

Agenda Report

May 22, 2017

TO: Honorable Mayor and City Council
FROM: City Manager Department - Economic Development Division
SUBJECT: DISCUSSION OF THE FUTURE DEVELOPMENT OF THE YWCA BUILDING LOCATED AT 78 N. MARENGO AVENUE

RECOMMENDATION:

It is recommended that the City Council:

1. Find that on August 15, 2016, the City Council adopted findings pursuant to the California Environmental Quality Act ("CEQA") certifying an Environmental Impact Report, adopted a Mitigation Monitoring and Reporting Program, and approved the YWCA/KHP Hotel Project, and that there are no changes to the Project, changed circumstances, or new information which would trigger further environmental review; and
2. Adopt a motion accepting and approving the Economic Development Subsidy Report pursuant to Government Code Section 53083 for a Ground Lease Agreement by and between City of Pasadena and KHP III Pasadena LLC (KHP) that includes KHP's plan to rehabilitate the existing approximately 42,000 square-foot historic YWCA building and construct a new two-to-six-story, 87,342-square foot new building, both of which would become an approximate 129,342-square-foot, 181-room Kimpton Hotel with subsidies and City participation opportunities as was previously presented at the April 3, 2017 City Council Meeting; or,
3. Direct staff to undertake a new Competitive Selection process seeking proposals for the future rehabilitation and redevelopment of the YWCA Building.

EXECUTIVE SUMMARY:

In August 2016 the City Council certified an Environmental Impact Report (EIR), adopted a Mitigation Monitoring and Reporting Program, and approved the YWCA/KHP Hotel Project in concept. As proposed KHP planned to rehabilitate the existing 42,000 square-foot historic YWCA building and construct a new two-to-six-story, 87,342-square foot building, both of which would become an approximate 129,342-square-foot, 181-room Kimpton Hotel.

Subsequent to the August 2016 approval, but prior to concluding the lease agreement, in January 2017, KHP had agreed to comply with the Prevailing Wage Law as

presented on April 3, 2017. This decision added an unanticipated \$8.95 million to the project budget raising it from \$72.76 million to \$81.71 million. As a result of the increase, KHP requested two City economic development subsidies to help off-set rising project costs. On April 3, 2017, the City Council conducted a public hearing to consider KHP's subsidy request. Following considerable discussion and public comment, staff was directed to return with additional information regarding the increased overall project costs associated with the proposed project. Additionally, staff was requested to provide information regarding the economics of converting the building for City office use as well as determining whether an increase in the proposed City subsidy would result in a smaller hotel project consistent with one of the alternatives included in the EIR. This report is responsive to that direction.

BACKGROUND:

Construction Cost Increases Related to KHP's Proposed Project

Since KHP's original proposal was received in 2014, a number of factors have caused the total estimated project costs to increase from \$53.89 million to \$72.76 million in August 2016 to nearly \$81.71 million in 2017, representing an increase of nearly \$27.82 million. In addition to information provided by KHP, the City's hotel consultant, Keyser Marston, has researched hotel development costs and determined that they are increasing at a significant rate in the region. The following describes the major cost drivers.

Project Design – Architectural and Engineering: While an extensive design review process was anticipated, the project team decided to pursue an additional series of design workshops with a range of stakeholders prior to the completion of the EIR. At these meetings, participants expressed their specific ideas, outlined their objectives and thoroughly examined a range of historic Civic Center design documents. This effort resulted in a superior design concept, however, the project's complexity and continuing uncertainty related to Design Review necessitates an additional contingency cost of \$1.43 million.

Construction Cost - KHP has maintained close contact with two experienced construction companies to monitor costs changes. After the design workshops discussed above, costs were adjusted to reflect the unconventional massing of a new building and anticipated cost of the specialized building materials, and custom fixtures. It is worth noting that the YWCA building's deterioration is dictating that all of the interior plaster be stripped away and replaced. Structural reinforcements, custom made replacement windows throughout the building, and other historically sensitive improvements are also now factored into the rehabilitation cost. These deviations to the hard costs have also created significant changes in the financing and engineering costs and represent an additional cost of \$11.58 million.

Soft and Hard Costs Contingency and City Permits - Uncertainty of the costs associated with the existing CEQA lawsuit and City permits that are necessary for this project represent an additional cost of \$1.90 million.

Debt Fees/Financing Costs - The increased construction budget had a domino effect on other budget line items such as the construction period interest costs, as higher construction costs result in more interest being paid on debt; an additional cost of \$1.49 million.

Hotel and Restaurant Furniture Fixtures and Equipment – The costs for these materials have increased with the passage of time and a change in scope for the courtyard design and materials represent a cost change of \$700,000.

Pre-Opening Costs – These are dollars spent on readying the hotel for opening and generally include: Training costs and meals for newly hired employees, staff recruiting costs, Hotel charges, meals, and transportation for the opening team, security, property taxes, insurance, and utilities costs incurred after construction is completed all of which represent an additional cost of \$700,000.

Prevailing Wage - Lastly, as described at the April 3 Council meeting, subsequent to the August 2016 entitlement approval, the decision to pay prevailing wages for the construction labor added an unanticipated cost of \$8.95 million and increased the overall project cost from a then \$72.76 million to the current overall budget of \$81.71 million.

