

## **MEMORANDUM**

**DATE:** July 9, 2022

**TO:** Rebecca Gleason, Assistant City Manager for Community Engagement

**FROM:** Joseph Esch

**RE:** Evaluation of potential development partners and recommendation

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As you are aware, we have been working with STOA and Sunway Hospitality since last fall. The parties have toured the community, met with the City and have shared their vision for proceeding with the project including the required participation from the City.

The discussions have reached a point where a partner needs to be selected to continue with the project development and assessment. Assuming the City is interested in proceeding with one of the potential partners, the next step in the process is to enter into a Letter of Intent and proceed with the preliminary design, costing, proof of private funding, and the final negotiations of binding agreements.

In proceeding with this project, the City drafted several guiding principles. Those include partnering with a private sector developer and hotel operator, limiting the City's financial exposure and investment, requiring the hotel flag to be of a certain quality with the City's final approval of the flag and hotel design, ensuring that the hotel operator also manages the Convention & Exhibit Center, and connection to the downtown district through first floor retail and relation to the public realm. With those points in mind, we have engaged in discussions and reviewed proposals. I have created the attached matrix in comparison of each proposal and highlighted a few of the major points below.

Both potential partners anticipate the following points of detail:

- Privately developed, owned, and operated hotel
- Recognized hotel flag and development standards
- Long term lease (50+ years) of land for hotel and Convention Center
- Required quiet zone on the adjacent railroad crossing
- Limitation of City financial exposure
- Neither has hotel flag secured due to the current unknown status of the project but will secure one once the project is confirmed

Both proposals do have material differences as highlighted below:

STOA		Sunway Hospitality
<b>Project Budget</b>		
Estimated Project Budget	\$20.2mm total costs including \$18.6mm hotel development costs and \$1.6mm in convention center update. Based on 120 room hotel and adjacent retail.	\$33.5mm total cost including \$25.5mm for hotel and \$8mm value of city property. Does not include off site quiet zone. (Note this is based on 130 rooms. The cost of 150 room hotel is estimated at \$29.5mm.)
<b>Hotel Ownership and Funding</b>		
City Funding	City to fund costs for convention center update	None
Private Debt Funding	Yes	Yes
Private Equity	Yes	Yes
Public Debt Funding	None required for hotel project. Would depend on how city funded convention center updates and quiet zone	None for hotel project. Depends on quiet zone.
<b>City Financial Participation</b>		
Pursuit costs - Non- city consultants,	City to pay up to 30% of project pursuit costs	City to pay 50% of project pursuit costs
Pursuit cost budget	Estimated \$200,000	Estimated \$400,000 (2/3rds of design and eng budget)
Other Costs	<b>Assumes city responsible for \$1,600,000 for redevelopment of convention center.</b> City to install at their cost RR quiet zone for crossing near convention center.	City to install at their cost RR quiet zone for crossing near convention center.
HOT Tax Rebate of City HOT from project	Yes	Yes, for upto 20 years
Tax Abatement	Requested 100% of all real estate taxes for 4 years as well as no lease payment for	None
Other	Waiver of City development fees. Anticipate going above height limits for hotel tower to accommodate ground floor retail.	None requested
Revenue Sharing / Lease Payment	None on hotel. Minimal lease payment for ground lease. 50% of NOI from convention	1% of Room Revenue Generated

After considering the City's guiding principles, the approach and experience of the teams, as well as the totality of the proposals- I recommend the City proceed with approval of a Letter of Intent with Sunway Hospitality.