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THOMAS V. LEE  
DEPUTY CITY MANAGER  
DOWNTOWN DEPARTMENT



APPROVED  
BY THE CITY COUNCIL  
JUN 9 1998  
OFFICE OF THE  
CITY CLERK

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June 9, 1998

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

Honorable Members in Session:

**SUBJECT: Selection of Developer for the Waterfront Hotel**

**LOCATION AND COUNCIL DISTRICT: District One**

**RECOMMENDATION:**

It is recommended that the City Council and the Redevelopment Agency of the City of Sacramento (RACS) adopt the attached resolutions, which authorize the City Manager to:

- approve the selection of the JMK Investments/Promus Hotels team, and
- enter into negotiations for a 120-day period with the selected developer to produce a Disposition and Development Agreement for construction of an visitor/tourist-oriented hotel on the Agency owned property known as the "Docks" site.

**CONTACT PERSON:**

Traci Michel, Sr. Management Analyst, 264-8645  
Mary Wray, Sr. Downtown Development Manager, 264-7730

**FOR THE COUNCIL MEETING OF: June 9, 1998**

**SUMMARY:**

This report recommends selection of a developer team for the Waterfront Hotel and recommends negotiations with the recommended developer for a 120-day period to produce a Disposition and Development Agreement to construct the Waterfront Hotel.

**BACKGROUND:**

On October 21, 1997, the City Council and RACS confirmed submittal requirements and established a deadline of January 2, 1998 for receipt of update information for proposals on the Waterfront Hotel. The development teams of JMK Investments Inc./Promus Hotel Corp. and Prime Hospitality Corp. responded with proposal updates that were received by the due date. Attachment I is a brief narrative describing the development proposal of each team.

The evaluation process approved by the RACS called for formation of three reviewing bodies: a Technical Team, an Evaluation Committee and the Selection Committee with the following members:

*Technical Team:* staff from both the City and the Agency representing Public Works, Planning, Utilities, Fire, Legal and Finance.

*Evaluation Committee:* representatives from Downtown Enterprise, the City Manager's Office, a consultant from the hotel industry (PKF Consulting), and a property owner from the Old Sacramento Management Board.

*Selection Committee:* Mayor Serna, Council members Fargo, Kerth and Yee, City Manager Edgar and Deputy City Manager Lee.

The Evaluation Committee and the Technical Team met jointly to review and evaluate the proposals. Attachment II is a comparative chart for the hotel proposals and Attachment III is a synopsis of the selection analysis.

The Technical Team, Evaluation Committee and the Selection Committee unanimously chose JMK Investments/Promus Hotel Corporation as the successful development team for the Waterfront Hotel. The proposal was submitted by a strong hotel owner/operator and the proposal maximizes public benefit and minimizes public investment.

The development of a tourist-oriented hotel in Old Sacramento at the "Docks" site that fully makes use of the riverfront setting has long been a key element of the vision for Old Sacramento. However, the "Docks" site remains problematic. Site access alternatives and parking requirements will require further due diligence with responsible agencies ( i.e. Caltrans, State Parks, etc.) which should be defined over the next several months. Therefore, staff recommends entering into negotiations for the next 120 days with JMK Investment/Promus Hotels for a Disposition and Development Agreement for the development of an visitor/tourist-oriented hotel on the Agency property known as the "Docks" site.

At the end of the period, staff is to return to City Council with a recommendation on a Disposition and Development Agreement with the recommended developer.

**FINANCIAL CONSIDERATIONS:**

The economic benefits of the development of a proposed hotel will come from a variety of sources including:

- Transient Occupancy Tax (TOT),
- Sales Tax, and
- Property Tax

Other direct revenues include Business Tax Revenue and Utility User's Tax. In addition, the city would benefit from the creation of jobs from the construction and operation of the hotel.