As part of the negotiations, KHP has agreed that if the overall project costs for the construction and rehabilitation of the YWCA building come in under budget, to split the savings equally with the City. To confirm these costs, the Developer would provide the City all relevant backup documentation.

Possible Use of the YWCA Building as City Offices

The City currently has four departments in leased space; Fire Department Administration, Water and Power - which is in two leased locations, Housing and Career Services and Transportation along with one operating company, the Pasadena Community Access Corporation.

Department	Address	Sq. Ft.	Total Rent/Yr
Fire Admin	215 N. Marengo Ave. Suite 195	6,712	\$223,735
Transportation	221 E. Walnut Ave. Suites 199, 210 & 215	11,088	\$320,232
Water & Power	150 S. Los Robles Ave. Suites 200, 350, & 680	24,627	\$951,457
Water & Power	1055 E. Colorado Blvd.	9,862	\$330,594
Housing	649 N. Fair Oaks Ave. Suite 202	6,266	\$172,942
PCAC	150 S. Los Robles Ave. Suite 101	5,355	\$138,430
TOTAL		63,910	\$2,137,390

The existing YWCA building is approximately 42,000 square feet. It is estimated that an additional 23,000 square feet of new construction would be needed to house all City Departments that are currently leasing space. It is expected that such a building would also require a 90 space onsite three-story subterranean parking structure. Unlike a hotel use that creates shared parking opportunities and could be accommodated during the evening hours in surrounding City controlled garages, City office use would require peak hour demand. City office use would require 146 parking spaces, 90 of which could be parked on site and the remaining 56 parking spaces could be absorbed in surrounding City controlled garages.

Staff estimates the cost of such a building to be approximately \$52 million. It should be recognized that this is a very preliminary figure based solely on the cost of construction, and does not take into consideration additional costs that may arise through a design process befitting a building in the civic center. That said, it is highly likely that the cost of a municipal building may exceed \$60 million, this is in addition to the \$8.3 million the City has already expended on acquisition. The total annual rent that the City is paying at the above stated leased locations would support an approximate bond amount of about \$35.5 million; any costs above this amount would require additional financial support. In addition to the cost of constructing a new facility, the City would incur new costs for housekeeping, preventative maintenance, structural maintenance, utilities and for security, which is estimated to exceed \$1 million annually. Given these financial considerations, staff currently does not recommend conversion of the building to City offices, at least until other potential options are fully explored.

The Potential for a Smaller Kimpton Hotel

As many of the public comments regarding the project focused on the setback from Garfield Avenue, staff explored with KHP the possibility of an approximately 150 room hotel with a 70 foot setback, as described in alternative 2B in the EIR. For a hotel of that size to be economically viable and generate Kimpton's target return, KHP would request 100% of the Transient Occupancy Tax generated for the first 20 years of the ground lease, in addition to the two previous subsidizes requested by KHP (no ground rental payments for the first 50 years of a 99 year lease and no charge for hotel parking).

Staff would recommend a smaller hotel project with a setback of 70 feet; however, given the requested level of subsidy that would be required in this instance, staff does not recommend pursuing this option further with KHP.

Undertaking a New Process

In the event the City Council does not wish to proceed with the KHP project as presented on April 3rd, staff would recommend undertaking a new Competitive Selection process. Staff would propose that it present publicly at the Economic Development and Technology Committee (EDTECH) regarding key terms of any Request For Proposal (RFP). For example, what is building envelope/footprint for any proposed project; should the City's new solicitation offer any City subsidies.

Subsequent to review by EDTECH, staff would release the RFP publicly and review all proposals in a manner consistent with the City's Competitive Selection process and real estate negotiation process. In order to safeguard the YWCA building from any further deterioration during this period of time, staff will undertake the efforts outlined in the 2018 Capital Improvement Program Budget to stabilize portions of the building.

FISCAL IMPACT:

Should the City Council approve the proposed KHP hotel project and related lease agreement, KHP would invest approximately \$14-\$16 million in the rehabilitation of the YWCA Building. The City would provide subsidies totaling \$10.7 million over a 20 year period, but over the same period receive over \$50 million in Transient Occupancy Tax, Sales Tax and Property Tax revenues.

The cost of converting the YWCA to a municipal building housing various City departments is estimated to be at least \$52 million with annual operating costs of \$1 million. Current lease payments would support a financing of \$35.5 leaving a gap of at least \$17 million for the initial construction.

A smaller, 150 room Kimpton hotel would provide for the same \$14-\$16 million investment in the YWCA building as under KHP's 181-room proposal; however, because of the requested subsidy of 100% of TOT for the first 20 years, the City would receive revenues totaling only \$5.93 million over that same period in the form of Sales Tax and Property Tax.

The cost of undertaking a new selection process is negligible. It will necessitate the expenditure of the \$500,000 currently programmed in the Capital Improvement Program budget to address some of the major deficiencies such as the roof. The economics of any future proposals are yet to be determined.

Respectfully submitted,



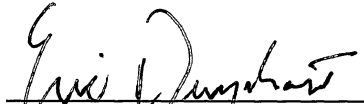
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Approved by:



STEVE MERMELL
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Reviewed by:



Eric Duyshart
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Attachment (1)

Attachment - Economic Development Subsidy Report