



**Sacramento  
Housing &  
Redevelopment  
Agency**

# **REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento**

915 I Street, Sacramento, CA 95814-2671

Staff Report  
**October 17, 2006**

Honorable Chair and Members of the Board:

**Subject:** Intercontinental Hotel, 301 Capitol Mall

**Location/Council District:** 301 Capitol Mall, Central Business District (District 1)

**Recommendation:**

Adopt a Redevelopment Agency (Agency) Resolution to adopt the CEQA finding of the City of Sacramento for the Towers on Capitol Mall project , which includes review of this proposed project and to approve the proposed business terms for the Intercontinental Hotel project located at 301 Capitol Mall, including a loan of \$11 million from Merged Downtown tax increment funds for incorporation in an Owner Participation Agreement to be brought back to the Agency for approval consideration.

**Contact:** John Dangberg, Assistant City Manager, 808-1222  
Leslie Fritzsche, Downtown Development Manager, 808-5450

**Presenters:** Leslie Fritzsche, Downtown Development Manager, 808-5450  
John Saca, Saca Development

**Department:** Economic Development

**Division:** Downtown Development Group

**Organization No:** 4451

**Description/Analysis**

**Issue:** Intercontinental Hotel is interested in developing a luxury class hotel in the signature development project known as the Towers, 301 Capitol Mall (Attachment I), but to do so it requires financial assistance for the project to close the gap between the hotel cost and the anticipated hotel income. This report recommends business terms including a loan of \$11 million from Merged



Downtown Tax Increment funds to be incorporated into a draft Owner Participation Agreement (OPA) with Intercontinental Hotel for the project and brought back for approval consideration. A request for specific budget allocations will accompany the approval of the OPA.

**Policy Considerations:**

Approval of the business terms and subsequent OPA will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and 2005-2009 Merged Downtown Implementation Plan, and the 2005 Downtown Sacramento Redevelopment Strategy, including:

- Capitalizing on opportunities to implement smart growth policies, adding both employment centers and new residential units in the core;
- Leveraging private investment in the redevelopment area;
- Elimination of blighting conditions including the elimination of environmental deficiencies including, among others, mixed and shifting uses....obsolete, aged and deteriorated buildings, inadequate or deteriorated public improvements and uneconomic land uses; and
- The establishment and implementation of performance criteria to assure high quality site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Downtown Project Area.

**Environmental Considerations:**

The City Council certified the final environmental impact report (EIR) for the Towers project, which included the hotel component, on August 25, 2005. Pursuant to CEQA Guidelines Sections 15096 and 15162, the Agency has considered the EIR, adopts the same findings, and concludes that no further environmental review is required because the hotel component of the project has not changed and there is no new information of substantial importance that would trigger the need to conduct further evaluation of the project's impacts and mitigation measures.

**Rationale for Recommendation**

The Hotel will be incorporated in a larger private project which is considered key to downtown redevelopment for several reasons:

- The significant architecture and scale of the building will make it a Sacramento and regional landmark;
- It introduces Sacramento's first five-star hotel;
- The new development will replace a site plagued by an obsolete and under-utilized office building;
- Capitol Mall provides Sacramento a front lawn similar to the mall in Washington, DC and a striking building will serve to visually frame the corridor and bring enhanced vitality to the Mall;

- The residential component will add over 1200 new residents to the heart of the Central business district.

The project furthers the Redevelopment Plan for the Downtown Project Area. It removes a blighted property, and supports the Convention Center and the Arts District by providing hotel accommodations for patrons and tourists. The project is in keeping with the 2005 Downtown Strategic Redevelopment Strategy that recommends the continuation of efforts to increase Downtown employment and the development of housing and mixed-use projects to serve as revitalization catalysts.

#### Project Benefits

The Proposed Project will generate a number of benefits to the Agency and to the City, and include:

- Approximately \$1 million in additional TOT tax annually;
- An estimated \$45,000 in annual sales tax;
- Approximately \$10,000 in utility user tax;
- Approximately \$462,000 in property tax increment;
- Over 190 new jobs for the hotel operation.

The Towers project will be a major catalyst for the entire City and the total development will generate the following:

- Approximately \$1 million in additional TOT tax annually;
- An estimated \$165,000 in annual sales tax;
- Approximately \$5,700,000 in property tax increment (of which \$1.7 million would be dedicated for affordable housing);
- Over 100 new jobs for the hotel operation and an estimated 30 new jobs for the ground floor restaurant;
- Spending power of an estimated 1200 residents downtown.

Given the direct fiscal benefits of the total project to the City, the proposed Agency's investment in the Intercontinental Hotel project would be returned to within 1.4 years of final project completion and occupancy. The public funds would generate over \$640 million in private investment. In addition, the tax increment generated from the project would provide approximately \$40 million in additional tax increment bond capacity.

