



**REPORT TO COUNCIL  
AND  
REDEVELOPMENT AGENCY  
of the City of Sacramento**

**16**

**915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org**

**Staff Report  
November 3, 2009**

**Honorable Mayor and  
Members of the City Council**

**Honorable Chair and  
Members of the Redevelopment Agency**

**Title: 930 K Street Hotel; Authorizing Financing Evaluation and Negotiating  
Business Terms**

**Location/Council District:** Southwest corner of 10<sup>th</sup> and K Streets, Council District 1

**Recommendation:** Adopt a City **Resolution** 1) Authorizing staff to evaluate financing options for a hotel project at 930 K Street, 2) Directing staff to negotiate business terms with 10<sup>th</sup> and K Street Hotel Investors, LLC; and 3) Directing staff to work with stakeholders to investigate the ability to utilize the Transit Occupancy Tax (TOT) fund, in accordance with the ordinance, to enter into a master lease agreement for public meeting and assembly space on the hotel site. Adopt an Agency **Resolution** directing staff to proceed to negotiate business terms with 10<sup>th</sup> and K Street Hotel Investors, LLC for an owner participation agreement.

**Contact:** Sheri Smith, Senior Project Manager 808-7204, Leslie Fritzsche, Downtown Development Manager 808-5450

**Presenters:** Sheri Smith, Senior Project Manager, Leslie Fritzsche, Downtown Development Manager

**Department:** Economic Development

**Division:** Downtown

**Organization No:** 18001021

**Issue:**

Project - The owners of the property at 930 K Street, the southwest corner of 10<sup>th</sup> and K Streets, have approached the City and Agency requesting financial assistance for development of a 165-room hotel in downtown Sacramento. It is anticipated to be an urban style Marriot designed by the renowned hotel designer, Marc Hornberger (See Attachment 1: Biography and Sample Projects). Mr. Hornberger is the premier designer of a majority of the W hotels including the San Francisco W. The hotel concept plan includes a pool, approximately 8,000 square feet of meeting space, a downstairs bar and lobby area with grab and go food service, as well as ground floor retail along K Street. The proposed Marriot hotel will be a 12-story, upscale, select service hotel with a sophisticated urban design (See Attachment 2: Marriot Letter of Interest).

Development Team - The development team is the 10<sup>th</sup> and K Street Hotel Investors, LLC, which is a partnership of local developers with a strong track record of development in Sacramento. The partnership includes Brian Larson who was part of the development team for the Citizen Hotel, Jim Brennan who recently completed the office condominium project at 1001 K Street, and Toni Giannoni who has a long development history in Sacramento including Meridian Plaza and the recently completed Marriott Residence Inn at 15<sup>th</sup> and L Streets.

Financing - The total development cost is estimated to be \$43 million. In today's capital market this project can expect to attract an estimated \$22 million in conventional financing and \$11 million in equity investment, leaving a development gap of \$10 million. Staff has begun researching public funding options to assist in the development of this exciting project in the downtown.

One option that staff is evaluating is the utilization of Recovery Zone Facilities Bonds made available by the American Recovery and Reinvestment Act of 2009. The bonds allow for lower financing rates, but require some sort of financial backing from the City or the Agency. Staff is working with the City Treasurer, the Budget Office, and the City Manager to investigate the possibility of utilizing this unique bonding opportunity.

Another option is a HUD 108 loan for approximately \$4.7 million combined with a second loan for the remaining \$5.3 million. Staff is investigating potential resources within the City and Agency that could be utilized as capital for the second loan.

In either financing scenario, the City or Agency issued bonds or loans would be repaid with the following income stream, or the payments pledged would secure the developer's financing. The financing options identified to-date include the following:

- Developer payments based on a percentage of gross room revenues beginning in year five and continuing for the life of the loans/bonds based on the following schedule.

