulted in modifications to the porte cochere. Design Review staff approved the modifications.
- Extensive drainage studies were required in coordination with the Utilities Department to determine the best drainage options for this project. The riverfront currently has inadequate utility services to support new development. City staff worked with the Developer to determine the most feasible and cost-effective means of bringing utilities to the area to support the hotel project and future development, while protecting existing, adjacent utility lines.
- The Archaeology Team working on the site discovered more material than anticipated and needed to spend additional time excavating the site. Follow-up cleaning and cataloguing of all artifacts found will take place through 2001.
- Since the DDA was approved, changes in the market have resulted in increased interest rates and labor and material costs.

The Project Cost Analysis is included as Attachment I. In September 1999, Project costs had increased almost \$5 million. With the exception of the City Council-approved \$450,000 for building enhancements, the Developer secured an additional \$4.5 million in equity to cover the additional costs, resulting in a project with over 40 percent of equity contribution. Currently, the Project costs are estimated at \$43 million, approximately \$8 million more than the original project budget.

Staff has reviewed the general contractor contract and subcontracts to verify construction costs. Based on information from financial institutions and general contractors, the cost to construct hotels of similar size and quality range from \$117,000 to \$136,000 per room. The Sacramento Riverfront Embassy Suites costs approximately \$115,700 per room. Total Project costs include providing prevailing wages as required by law.

Consistent with the City Council's desire to have a high quality, landmark hotel on the riverfront, the Developer has been working to reduce project costs without sacrificing the Embassy Suites product. Over the past three weeks, the Developer has made design modifications to reduce project costs by over \$1 million. However, the increased costs still make the project financially infeasible for the Developer. The following option is being proposed by staff to implement the project:

Proposed Subsidy

Staff recommends allocating \$2.9 million to fund the unanticipated, increased project costs with the following provisions:

- Agency funding will be dispersed after Developer's equity has been spent;
- Construction must begin by September 5, 2000;
- A third party consultant shall be retained by the Agency to monitor project

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construction and costs to verify need of Agency contribution and implementation of project as approved by City Council; and

- Any cost savings resulting from value engineering and lower actual costs shall be refunded to the Agency.

As highlighted in Attachment I, estimated property and transit occupancy tax generated from the project could cover the Agency subsidy in less than two years. The City's estimated internal rate of return on investment (including all subsidies and land value) in terms of property tax, all new transit occupancy tax (TOT), and sales tax could exceed 20 percent.

Proposed Design Modification

Modifications to the Project Design have also been recommended by the Developer in an effort to reduce Project costs. In addition to several value-engineered cost savings to the building's interior, a significant cost savings is recommended by modifying the roof of the building.

The original roof design included a standing seam, metal, mansard roof. Due to the scale of the roof profile, the design required the construction to be supported with heavy gauge steel framework. This requirement resulted in an unusually costly roof component. The Developer proposes to eliminate this feature of the building while proposing an enhanced parapet at the top of the building. By achieving this scope of cost savings at the roof, the balance of the exterior features of the building can be preserved as originally designed.

The Developer and architect have met with Design Review staff and Board members, who informally support the roof modifications to make the project financially feasible. The Board will take formal action on the project at a special meeting scheduled for August 28, 2000. Staff will provide you with an update of that meeting on the 29th.

Economic Development

The hotel project is estimated to add over 100 full- and part-time permanent employment opportunities and 300 construction jobs for local residents, as well as generate approximately \$280,000 in tax increment, and \$150,000 in indirect sales tax annually. Based on a range of 50 to 100 percent of new hotel customers, TOT is estimated at \$425,000 to \$950,000 annually. The City's estimated internal rate of return on investment (including all subsidies and land value), in terms of property tax, all new TOT, and sales tax could exceed 20 percent. In addition, the project will produce economic activity to support the surrounding retail and potentially attract new businesses to the area.

Schedule of Development

Subject to Redevelopment Agency of the City of Sacramento approval of the DDA Amendment with Sacramento Hotel Partners, construction for the project will begin by no later than September 5, 2000. It is anticipated that project construction will be completed in Winter 2002.

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FINANCIAL CONSIDERATIONS

Based on current estimates, an additional \$2,900,000 will be required for the additional project costs. Staff recommends transferring Merged Downtown Development Assistance Project funds to the Riverfront Hotel Project for the additional costs.

POLICY CONSIDERATIONS

The actions proposed in the staff report are consistent with the economic development goals of the Merged Downtown Redevelopment Plan and Implementation Plan, the Riverfront Master Plan, and past Downtown revitalization strategies.

ENVIRONMENTAL REVIEW

A Mitigated Negative Declaration was prepared and approved for the project. The proposed actions will not result in a significant change in the project description. Therefore, no further environmental analysis is required.

M/WBE CONSIDERATIONS

Developer will comply with Agency's M/WBE policy.

Respectfully submitted,



WENDY S. SAUNDERS
Downtown Development Manager

APPROVED:



ANDREW J. PLESCIA
Economic Development Director

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

Embassy Suites Project Budget Summary

Total Project Cost Increase: \$8.1 million

Project Cost Breakdown

<u>Uses of Cash</u>	<u>Project Cost As of May 1999</u>	<u>Project Cost As of Sept 1999</u>	<u>Project Cost As of Aug. 2000</u>	<u>Difference 1999-2000</u>
Hard Construction	24,567,234	26,401,567	29,547,500	4,980,266
Design Savings (V/E)**			(636,246)	(636,246)
Roof Modification			(500,000)	(500,000)
Contingency	1,000,000	1,000,000	1,000,000	-
Soft Costs	9,432,766	12,548,433	13,720,624	4,287,858
Total	35,000,000	39,950,000	43,131,878	8,131,878

Sources of Cash

US Bank Loan	23,000,000	23,500,000	23,500,000	500,000
Developer Equity	12,000,000	16,000,000	16,300,000	4,300,000
City Investment				-
Design Enhancement	-	450,000	450,000	-
Gap Financing	-	-	2,881,878	2,881,878
Total	35,000,000	39,950,000	43,131,878	8,131,878

City Revenue Analysis (at stabilization)

	<u>Annually</u>	<u>10 Year Period</u>
Estimated Tax Increment	424,483	4,379,888
Estimated TOT*	950,000	8,930,000
Estimated Sales Tax	175,000	1,750,000
Total	1,549,483	15,059,888

Total IRR on City Investment (@ 6.5%)**

20%

Years to Payback City

2

* Assumes all new TOT

** Includes \$2 million land value, \$2.9 million general subsidy, \$450,000 for design enhancements, and \$400,000 for off-site improvements

2000-059

ADOPTED BY THE REDEVELOPMENT AGENCY
OF THE CITY OF SACRAMENTO

ON DATE OF _____



**MERGED DOWNTOWN SACRAMENTO REDEVELOPMENT PROJECT AREA:
RIVERFRONT HOTEL: AMENDMENT OF
DISPOSITION AND DEVELOPMENT AGREEMENT**

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF
SACRAMENTO:

Section 1. The Deputy City Manager is authorized to amend the Disposition and Development Agreement (DDA) for the Riverfront Hotel Project between the Redevelopment Agency of the City of Sacramento ("Agency") and Sacramento Hotel Partners, in accordance with the terms and conditions proposed in the Second Amendment to the DDA, a copy of which is on file with the Agency Clerk.

Section 2. The Deputy City Manager is authorized to transfer \$2,900,000 from the Merged Downtown Development Assistance Project to the Riverfront Hotel Project for unanticipated, increased building materials and labor costs.

CHAIR

SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____