Transient Occupancy Taxes

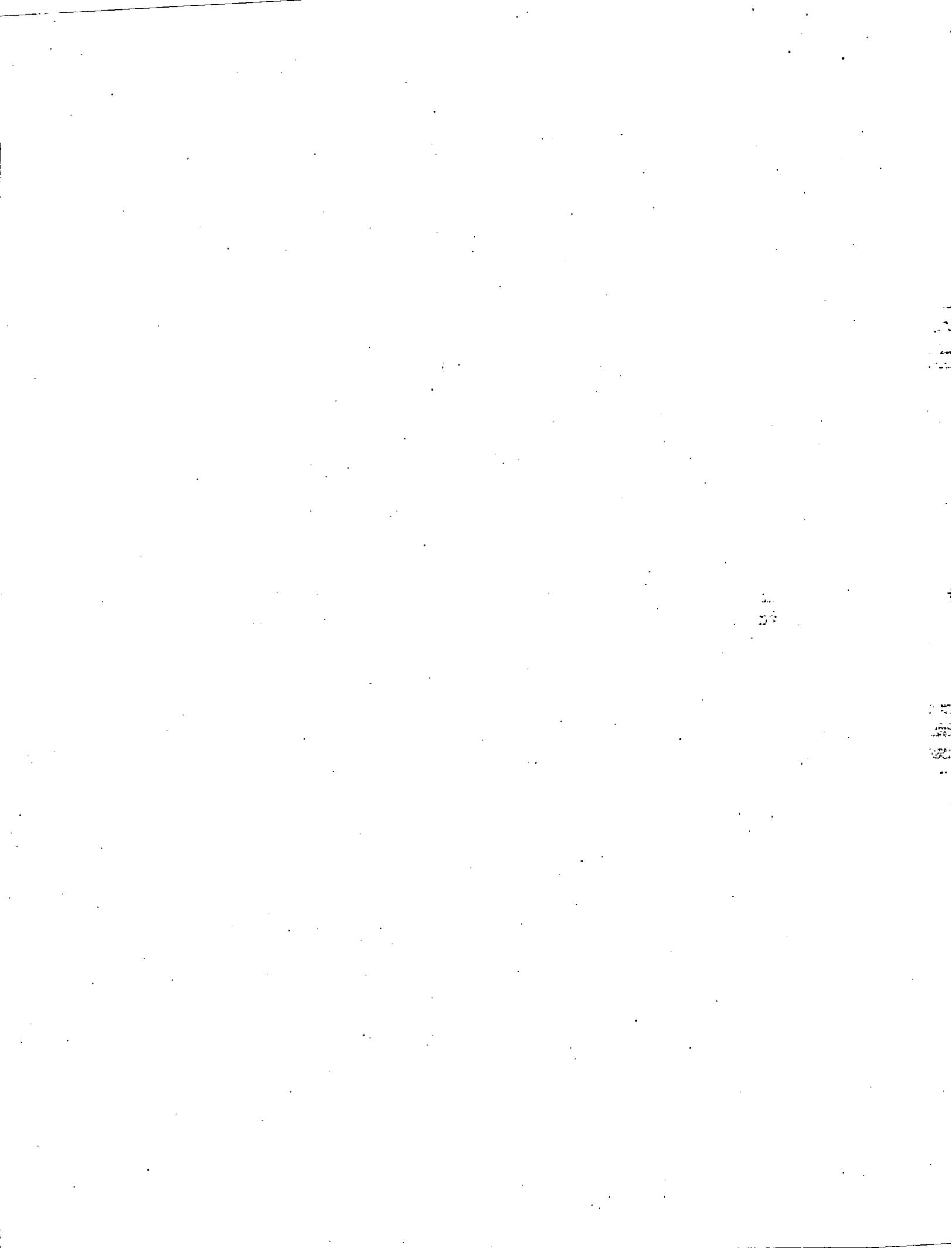
The TOT is the most direct source of income to the city, as all of the receipts collected will go directly to the City. Calculated at the city's current tax rate of 12.0% of gross room sales, at stabilization in Year 4 the hotel is projected to yield approximately \$950,000 of TOT annually.

Sales Taxes

Sales tax is applied to food and beverage sales at the property, and is received by various jurisdictions in the following manner; State 6.0%, County .75%, and City 1.0%. Sales tax revenue is estimated at approximately \$ 150,000 per year.

