

STAFF REPORT

DATE: March 29, 2011

TO: City Council

FROM: Ken Hiatt, Deputy Executive Director
Katherine Hess, Community Development Administrator

SUBJECT: Hotel / Conference Center Preferred Alternative

Recommendation

Staff recommends that the City Council:

1. Identify the hotel / conference center proposal at the University Park Inn site as the preferred alternative;
2. Direct staff to proceed with negotiations for a financing package and return on April 19th for approval of final Commercial Rehabilitation Loan documents for the project.

Council Goals

Economic Development - ED 8. Present options to the City Council for the development of a hotel/conference center facility within or adjacent to the downtown.

Fiscal Impact

The recommended project would generate sales and transient occupancy taxes for the City, and property tax increment for the Redevelopment Agency. The commercial rehabilitation loan would be funded by a combination of fund balance and bond proceeds.

Background and Analysis

The City Council Goals 2010-2012 contains the action to “Present options to the City Council for the development of a hotel/conference center facility within or adjacent to the downtown.” A downtown hotel conference center would provide both fiscal and non-monetary benefits to the community. It would also better position the downtown in response to the proposed expansion of the Hyatt Place hotel on the UC Davis campus. During the latest actions on the Redevelopment Agency’s response to the Governor’s budget proposal, the Agency Board identified the hotel / conference center as one of its highest priority economic development objectives.

The owners of both the Hallmark Inn and the University Park Inn have developed preliminary proposals to add conference space and additional rooms on their properties. Since fall of last year, staff has been working with both owners to refine their proposals and identify opportunities for Redevelopment Agency participation in financing the projects.

Both proposals have significant merit and would be strong additions to the downtown. A full service hotel and conference center would increase the community’s ability to capture conferences emanating from UC Davis activities, and the corresponding hotel nights and visitor

spending. It would also provide a venue for community events that cannot be accommodated in our existing facilities, and an off-site meeting space for local businesses. A further benefit is that the conference facility would be expected to hold events that would result in additional room nights at other local hotels.

Hallmark Inn

The Hallmark Inn on F and G Streets at 1st Street currently has 134 rooms, two meeting rooms, a small bar, breakfast room and a swimming pool. The hotel is affiliated with the adjacent Season’s restaurant which is also located on the property.

The proposal includes the construction of a new conference facility with two floors of hotel rooms above and an optional fourth floor with luxury apartments. The project would necessitate the demolition of the existing 2-story east wing of the hotel facing G Street which contains 34 hotel rooms and two meeting rooms. The existing underground parking garage would be expanded by approximately 50 parking spaces. Final project would consist of the following:

	Existing to Remain	Proposed Addition	Total
Hotels Rooms	100 rooms	48 rooms	148 rooms (14 net new)
Conference Facility	n/a	~16,000 SF gross 7,200 SF meeting space ~480 person capacity	~16,000 SF gross 7,200 SF meeting space ~480 person capacity
Parking	100 spaces	50 spaces	150 spaces
Luxury Apartments (option)	n/a	6-8 units	6-8 units

Planning approval would require a Conditional Use Permit for a building exceeding two stories, and design review. Staff anticipates that environmental review would lead to preparation of a Negative Declaration.

The owner has prepared preliminary construction cost estimates. The total estimated project cost is \$10,000,000. The owner is requesting the City/Agency provide a loan for the construction at 3% interest, with interest only payments for 30 years and a balloon payment at the end of the 30 year term.

University Park Inn

The University Park Inn on Richards Boulevard at Olive Drive currently has 45 rooms and 25 suites, a small meeting room, and a swimming pool. The hotel property also houses the Café Italia restaurant.

The proposal includes the construction of a conference facility as part of a new 85 room, 6 story full service/4-star hotel. The hotel would include a rooftop restaurant and new underground parking garage. The existing 25 unit hotel building on the north side of the property would remain and be converted to a boutique extended stay hotel. The final project would consist of the following:

Hotel / Conference Center Financing Options

	Existing to Remain	Proposed Addition	Total
Hotel Rooms	25 rooms	85 rooms	110 rooms (65 net new)
Conference Facility	n/a	10,000 square feet	10,000 square feet

The owner has prepared preliminary construction cost estimates and initial project proforma (Attachment 1). The total estimated project cost is approximately \$15,500,000. The owner is requesting the City/Agency provide a loan of \$5,100,000 to the project at 6% for 20 years. The balance of the project financing would be provided by the owner.