Year 5	1.5% of Gross Room Revenues
Year 6	3.0% of Gross Room Revenues
Year 7	4.0% of Gross Room Revenues
Year 8	5.0% of Gross Room Revenues
Year 9 and thereafter	6.0% of Gross Room Revenues

- Tax increment generated by the project could be pledged to repay the bonds or loans under an owner participation agreement.
- Transient Occupancy Tax (TOT) fund could be utilized to purchase a master lease agreement for use of hotel meeting and assembly space under the existing TOT ordinance. The total amount under consideration is roughly \$400,000 to \$500,000 per year based on the costs to construct such space and the terms of the lease in regards to exclusive or non-exclusive use of such space, and this new TOT expenditure would be funded by roughly half of the TOT revenues generated by this hotel.
- 3% room surcharge could also be self assessed and utilized to repay debt service for a 15 year period. A separate agreement securing payment of the surcharge would be required.

In either financing scenario, the intent is that the City or Agency bonds or loans would be fully repaid, with interest, within 20 years or at sale, whichever event occurs first. The City would also participate in 30% of the hotel's net cash flow and net sales proceeds once loan and equity obligations are met. The details defining cash flow and net sales proceeds would be presented to Council with the Owner Participation Agreement and related agreements once the business terms are finalized. This future contingent revenue stream could be deposited into the TOT fund to finance TOT projects and programs as part of the consideration to enter into a space lease funded with TOT revenues that would assist in securing the hotel financing.

**Policy Considerations:** Approving the recommendations will allow for staff to further investigate the financial feasibility of the hotel project so that more formal business terms can be presented at a later date. With this authorization, the developers would expend funds to further refine the hotel concept and result in moving the proposed project forward. The hotel project is consistent with the Amended Merged Downtown Redevelopment Plan and Five-Year Strategy as well as the General Plan and Central City Community Plan. Additionally, the proposed project is consistent with the JKL Community Workshop objectives for 10<sup>th</sup> and K Streets including:

- A pedestrian and destination-oriented use in an emerging entertainment district that will draw a large number of people;
- Directly supports the neighboring restaurants, movie theaters, nightclubs, and retail; and
- Serves as a catalyst redevelopment project, assisting in attraction of additional quality development to K Street.

The financial structure currently proposed for this project would rely on the use of a TOT funded public meeting and assembly space lease and a self assessed 3% surcharge for this hotel operator in accordance with the terms of an agreement which would commit future payments toward debt. Utilizing TOT revenues to enter into a lease arrangement for a development project has not been done by the City previously and would require a policy decision to do so.

Currently the TOT revenues are used to support the Convention Center, the Convention and Visitors Bureau, the Sacramento Metropolitan Arts Commission, and General Fund. Economic Development staff is working to define parameters for the potential use of TOT proceeds that will assure that the use of a portion of the TOT fund, paid for by the TOT revenues generated by the hotel, for the space lease will not negatively impact the existing uses the TOT fund supports.

Nearly every downtown hotel has required City or Agency participation to be successfully developed due to the higher cost of construction in the core. In the past, Economic Development has utilized Tax Increment (TI) as the main source for assisting the downtown hotel projects. Due to actions of the State, TI has become a very limited resource for assisting projects. Staff is looking at all other sources to continue with redevelopment efforts on K Street and to invest in projects that further the goals of the City. The TOT fund is one source that we are investigating to be utilized to support construction of a new hotel located in close proximity to the Convention Center by contracting for use of the hotel's meeting and assembly space for use for convention related operations and events.

#### **Environmental Considerations:**

**California Environmental Quality Act (CEQA):** The proposed actions are in furtherance of evaluating the feasibility of a potential development project and are exempt from environmental review under the CEQA Guidelines Section 15262. If the hotel project is determined to be financially feasible, CEQA compliance will be required prior to approval of any binding financial commitments and as part of the entitlement process.

**Sustainability Considerations:** The project meets the goals of the City's Sustainability Master Plan as an infill development project that will enhance the overall development of Downtown.