Property Taxes

As a property in a designated redevelopment project area, the property tax benefits to the Agency are based on the incremental value generated by the development of the hotel. Assuming an assessed value of approximately \$30.0 million dollars for the improvements (exclusive of pre-opening costs and working capital), a tax rate of 1.1 percent and an annual escalation in the assessed value of 2.0 percent in accordance with state law, the estimated tax increment created by the development of a 245 - 250 room, full service hotel is estimated at \$375,000 annually.



**ENVIRONMENTAL CONSIDERATIONS:**

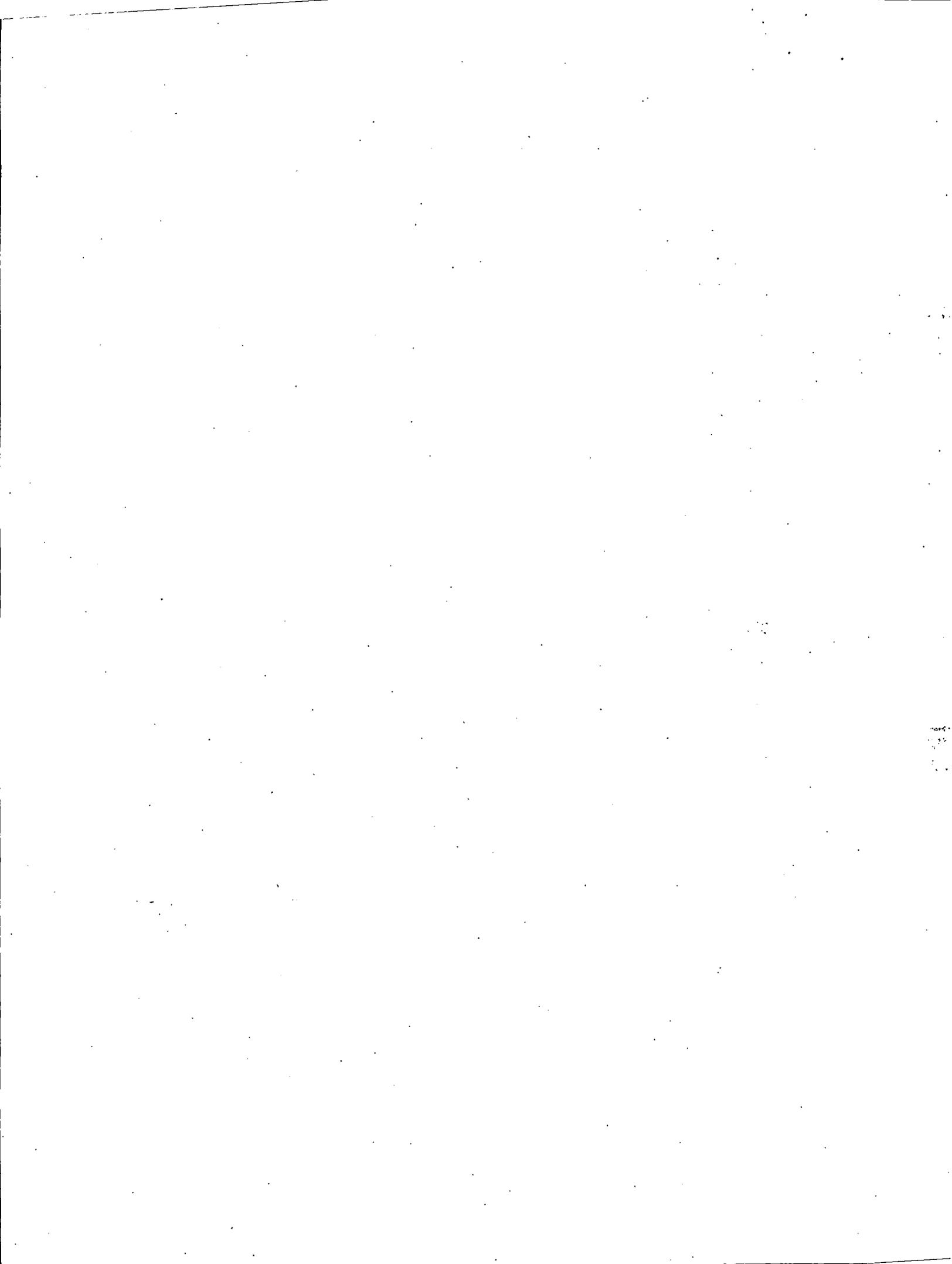
The actions recommended in this report are in furtherance of the Merged Downtown Sacramento Redevelopment Plan, as amended. Per CEQA Guidelines Section 15180, 15162 and 15163, actions to encourage redevelopment in a redevelopment area were deemed approved at the time of adoption of the redevelopment plan. The proposed actions do not commit the Agency to a definite course of action since they are expressly made contingent on CEQA compliance prior to approval of a DDA or City entitlement per Agency and City environmental procedures. If the RACS determines the project is feasible to pursue, a Notice of Preparation of an environmental impact report will be published, and environmental review will be completed. No further environmental documentation is required at this time. NEPA does not apply.