#### **Committee/Commission Action:**

The Downtown Sacramento Partnership 's Executive Committee has reviewed the Proposed Project. The Committee voted to support it with the following provisions: 1) the requested \$11,000,000, be due upon certificate of occupancy and 2) should be dedicated to the project assuming that by June 2007, the developer has closed the required construction loan and there is a reasonable assurance that the project will move forward.

**Financial Considerations:**

Staff has been working with the development team to learn about the project elements and to determine if their request for assistance was warranted. Currently, the total project costs for the hotel are estimated at \$106 million. Staff contracted with Keyser Marston Associates to do a financial analysis including an analysis of the costs, income estimates, and financing plan. They compared the hotel's costs with cost surveys published by hospitality firms and their direct experiences with other projects. The direct costs of this project are driven by the expense of providing high quality finishes as well as the high-rise configuration of the building but were discovered to be within the industry range for luxury hotels. Similarly the hotel's projected income and expenses were found to be consistent with industry standards.

Unfortunately the development costs for the hotel are not balanced with the expected operational income from the hotel, creating a significant economic feasibility gap. This situation is not uncommon and public investments have been required for the construction of the major hotels in the Downtown – the Hyatt, Sheraton, Embassy Suites, and, most recently, Joie de Vivre. This is also true of hotels in other cities such as San Jose and Los Angeles.

Staff is recommending supporting the development with a forgivable loan of \$11 million which would be forgiven incrementally over a fifteen year operational period for the hotel. The balance of the project would be privately financed with equity and debt sources. The funds would be used for equipment and fixtures for the hotel. This public investment would be to assist in the equipping and final furnishing of the hotel.

Staff considered various forms of financial assistance as possible funding sources for the Proposed Project, including Downtown redevelopment bond funds and Transit Occupancy Tax. Because of the project timing, Downtown redevelopment bond funds are the most feasible source for the requested assistance.

If the proposed general business terms are approved, the final details of the project and specific funding allocations will be included in an OPA and presented to the Agency within the next 90 days for approval.

**M/WBE Considerations:**

Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully submitted: Leslie Fritzsche  
Leslie L. Fritzsche  
Downtown Development Director  
on behalf of the Redevelopment Agency  
of the City of Sacramento

Recommendation Approved:

Ray Kerridge  
RAY KERRIDGE  
City Manager

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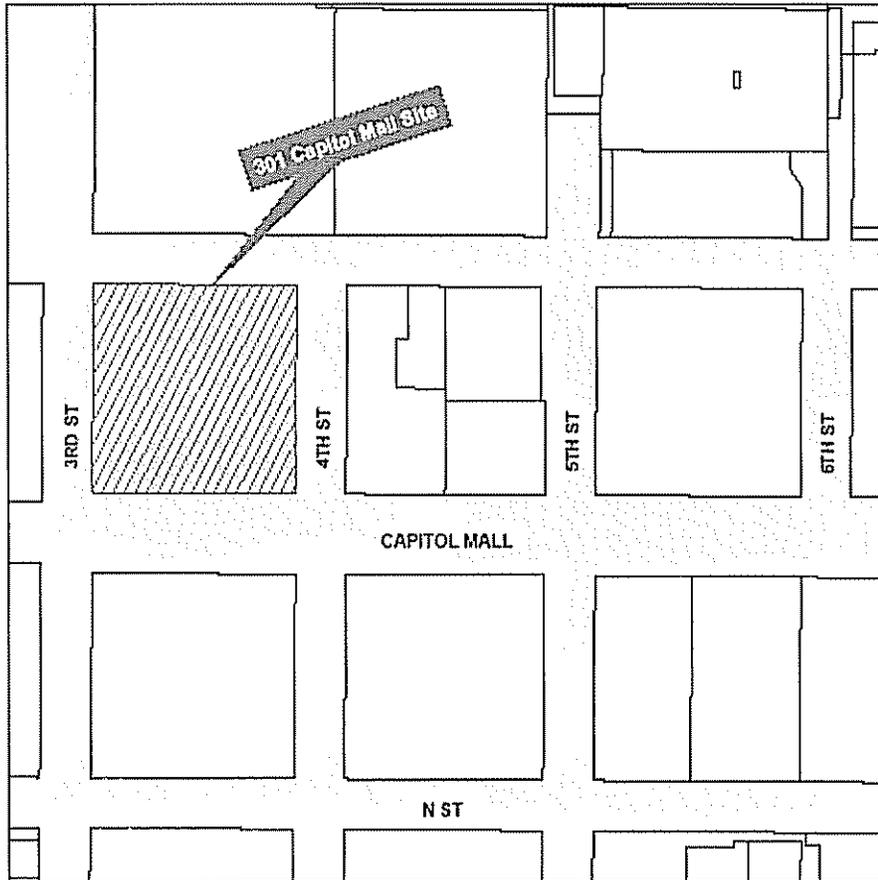
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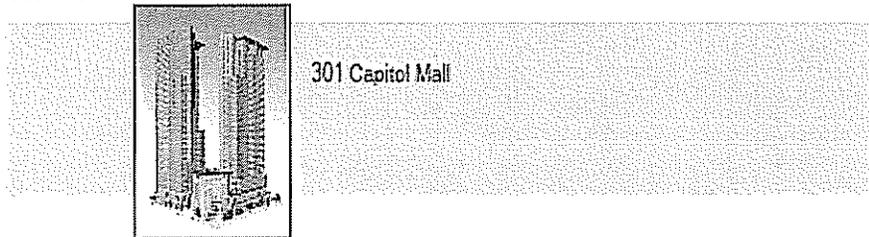
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Attachment 1