**Commission/Committee Action:** The project was presented to:

- The Sacramento Hotel Association (SHA) for review and comment on June 2, 2009.
- The Sacramento Convention and Visitors Bureau (SCVB) on September 17, 2009. The SCVB Board was supportive of the 10th & K hotel project in concept but had reservations about and reserved the right to comment on the use of TOT proceeds to help support financing of the project

construction. The SCVB board also requested the opportunity to revisit their level of support once the financing and deal terms for the project are finalized.

- The Downtown Sacramento Partnership Strategic Development Task Force on October 8, 2009 which recommended the project for approval.
- The Downtown Sacramento Partnership Board on October 21, 2009 which recommended the project for approval.

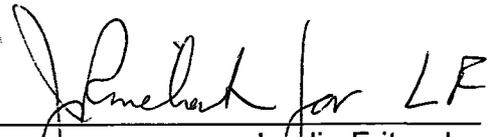
**Rationale for Recommendation:** In 2004, the Economic Development Department hosted the JKL Corridor Workshop in an effort to receive community and stakeholder input on a new vision/strategic direction for the area. The result of the workshop reinforced the focus on destination uses and depicted K Street as an active, entertainment and retail corridor. The City and Agency have recently invested in multiple projects that support the entertainment concept near the Convention Center including the newly completed Cosmopolitan live cabaret theater and the newly renovated Citizen boutique hotel. The City and Agency also recently approved the proposed nightclubs and restaurant at 1012 K Street, which are expected to begin construction this spring, as well as invested in the renovation of the iconic Crest Theater Marquee which was relit in September of this year.

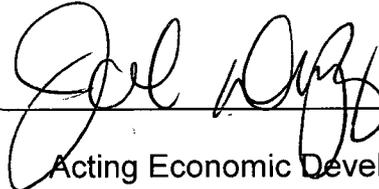
In addition to supporting the businesses listed above, which are changing the dynamic of K Street, the proposed project will generate a number of benefits to the Agency and to the City including:

- Assists with the elimination of blight by developing a key corner of K Street with an active use supporting recent redevelopment activities;
- Provides hotel rooms within walking distance of the Convention Center;
- Activates retail space along the K Street Mall;
- Creates an estimated 200 construction jobs;
- Creates 150 new permanent jobs;
- The project generates estimated City and Agency returns of \$17 million in the first 10 years (See Attachment 3; Return Analysis); and
- City receives 30% of net cash flow and net sales proceeds after debt and equity obligations have been met, the details of which will be presented in a future agreement.

**Financial Considerations:** Staff is considering multiple sources of funding to support the development of the hotel including, tax increment, Economic Recovery Zone Facilities Bonds, potential HUD-108 financing, and other City and Agency sources. Financing of the hotel would be structured to minimize any financial risk to the City, while providing the greatest likelihood of successfully financing, developing and operating the hotel. Once the specific funding sources and allocations are identified, the hotel financing structure will be presented to the Agency and City Council for formal financing commitments and approvals of the necessary agreements.

**Emerging Small Business Development (ESBD): None**

Respectfully Submitted by:   
Leslie Fritzsche  
Downtown Development Manager

Approved by:   
John Dangberg  
Acting Economic Development Director

Recommendation Approved:

  
Ray Kerridge  
City Manager

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## Attachment 1

### Marc Hornberger Biography and Sample projects

#### **MARK HORNBERGER, FAIA** Founding Principal

As Principal-in-Charge of Design, Mark Hornberger is responsible for the coordination and management of Hornberger + Worstell's planning and design effort for all major projects, focusing on mixed-use high-rise, hospitality, multi-family residential, and corporate office projects. In addition, he leads the approval processing and public review efforts of the firm.

Over the last three decades, Mr. Hornberger and his design team have completed over forty major projects. These designs are focused on sites across North America, Latin America, and the Pacific Rim/Asia.

His design portfolio is distinguished by elegant adaptations of regional design vocabularies informed by modernist sensibilities. Light-filled architecture creates destinations of significant scale enjoyed by large numbers of clients and users.

Mr. Hornberger's architecture consistently employs regional materials and geographically inspired forms to provide work environments, recreational amenities, lodging, dining, and meeting/gathering spaces. His gracious projects, with their focus on the relationship of the buildings to the landscape and cityscape, provide inviting access to scenic and city resources in a variety of urban and resort locales.