**POLICY CONSIDERATIONS:**

**Public Investment.** In order to create the catalyst for the above public economic benefits, the City/RACS is proposing to make a public investment into the Waterfront Hotel project. In this case public investment would be limited to contribution of land plus consideration for offsite improvements, which reflects the unique access issues related to the site.

**Consistency with Merged Downtown Sacramento Redevelopment Plan.** The construction of a tourist-oriented hotel plays a critical role in revitalization of the downtown and confirmation of Old Sacramento's position as a major tourist destination in California. This item is consistent with the redevelopment strategy of the Merged Downtown Redevelopment Plan.

**Consistency with Sacramento Riverfront Masterplan.** The Sacramento Riverfront Masterplan called for a "first class full-service landmark hotel complex" of architectural distinction, serving as a gateway building to Capitol Mall and the State Capitol. Construction of a hotel on this site is consistent with the Riverfront Masterplan.



**MBE/WBE**

There are no goods or services being purchased as a result of the recommended action(s). If a project is ultimately approved, the construction project will incorporate the City M/WBE requirement.

Respectfully submitted,



 Traci Michel  
Sr. Management Analyst

**RECOMMENDATION APPROVED:**



 William H. Edgar  
City Manager

**APPROVED:**



Thomas V. Lee  
Deputy City Manager

**PROJECT SUMMARY**

Embassy Suites  
JMK Investments Inc.\ Promus Hotel Corp.

The proposed project will provide 245 upscale rooms and suites at a mid-priced rate in downtown Sacramento to meet the needs of the government, tourist, convention and business traveler. The hotel amenities will include a pool & spa, fitness center, meeting and conference room space and will have a restaurant with outdoor seating and a view of the river. The hotel as proposed, is an eight-story hotel featuring a large indoor atrium. The design also calls for a porte cochere entrance off Capitol Mall, a west elevation that features ground floor pedestrian entrances into the meeting rooms, restaurant, and outdoor dining patio. Project plans include a two-level subterranean parking garage containing 236 parking spaces.

AmeriSuites Hotel  
Prime Hospitality Corp.

This project was proposed as two concepts and will be discussed accordingly.

*Concept A*

The proposed project will provide a 184 room, 10-story hotel with two levels of integrated parking containing 118 stalls and related site amenities. A typical AmeriSuites hotel contains suites with a living room, bedroom and kitchen area, continental breakfasts, fully equipped business centers, group meeting rooms, fitness centers and pools at an affordable price. This concept envisioned alternatives that would stage development on the site for a second building and would accommodate surface parking or an at grade park development on site until market conditions would warrant construction of the second building. A stand-alone restaurant building could be readily incorporated into this development concept.

