

"Placerville, a unique historical past forging into a golden future."

City Manager's Report
August 23, 2016 City Council Meeting
Prepared by: Cleve Morris, City Manager
Item #: 11.1



Subject: Adopt a Resolution Approving an Economic Incentive Agreement and a Ground Lease Agreement with Hallmark Development and Realty Corporation for the Construction and Operation of a Public Park and Ride Facility and Hotel in Placerville and authorizing the City Manager and City Attorney to execute the same.

Background:

One of the Strategies identified by the Placerville Economic Advisory Committee is to bring additional hotels to the City of Placerville. In September of 2015, the Council adopted a Hotel Incentive Program, which provides for the sharing of Transient Occupancy Tax. The Hotel Incentive Program Policy outlines additional incentives, which may be negotiated based on unforeseen or extenuating circumstances that may make hotel development difficult on a specific site. The purpose of this item is to propose additional incentives to develop the hotel site located at 2990 Mosquito Road, the site of the proposed phase II Park and Ride.

This site was purchased by the City and is in the planning stages to construct a Public park and ride lot. Recently staff began negotiations with Hallmark Development and Realty Corporation to construct a parking garage for the park and ride facility, and construct a boutique hotel above the garage. The proposal is for a 60 room hotel under the Ascend Hotel brand. Attached is information regarding Ascend Hotels. Ascend provides a unique brand name that allows construction and aesthetics of the facility to meet the character of the surrounding community. This allows the new hotel to fit the design and character of Placerville.

In 2007, the City received a grant from the Federal Transit Administration to fund the construction of a 70 space Park and Ride Facility. The facility was also to include 3 bus parking spaces. Since that time the City has completed various stages of design for the Park and Ride. In 2015, the City began discussion with Hallmark Development and Realty regarding potential sites for hotels. We reviewed several privately owned sites but also looked at City owned sites that may be feasible for hotel construction. We identified the Mosquito Road Park and Ride as a potential site that could provide a dual purpose of a Park and Ride Facility, and a Hotel. Hallmark Development had been working on a similar project with the City of Auburn and had some information available. Because the cost of building a garage as opposed to a surface lot is more expensive, the Developer has requested a transient occupancy tax sharing agreement. The purpose of this item is to consider the approval of the tax sharing agreement.

Discussion:

In Accordance with Government Code Section 53083, the following economic subsidy information must be posted on the City's website.

- (1) The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.

Hallmark Development and Realty, a California Corporation
720 Sunrise Avenue, Suite A-130
Roseville, CA 95661

- (2) The start and end dates and schedule, if applicable, for the economic development subsidy.

Start Date: Upon Completion of the Hotel
End Date: When \$3,600,000 of Transient Occupancy Tax has been credited.

- (3) A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

Hallmark Development will be credited a total of \$3,600,000 in Transient Occupancy Tax over an undetermined period of time. In addition, a total of \$1,000,000 will be expended on the construction of a Public park and ride facility and utility improvements from the 2007 FTA Grant and other funding sources pending written authorization from the FTA and Sacramento Regional Transit District.

- (4) A statement of the public purposes for the economic development subsidy.

It is anticipated that the hotel development will increase tourism in the City of Placerville which in turn increases revenues for maintenance of public infrastructure including streets, water and sewer.

- (5) Projected tax revenue to the local agency as a result of the economic development subsidy.

It is estimated the City would receive a total of \$2,612,789 in TOT. Additional sales tax revenue is also anticipated as an indirect result of the development. The amount of increase in sales tax revenue is unknown at this time.

- (6) Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

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It is estimated that the hotel will employ 20 Full-time Employees and 25 Part-Time Employees.

The proposed hotel would feature an upscale, 60-room boutique hotel with interior corridors, conference center and meeting rooms with necessary technology and services, a business center, limited food service for hotel guests and conference attendees that will mainly be breakfast for the guests in the morning, heavy snacks in the evening, and a catering kitchen for meetings and conferences. Additionally, the hotel will have concierge service, marketing coordinator to bring corporate clients and conferences to the property, and shuttles available for local transport to major attractions including the casino, Apple Hill and wineries, etc.

Staff has been in discussions with Hallmark Development and Realty for several months now to negotiate an acceptable Transient Occupancy Tax (TOT) sharing agreement. The attached agreement is a result of those discussions. Because of the uniqueness of this project with the Park and Ride facility included staff has negotiated TOT sharing in addition to the standard outlined in the TOT Sharing Program. There is also additional water utility work required as part of this project, which creates additional work for the developer.

The Placerville Hotel Incentive Program provides for TOT reimbursements over a 15 year period of up to \$2,500,000. This proposed agreement will provide additional incentives up to a total of \$3,600,000 over the term of the agreement. The reimbursements will be provided in the following manner.

Years 1 – 10: During years one through ten (1-10) of the Hotel's operation, the City will pay the Developer an amount equal to seventy five percent (75%) of the Hotel TOT reviewed and approved pursuant to the provisions of the agreement.

Years 11 – 15: During years eleven through fifteen (11-15) of the Hotel's operation, the City will pay Developer an amount equal to fifty percent (50%) of the Hotel TOT reviewed and approved pursuant to the provisions of this paragraph.

Optional Years 16 and beyond until the total is reached: In the event that remittances received by Developer at the end of the fifteen (15) year period is less than Three Million Six Hundred Thousand Dollars (\$3,600,000.00), then the remittance period shall be extended for an additional period until the total Three Million six Hundred Thousand Dollars (\$3,600,000.00) is received. For years sixteen through the end of the period, (16-end), City will pay Developer an amount equal to thirty three percent (33%) of the Hotel TOT reviewed and approved pursuant to the terms of this Agreement.

The incentive provided to the owner will be provided as follows:

- Two Million Five Hundred Thousand Dollars (\$2,500,000.00) pursuant to the Incentive Program; and

- One Million One Hundred Thousand Dollars (\$1,100,000.00) for the unique challenges with regard to the Park and Ride Facility pursuant to the Additional Incentive provisions of the Program; and

Total anticipated TOT over the 20 year term of this agreement is \$6,212,789. Therefore, the City's share of that amount over the 20 year period will be \$2,612,789. The incentive may vary based on actual TOT revenue received during the term of the agreement.

The attached agreement outlines the terms of the agreement. It is anticipated that if approved, work could begin next year. Staff recommends approval of the agreement.

Options:

1. Approve the agreements as recommended.
2. Approve the agreements with revisions.
3. Reject the agreements.

Cost: If all provisions and estimates included as part of the incentive agreement are realized, the City will reimburse the developer \$3,600,000 in Transient Occupancy Tax over the 20 year period. The City would also receive approximately \$2,612,789 in additional TOT revenues under the agreement.

Budget Impact: The incentive agreement will not take effect until construction of the hotel is complete. Therefore, no budget impact will be realized in Fiscal Year 2016/2017 by this agreement. However, additional fees, in terms of permits and inspections, would likely be realized this year. The \$1,000,000 in site and utility improvements has already been appropriated by the City Council.

Recommendation: Adopt a Resolution Approving an Economic Incentive Agreement and a Ground Lease Agreement with Hallmark Development and Realty Corporation for the Construction and Operation of a Public Park and Ride Facility and Hotel in Placerville and authorizing the City Manager and City Attorney to execute the same.



M. Cleve Morris, City Manager

Attachments:

1. Resolution
2. Economic Incentive Agreement
3. Ground Lease Agreement
4. Ascend Hotel Information