He combines his expert knowledge of mixed-use requirements with the firm's regionalist sensitivity to context and materials. The projects derive their distinct identities from the thoughtful and innovative use of building materials and skilled local labor brought together with a considered use of advanced construction techniques.

The sense of place in his projects is heightened by an ability to achieve a seamless interplay between inside and out—his trademark "livable landscape." He pioneered the design of outdoor function spaces and water features as integrated extensions of the architecture, allowing users and visitors to enjoy fully the unique climate, light and vistas of a particular region throughout the individual properties.

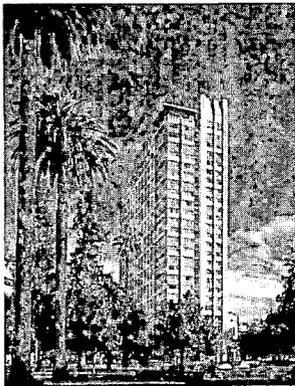
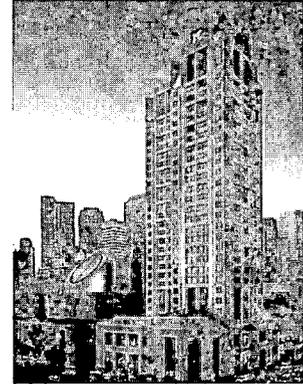
His work has been widely featured in the design press, in journals dedicated to hospitality and development, and in the business press. As a spokesman for the impact of quality design on both the economic bottom line of the client and the visual environment of regional communities, Mark Hornberger presents a clear vision of the responsibility of the architect to create viable and regionally appropriate architecture.

Mr. Hornberger brings this broad ranging experience to the 10<sup>th</sup> and K hotel project in particular. He has designed many business hotels in urban environments including the W Hotel in San Francisco, the Omni Hotel in San Diego, and the San Jose City Center Hotel. These properties contain similar design elements as the 10<sup>th</sup> and K hotel project including guestrooms, meeting spaces, and support service spaces.

Mark is well versed in designing hotels located on challenging urban sites, as well as designing hotels that serve as catalysts for the rejuvenation of their neighborhoods. He is familiar with the city of Sacramento and designed Sacramento's Meridian Plaza, a project successfully developed by Tony Giannoni.

**W Hotel, San Francisco, California**

Located next to SFMOMA in San Francisco's arts and convention district, the W Hotel maximizes the potential of a compact site. Public spaces include an open cafe, the 125-seat XYZ restaurant, a mezzanine lounge overlooking Yerba Buena Gardens, and a fitness center with glass-covered swimming pool. 10,000 square feet of meeting space, including a ballroom, boardrooms, and flexible meeting rooms, surround a triple-height entry lobby, which captures the scale of the city while providing intimate spaces for conversation. As one of the first W Hotels, W San Francisco set the tone for a new brand.

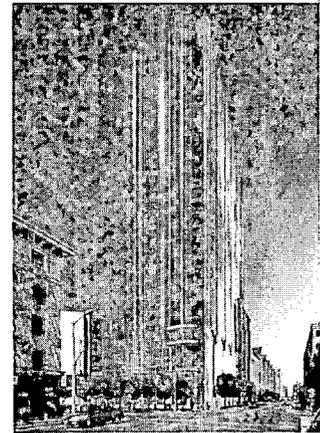


**City Center Hotel,  
San Jose, California**

As a key part of the San Jose Redevelopment Agency's downtown master plan, the San Jose City Center Hotel is a 30-story, full service hotel adjacent to the McEnery Convention Center. The hotel gives shape to the southern edge of Plaza de Cesar Chavez Park and includes 506 guestrooms, a street-front restaurant, and 30,000 square feet of meeting space. Hornberger + Worstell strengthened the connection between the hotel and the convention center by aligning the hotel's ballroom with the convention center's meeting room floor, creating interplay between the two facilities.