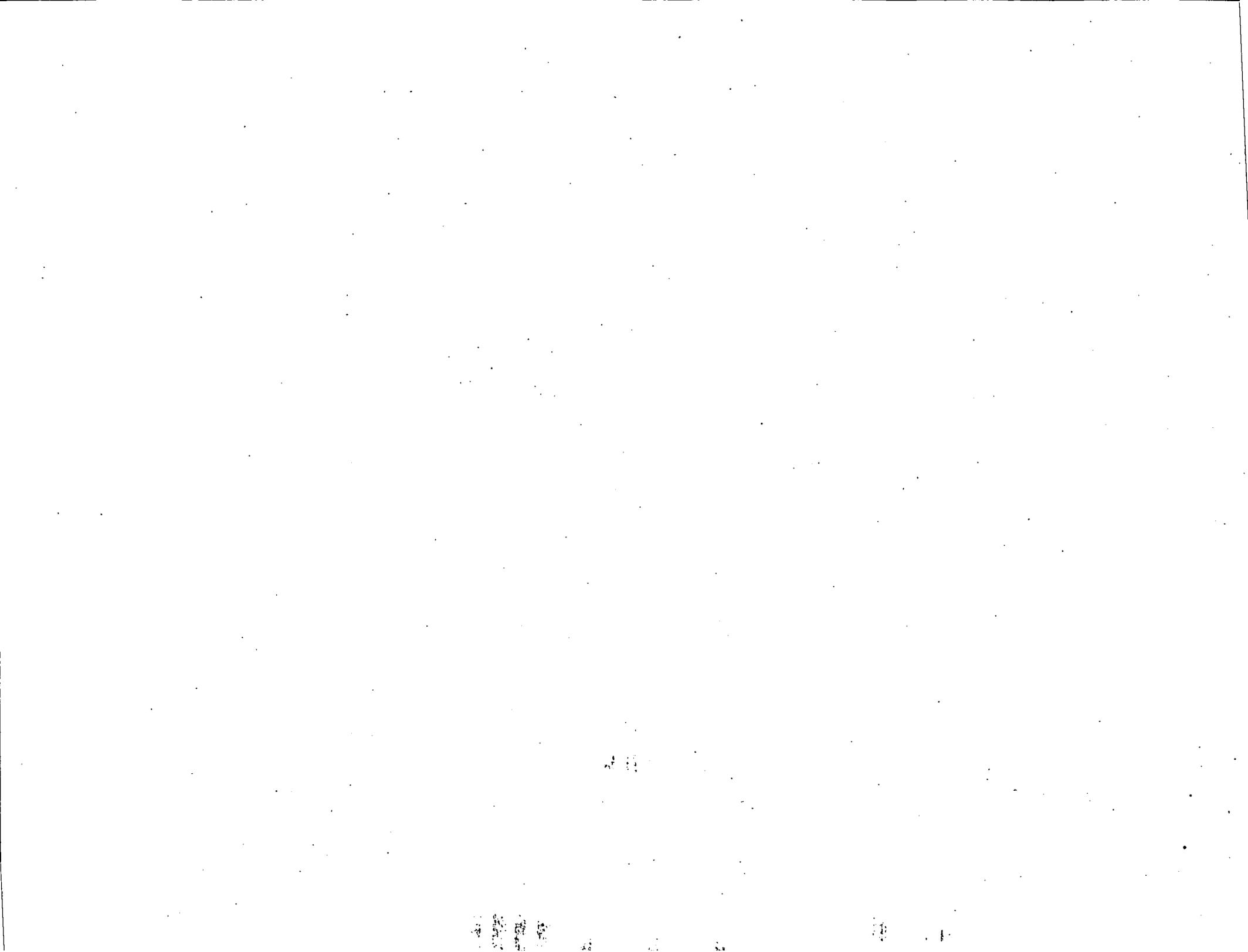
*Concept B*

This is a phased construction adding a second four story, 63 room building to the Concept A Building to achieve a total of 247 rooms. Accordingly, additional subterranean parking would be constructed as a part of the project to include 155 parking spaces.