Intercontinental Hotel - 301 Capitol Mall



Site Profile



### **Background Information**

The Proposed Project consists of the construction of a new Intercontinental Hotel at 301 Capitol Mall. The Hotel, envisioned to be part of the Towers project would contain the following:

- A 230 room Intercontinental Hotel;
- Approximately 11,000 square feet of meeting space, 3,500 of which would be located on the outdoor patio on the 7<sup>th</sup> floor; and
- A unique hotel restaurant.

Based in England, Intercontinental Hotels Group PLC of the United Kingdom is the world's largest hotel group by number of rooms. InterContinental Hotels Group owns, manages, leases or franchises, through various subsidiaries, over 3,600 hotels and 537,500 guest rooms in nearly 100 countries and territories around the world. The Group owns a portfolio of well recognized and respected hotel brands including InterContinental® Hotels & Resorts, Crowne Plaza® Hotels & Resorts, Hotel Indigo™, Holiday Inn® Hotels and Resorts, Holiday Inn Express®, Staybridge Suites® and Candlewood Suites®, and also manages the world's largest hotel loyalty program, Priority Club® Rewards.

The proposed Project is to be of high-quality interior décor, designed along the lines of other Intercontinental Hotels in destination locations such as London, Sydney, New York, Chicago and Toronto.

### **Market Conditions**

Based on an analysis contained in an appraisal conducted for the hotel, *the Proposed Project* should be able to obtain a comparably high average daily room rate (ADR) due to its uniqueness in the market and high-quality, new hotel product. Additionally, the Proposed Project offers the competitive advantages of a downtown location. A recent study conducted by PKF Consulting, a preeminent international firm specializing in analyzing the hotel and hospitality industry, indicated that there is a strong demand for more hotel rooms in downtown Sacramento. In their view, the proposed Intercontinental Hotel will have some short-term impact on other hotels in the area but, based upon the high average daily room rate, it will not have a significant long-term impact.

The overall project at 301 Capitol Mall is a true catalyst project for the City of Sacramento. What makes this project truly unique, is its scale and project concept which depends on all of the program elements to be successful, and the economic benefits it will return to the City.

## **RESOLUTION NO.**

Adopted by the Redevelopment Agency of the City of Sacramento

Date \_\_\_\_\_

### **AUTHORIZATION OF BUSINESS TERMS FOR AN OWNER PARTICIPATION AGREEMENT (OPA) FOR THE INTERCONTINENTAL HOTEL AT 301 CAPITOL MALL**

#### **BACKGROUND**

- A. The Proposed Project is a critical component of a new development project located on a blighted block in the heart of the Central Business District.
  
- B. The approved 2005-9 Merged Downtown Implementation Strategy and the 2005 Downtown Sacramento Redevelopment Strategy include goals to capitalize on opportunities to implement smart growth policies, adding both employment centers, new residential units in the downtown core and to increase the hotel rooms in the project area to support tourism and Convention Center activities.

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

Section 1. After due consideration of the facts presented, the findings, including the environmental findings regarding this action, as stated in the staff report, are approved. Specifically and without limitation, the environmental findings of the City of Sacramento for the Towers on Capitol mall Project located at 301 Capitol mall are hereby approved and adopted for the proposed project.

Section 2. The following business terms are approved for incorporation in an Owner Participation Agreement to be negotiated and drafted for the proposed project for future approval consideration:

- 1) A fifteen loan of \$11 million for the Intercontinental Hotel which is forgivable over a period of 15 years of operations of the hotel.
- 2) The loan would be disbursed upon certificate of occupancy for the hotel.