**Intercontinental Hotel Mixed-Use Development, San Francisco, California**

Hornberger + Worstell served as the Architect of Record for the 32-story Intercontinental Hotel located adjacent to the Moscone Convention Center. Strategically located for leisure and business travelers, the 600,000 square foot project includes 550 guest rooms, 43,000 square feet of flexible meeting space, a 12,000 square foot health club/spa, and subterranean parking. The Intercontinental's function spaces include 2 ballrooms and 21 meeting rooms, where flexible configurations support events that require between 400 and 1,600 square feet. The hotel's naturally lit function spaces are some of the most technologically advanced in San Francisco, equipped with high speed internet access, ISDN lines, independent climate controls, and security.



**Attachment 2**

**Marriott Letter of Interest**



Hotel Development

1301 Dove Street, Suite 500  
Newport Beach, CA 92660

March 9, 2009

Anthony R. Giannoni  
Christopher Company  
5150 Fair Oaks Boulevard, #101-364  
Carmichael, CA 95608

Dear Anthony:

Thank you for your continued interest in Marriott International and its family of brands. We are excited about the opportunity to partner again with you and your partners to develop a Courtyard by Marriott at 10<sup>th</sup> and K Streets in downtown Sacramento, California. As you know, we have several hotels throughout the Sacramento area and looked long and hard to find the right opportunity in Downtown Sacramento.

After Marriott's review and initial underwriting, we support the opportunity at 10<sup>th</sup> and K Streets. We believe that a Courtyard by Marriott in Downtown Sacramento will fit many of the local and international business travel needs, as well as provide leisure travelers a great location close to the State Capitol, great shopping, and restaurants. We have considered and studied several programming options at the site and believe that the proposed Courtyard should include 130-160 guest rooms with 4,000-7,000 square feet of flexible meeting space.

Marriott prides itself on partnering with the best developers in the hotel industry. Your Residence Inn at Capitol Park certainly exemplifies the quality development that we expected and we look forward to working through the process with the City of Sacramento. My team and I are committed and available to help you through it.

I look forward to working with you on this exciting project, which will have a positive impact on the revitalized K Street mall area.

Please feel free to contact me should you need further assistance or support.

Sincerely,

Robert A. Sanger  
Vice President, Lodging Development

**Attachment 3**

**City and Agency  
10 Year Return Analysis**

**10 Year City/Agency Returns - 10th and K Street Hotel**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net TOT (50%)	295,946	359,296	379,039	390,410	402,122	415,321	426,612	439,410	452,592	467,447
Net TI (net of housing and pass throughs)	147,288	150,234	153,238	156,303	159,429	162,618	165,870	169,188	172,571	176,023
Room Surcharge 3%	147,973	179,648	189,519	195,205	201,061	207,660	213,306	219,705	226,296	233,724
Developer Payments % of Gross Rec.	-	-	-	-	100,531	207,660	284,408	366,175	452,592	467,447
Refinance Participation			500,000							
Revenues for Debt Service	591,206	689,178	1,221,797	741,918	863,143	993,259	1,090,195	1,194,477	1,304,052	1,344,641
Sales Tax	67,068	73,059	75,251	77,508	79,834	82,229	84,695	87,236	89,853	92,549
Utility User Tax	20,300	20,503	20,708	20,915	21,124	21,336	21,549	21,764	21,982	22,202
Net TI (housing & pass throughs)	184,110	187,792	191,548	195,379	199,287	203,272	207,338	211,485	215,714	220,028
TOT (50% to Debt Service)	295,946	359,296	379,039	390,410	402,122	415,321	426,612	439,410	452,592	467,447
City Revenues	567,424	640,651	666,546	684,212	702,367	722,157	740,194	759,895	780,142	802,226
<b>Total Revenues</b>	<b>1,158,630</b>	<b>1,329,829</b>	<b>1,888,342</b>	<b>1,426,131</b>	<b>1,565,510</b>	<b>1,715,416</b>	<b>1,830,389</b>	<b>1,954,372</b>	<b>2,084,193</b>	<b>2,146,867</b>