Attachment II

COMPARISON OF WATERFRONT HOTEL PROPOSAL SUBMITTALS

	JMK Investments	Prime Hospitality	
<b>Development Team</b> Operator Developer Architect Contractor Project Consultant	Promus./Embassy Suites John Kehriotis A. Moore/MFDB Arch. Swinertone, Inc.	Prime Hospitality/AmeriSuites Prime Hospitality Forrar Williams/Weiser Group MBK Construction The Schaber Company	
<b>Project Description</b> No. Floors No. Rooms No. Parking Spaces Size of Site Room Rates Customer Breakdown  Meeting Space Public Space Indoor Rest. Outdoor Rest. Additional Amenities	8 245 242 (124 reqd.) 1.6 acres \$135 60% corporate, 20% group, 20% leisure  7,900 sf 9,300 sf 3,900 sf 2,200 sf <ul style="list-style-type: none"> <li>• Full, cooked-to-order breakfast</li> <li>• Complimentary evening beverages and hors d'oeuvres</li> <li>• Swimming pool/spa</li> <li>• Fitness center</li> <li>• Valet parking</li> </ul>	<b>Concept A</b> 10 184 118 (93 reqd.) 1.6 acres \$85 - \$95 75% corporate, 25% leisure  1,030 sf/120 sf bus. Ctr. 3,200 sf 0 0 <ul style="list-style-type: none"> <li>• Complimentary continental breakfast</li> <li>• Limited food and beverage service</li> <li>• Fitness center</li> <li>• Swimming pool/spa</li> <li>• Potential separate restaurant</li> <li>• Garden space dev't</li> </ul>	<b>Concept B</b> 10 and 4 (2 buildings) 247 (addit. 63 rooms) 155 (125 reqd.) 1.6 acres \$85-\$95 75% corporate, 25% leisure  1,030 sf/120 sf bus. Ctr. 3,200 sf 2,000 sf 0 <ul style="list-style-type: none"> <li>• Complimentary continental breakfast</li> <li>• Limited food and beverage service</li> <li>• Fitness center</li> <li>• Swimming pool/spa.</li> <li>• Potential separate restaurant</li> </ul>
<b>Project Costs</b> Hotel Structure Cost Per Room Parking Structure Total Dev't Costs	\$27,380,780 \$111,758 \$2,984,000 \$30,364,780	\$14,095,000 \$76,603 \$2,400,000 \$16,495,000	\$17,720,000 \$71,740 \$3,900,000 \$21,620,000
<b>Project Subsidy Requested</b> Land Tax Increment	Contribution of land \$0	Contribution of land \$0	Contribution of land \$1.4 million /\$ 3.5mil.
<b>General Economic Benefits</b> Construction Jobs Permanent Jobs Development Fees <b>Annual Econ Benefits*</b> Tax Increment Sales Tax (indirect) TOT (at stabilization 72%) Total Public Revenue	300+ 112 (includes restaurant) \$1,000,000+  \$375,000 \$154,526 \$951,419 (year 4) \$1,480,945	300 15 FTE (w/o restaur.) \$703,375  \$206,250 \$82,080 \$616,560 (year 4) \$904,890	300+ 20FTE (w/o restaur.) \$953,375  \$270,000 (year 7) \$124,013 \$917,640 (year 7) \$1,311,653



Selection Analysis

**Strength of Ownership** – Both projects were proposed as corporate operated hotels.

Promus Hotel Corporation, one of the world's largest hotel companies, is the franchisor and operator of the Embassy Suites, Hampton Inn, Hampton Inn & Suites, Homewood Suites, Embassy Vacation Resort, and Hampton Vacation Resort brands and owner/operator of Doubletree Hotels, Guest Suites and Resorts hotels, and Club Hotels by Doubletree.

Based in Memphis, Tennessee the company has more than 1,200 hotels and more than 177,000 rooms and approximately 40,000 employees throughout the United States, Canada, Latin America, and Asia. Promus Hotels have made a determination that representation in California's state capital is a key link in the brand's west coast distribution and is aggressively pursuing expansion plans in Northern California. Embassy Suites' California/Western Embassy suites hotels include other feeder markets such as Los Angeles, San Diego, and other Northern California properties including San Rafael, Santa Clara, Milpitas, and Walnut Creek.