Planning approval would require an amendment to the Olive Drive Specific Plan and General Plan to reflect the increased intensity of development on the project site. The development would also require environmental review under CEQA. Because of the highly visible nature of the project and its location on the Richards Boulevard corridor, and EIR might be required.

Comparison of Alternatives

The Redevelopment Agency does not have the financial capacity to provide the requested assistance to both projects. The recent bond issue provided \$4 million in taxable bond proceeds targeted toward the hotel / conference center project. The Agency has entered into an agreement with the City of Davis that commits its existing fund balance (\$7 million) to the completion of several projects, including the hotel / conference center. Other priority projects include a downtown mixed-use project, the Hunt-Boyer Tankhouse improvements, and Central Park improvements. The anticipated cost of the targeted projects exceeds the funds available under almost any scenario.

In addition, staff does not believe that it would be prudent to proceed with two conference centers at the same time. Competing facilities may dilute the market and result in the inability of either to be successful. Even with construction of one conference facility, staff recommends the city and developer conduct a market analysis to inform decisions on optimal size and amenities for the project, and to make recommendations on marketing strategies to ensure the greatest success of the facility.

The following chart shows a summary of the two proposals and staff's initial review of the merits of each. Both would contribute to the local economy and provide revenue for the City of Davis. Each hotel operator is capable of developing a project and operating a high-caliber hotel. Each would also provide intangible benefits, such as possibly spurring adjacent property owners into other capital improvements.

Hotel / Conference Center Financing Options

Hotel / Conference Center Project		
	Hallmark Inn (F/G Streets)	National 4-star marque (Richards/Olive)
Rooms	148	110
Total Added	14	65
TOT Hotel	\$375,000 (about 1/3 new)	\$350,000/year (mostly new)
Sales Tax - new (\$90/room night in taxable sales; does not include spillover benefits)	\$14,595	\$29,319
Tax Increment (New)	\$100,000 (\$53,000 to Agency General Fund)	\$153,650 (\$82,000 to Agency General Fund)
Requested City/Agency Contribution	\$10,000,000	\$5,146,000
Private Funding Commitment	\$1 million for furnishings, fixtures, equipment	\$9,719,000
Leverage – City:Private investment	*	***
City contribution per room	*	***
Proximity to Depot and Heart of Downtown Core	***	**
Freeway Visibility	*	***
Neighborhood Image	**	*
Hotel Accommodations / Marque	**	***
Property owner ability to deliver	***	***
Potential to be catalyst for improvements to nearby properties	**	***
Spillover benefits to other hotels	***	***

Staff recommends the City Council select the University Park Inn site as its preferred alternative. The main reason is financial: the project provides equal or better benefits to the City and community, with a significantly smaller loan request and better leveraging of public with private resources. In addition, the proposed national brand name will improve visibility of the hotel (and therefore community) for conferences and for visitors.

We recommend the staff and the property owner be charged with working expeditiously to identify a package for Agency and City assistance, to return by April 19 for approval of a commercial rehabilitation loan or other financing documents.

Hotel / Conference Center Financing Options

If approved, staff would anticipate the following schedule

- | | |
|-------------------|--|
| April 19, 2011 | Redevelopment Agency Board approval of financing documents |
| By June 30, 2011 | Property owner to submit planning application |
| By September 2011 | Planning Commission, Community and CEQA review of proposed project |
| By June 2012 | Commence Construction |

Attachments

1. University Park Inn pro forma

University Park Inn Expansion

Option A: 85 New Rooms with 10,000 SF Conference Center

Overview and Notes

03/23/11

- 1 This option provides for a large conference center and hotel of 110 guest rooms, including 85 new rooms. This project represents a net expansion of 65 rooms above the current 45.
- 2 **The net annual tax increment is approximately \$500,000 in transient occupancy taxes and property taxes, after netting out 25 existing Rooms which will remain in operation.**
- 3 In order to maintain a market return on owner equity of 20.0%. This scenario requires that the City contribute approximately **\$5.1 million in RDA loan funds repaid in 20 years at 6.0%**. Even at this, the overall return on project cost remains very low.
- 4 The hotel and conference center will be a 4 diamond/star rated facility catering to families and business visitors to Davis. This will be an all suites product.
- 5 Unlike other hotels in town and on campus, this will be a full service hotel.
- 6 We will want to discuss the City RDA undertaking pedestrian improvements along Richards Blvd connecting downtown.
- 7 We will want to discuss the detail terms and conditions of the RDA loan to the project that will maximize the benefits to the project for both parties.