10 year return to Agency/City \$17,099,679

Note: Chart does not include City Participation of 30% of net sales proceeds (net of debt and equity payments)



**Attachment 5**

**RESOLUTION NO. 2009-\_\_\_\_\_**

Adopted by the Sacramento City Council

**930 K STREET HOTEL; AUTHORIZING FINANCING EVALUATION  
AND DIRECTING STAFF TO  
NEGOTIATE BUSINESS TERMS WITH 10<sup>TH</sup> AND  
K STREET INVESTORS, LLC**

**BACKGROUND**

- A. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- B. One of the outcomes of that workshop was an interest in looking at stimulating redevelopment on K Street.
- C. The owners of the property at 930 K Street have proposed development of a 165 room hotel and such a project supports the community goals for redeveloping K Street.
- D. The hotel project developer, 10<sup>th</sup> and K Street Hotel Investors, LLC, has identified a need for City and/or Agency bond and/or loan financing of \$10 million and staff is working to identify a source of funding.
- E. The hotel project developer has proposed entering into agreements to allow for Transient Occupancy Tax (TOT) proceeds, generated by the hotel, to fund a portion of the project costs by allowing the convention center to control the use of its public meeting and assembly space. In addition, the hotel operator would impose a 3% facility fee surcharge in order to meet the project's debt service obligations financed by the City and/or Agency, in consideration for future equity and shared operating revenues with the City to replenish the TOT fund. Staff needs to conduct a formal financial evaluation of such a financing plan.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL  
RESOLVES AS FOLLOWS:**

- Section 1. Staff is hereby directed to conduct a formal evaluation of the proposed hotel financing plan to identify the gap and all of the potential sources of financial assistance and to negotiate business terms for City financing of

the hotel.

**Section 2** Staff is hereby directed to work with stakeholders to investigate the ability to utilize the Transit Occupancy Tax (TOT) fund, in accordance with the ordinance, to enter into a master lease agreement for public meeting and assembly space on the hotel site.

**Attachment 6**

**RESOLUTION NO.**

Adopted by the Redevelopment Agency of the City of Sacramento

**930 K STREET HOTEL; DIRECTING STAFF TO NEGOTIATE  
BUSINESS TERMS WITH 10<sup>TH</sup> AND K STREET INVESTORS, LLC  
FOR AN OWNER PARTICIPATION AGREEMENT**

**BACKGROUND**

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- B. The area surrounding the corner of 10<sup>th</sup> and K Streets, which is in the Merged Downtown Redevelopment Area, is undergoing significant redevelopment and investment.
- C. The owners of the property at 930 K Street and the development team, 10<sup>th</sup> and K Street Hotel Investors, LLC, have proposed development of a 165 room hotel project on the southwest corner of 10<sup>th</sup> and K Streets, which will require Agency assistance to ensure completion and success of the project.
- D. Agency staff is working to identify a source of financing for potential Agency assistance.
- E. The potential project will eliminate the following blighting influences: low or stagnant property values and impaired investment in the Project Area and high number of property vacancies, low rents, as well as to activate and improve the appearance and safety of this section of K Street.
- F. The concept of this project is consistent with the Amended Merged Downtown Redevelopment Plan and the 2005 Merged Downtown Redevelopment Implementation Plan.
- G. The proposed activities are exempt from CEQA, pursuant to CEQA Guidelines Section 15262, because they involve feasibility studies for possible future actions which the Agency has not approved, adopted or funded.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE  
REDEVELOPMENT AGENCY RESOLVES AS FOLLOWS:**

Section 1. After due consideration of the facts presented, the findings, including but

not limited to the environmental findings regarding this action, as stated in the background above, are approved.

Section 2. Agency staff is directed to continue to research potential funding sources to invest in the construction of the hotel project at 10<sup>th</sup> and K Streets.

Section 3. Agency staff is directed, once funding sources are identified, to negotiate an Owner Participation Agreement with 10<sup>th</sup> and K Street Hotel Investors, LLC and return for Agency approval of deal points and related documents.