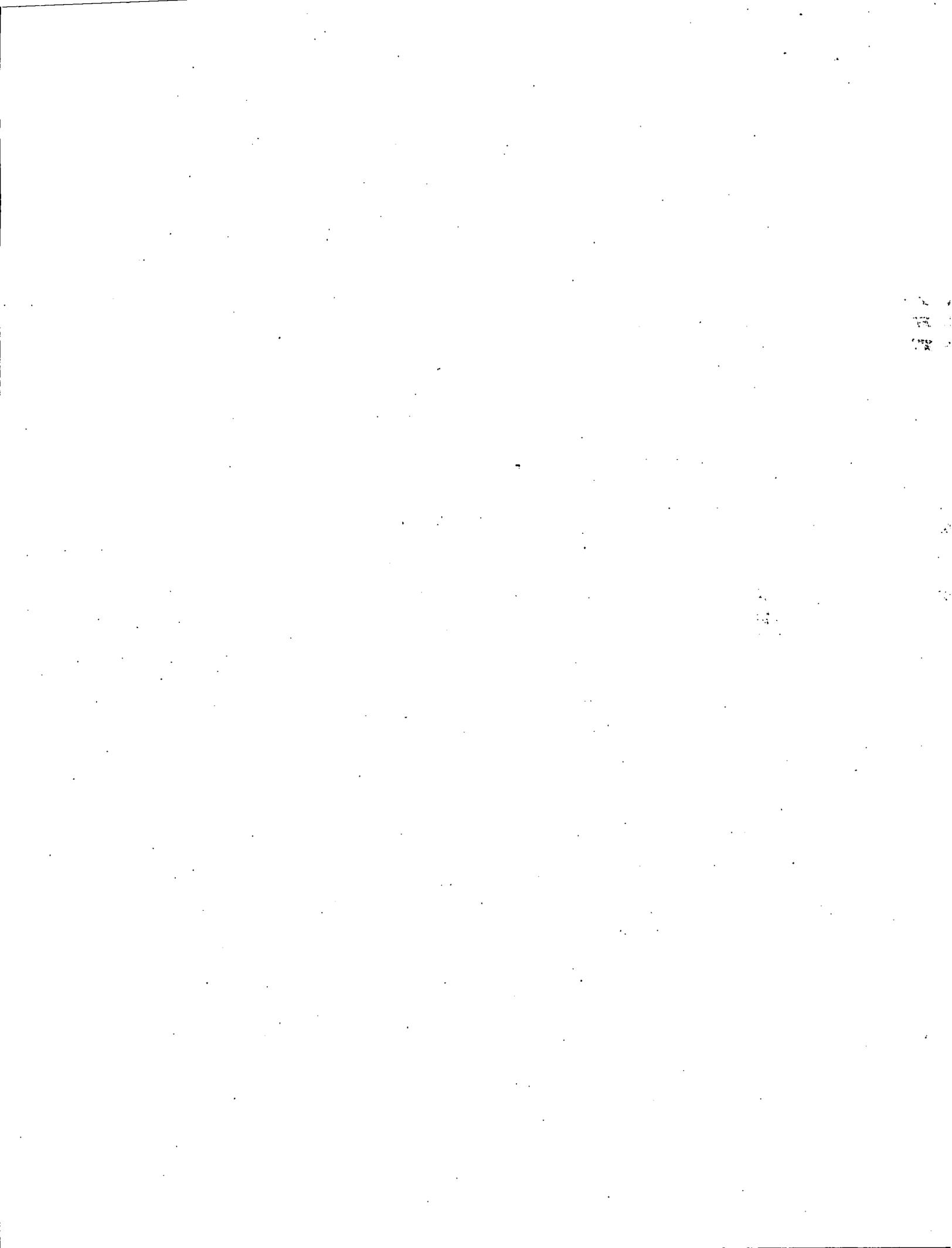
Prime is a hotel owner/operator, which as of February 1998, owned or leased 135 hotels, including 18 hotels under sale/leaseback agreements, and managed 12 hotels for third parties in 29 states & the Virgin Islands. Prime Hospitality Corp. owns or manages 106 hotels under its proprietary trade names AmeriSuites and Wellesley Inns, and under franchise agreements with national hotel chains including Marriott, Radisson, Sheraton, Crowne Plaza, Holiday Inn, Ramada and Howard Johnson. Prime is rapidly growing its mid-range all-suites AmeriSuites chain with 100 hotels currently under development. Prime's Wellesley Inn chain consists of 29 hotels located in Florida and the Northeast. The AmeriSuites brand has become the primary expansion vehicle. Prime is currently in an aggressive expansion mode to build name recognition and market visibility as they seek to begin development of a franchising program.