Assumptions and Conditions:	
<i>Year - Realized</i>	2013
<i>Year - Dollars</i>	2011
<i>Rooms</i>	85
<i>Stable Occupancy</i>	70.0%
<i>ADR</i>	\$ 129.00
<i>RevPAR</i>	\$ 90.30
<i>Other Revenue - % of Room Rev.</i>	10.0%
<i>Operating Expenses - % of Room Rev.</i>	30.0%
<i>Undistributed Expenses - \$/ Room/ Day</i>	\$ 10.00
<i>Gross Building Area - GSF</i>	80,000
<i>Direct Construction Cost per GSF</i>	\$ 130
<i>Indirect Costs - % of Direct Costs</i>	35.0%
<i>Total Direct Costs</i>	\$ 10,400,000
<i>Total Indirect Costs</i>	\$ 3,640,000
<i>Total Parking Costs</i>	<u>\$ 1,325,000</u>
<i>Total Project Costs</i>	\$ 15,365,000
<i>Remaining Rooms & Land Value Estimate</i>	<u>\$ 500,000</u>
<i>Total Project Value</i>	<u>\$ 15,865,000</u>
<i>Total Building Costs/ Room</i>	\$ 180,765

Project Tax Payments:	
<i>Project Value for Property Tax</i>	\$ 15,865,000
<i>Property Tax Rate</i>	1.25%
<i>Property Tax - Year 1</i>	<u>\$ 198,313</u>
<i>T.O.T - % of Gross Revenue</i>	10.0%
<i>Gross Room Revenue - Year 1</i>	\$ 2,801,558
<i>T.O.T. - Year 1 from New Rooms</i>	\$ 280,156
<i>Plus: Estimate T.O.T. - Remaining Rooms</i>	<u>\$ 70,039</u>
<i>Total Project T.O.T</i>	\$ 350,195
<i>Total Tax Paid - Annual</i>	\$ 548,507
<i>Total Tax Paid - 10 Years</i>	<u>\$ 5,485,072</u>

Shortform Year 1 Operating Statement:

<i>Gross Room Revenue</i>	\$	2,801,558
<i>Restaurant Rent</i>	\$	78,000
<i>Other Net Revenue</i>	\$	280,156
<i>Total Revenue</i>	\$	3,159,713
<i>Operating Expenses</i>	\$	840,467
<i>Undistributed Expenses</i>	\$	310,250
<i>Fixed Charges</i>		
<i>Property Taxes</i>	\$	198,313
<i>Insurance</i>	\$	125,000
<i>Reserve</i>	\$	150,000
<i>Total Expenses</i>	\$	1,624,030
<i>Net Operating Income</i>	\$	1,535,684
<i>Less: Debt Service</i>	\$	1,387,627
<i>Cash Flow</i>	\$	148,056
<i>Return on Project Cost</i>		0.96%
<i>Return on Owner Equity</i>		14.81%

Debt Service Calculation:

<i>Bank Rate</i>		8.0%
<i>Davis RDA Rate</i>		6.0%
<i>Term - Years</i>		20
<i>Total Project Cost</i>	\$	15,365,000
<i>Equity Req'd: % of Cost</i>		40.00%
<i>Equity Required - \$</i>	\$	6,146,000
<i>Owner Land & Buildings</i>	\$	500,000
<i>Owner Cash</i>	\$	500,000
<i>City RDA Loan</i>	\$	5,146,000
<i>Amount Financed- Bank</i>	\$	9,219,000
<i>Amount Financed- RDA</i>	\$	5,146,000
<i>Annual Debt Service – Bank</i>		\$938,976
<i>Annual Debt Service – City RDA</i>		\$448,652
<i>Total Project Debt Service</i>		\$1,387,627