**Project Description** – The project size, number of rooms, meeting space, amenities and parking are all important to the ability of the hotel to anchor activities along the new Promenade, south of the Tower Bridge, complement Old Sacramento visitor and tourist activities, and maximize Transient Occupancy Tax (TOT) receipts.

Promus Hotel Corporation proposed a 245-room hotel that nearly achieves the hotel policy requirement of 250 rooms.

Prime Hotel Corporation's Concept A (184 room) falls short of the desired 250-room policy. Concept B approaches the room count with 247 rooms.

**Financing** - Both projects are proposed to be internally financed requiring no third party financing.



**Public Investment** - Council's stated position on public investment for this project would be limited to contribution of the land and potential for assistance with offsite improvements to reflect the unique access issues of the site.

Promus Hotel Corporation's proposal requested contribution of the land.

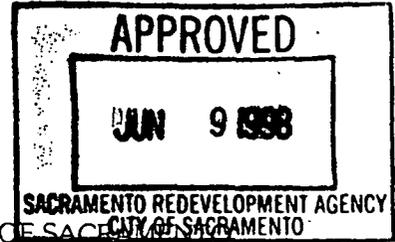
Prime Hotel Corporation's Concept A (184 rooms) requested only contribution of the land. The Concept B proposal would require a public investment of \$ 1.4 million if the project could be phased in response to market conditions and approximately \$ 3.5 million if the project would be required to comply with the Hotel policy.

**Public Benefit** - Revenues generated by the project will come from a variety of sources, primary among those is: Transient Occupancy Tax, Sales Tax, and Property Tax Increment. The City also benefits indirectly from the creation of jobs during construction and from the operation of the hotel.

The Promus Hotel proposal is projected to produce approximately \$ 1.5 million annually (estimated at stabilization in Year 4) in terms of TOT, Sales Tax and Tax Increment.

Prime Hotel's Concept A (184 rooms) is estimated to generate approximately \$900,000 in public revenue per year, and the larger hotel, Concept B is projected to achieve approximately \$ 1.3 million at stabilization in Year 7.

**RESOLUTION NO. 98-030**



ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF \_\_\_\_\_

**WATERFRONT HOTEL DEVELOPMENT NEGOTIATION  
WITH JOHN KEHRIOTIS/  
PROMUS HOTEL CORPORATION ON THE WATERFRONT/DOCKS SITE**

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

Section 1: The City Manager is authorized to enter into negotiations for a 120 day period with JMK Investments, Inc. and Promus Hotel Corporation, regarding terms of a Disposition and Development Agreement for development of a visitor/tourist-oriented hotel on the Agency owned property known as the "Docks" site.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

APPROVED

AM 9 1988

CITY OF SACRAMENTO  
SACRAMENTO DEVELOPMENT DEPARTMENT

**APPROVED**  
BY THE CITY COUNCIL

**JUN 9 1998**

OFFICE OF THE  
CITY CLERK

**RESOLUTION NO. 98-262**

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

ADOPTED BY THE SACRAMENTO CITY COUNCIL

**WATERFRONT HOTEL DEVELOPMENT NEGOTIATION WITH JOHN KEHRIOTIS/  
PROMUS HOTEL CORPORATION ON THE WATERFRONT/DOCKS SITE**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:**

Section 1: The City of Sacramento authorizes the City Manager to enter into negotiations for a 120 day period with JMK Investments, Inc. and Promus Hotel Corporation, regarding terms of a Disposition and Development Agreement for development of a visitor/tourist-oriented hotel on the Agency owned property known as the "Docks" site.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

**FOR CITY CLERK USE ONLY**

RESOLUTION NO: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

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