

# Agenda Report

November 25, 2024

**TO:** Honorable Mayor and City Council

**FROM:** Office of the City Manager – Economic Development Division

**SUBJECT: AUTHORIZE THE CITY MANAGER TO AMEND EXCLUSIVE NEGOTIATION AGREEMENT (ENA) WITH HRI PROPERTIES, LLC IN CONNECTION WITH THE DEVELOPMENT OF THE HISTORIC REHABILITATION AND CONSTRUCTION OF A NEW BUILDING LOCATED ON CITY-OWNED REAL PROPERTY AT 78 N. MARENGO AVENUE**

## **RECOMMENDATION:**

It is recommended that the City Council take the following actions:

1. Find that the action proposed herein is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061(b)(3)(Common Sense Exemption); and
2. Authorize the City Manager to amend the terms of the Exclusive Negotiation Agreement (ENA) with HRI Properties, LLC in connection with the development of the historic rehabilitation and construction of a new building located on city owned property at 78 N. Marengo Avenue; and the City Clerk to attest the ENA and any other related documents necessary to amend the ENA.

## **BACKGROUND:**

On November 23, 2020, City Council authorized the City Manager to enter into an Exclusive Negotiating Agreement (ENA) with HRI Properties, LLC (HRI) in connection with the anticipated disposition, development, and financing agreement for the City-owned property at 78 N. Marengo Avenue. In March of 2021, the City and HRI agreed to pause negotiations pending a final decision on the CEQA-related lawsuit, surplus property negotiations and the settlement of the prior ownership claim. In December 2022, HRI submitted a revised proposal to the City assuming development of the project, proposing a select service hotel with approximately 213 rooms, and a request for public subsidy in the form of a Transient Occupancy Tax (TOT) rebate needed to offset increasing financing, labor and materials costs, the details of which are under negotiation. In February 2023, all prior legal matters were settled in favor of the City and

the California Department of Housing and Community Development (HCD) approved the Surplus Land Act (SLA) disposition process. On July 31, 2023, staff received Council direction to execute an ENA in accordance with the above-mentioned terms. The ENA was executed on August 30, 2023. On August 13, 2024, HRI exercised its right to extend the ENA period to November 30, 2024, pursuant to Section 1 of the ENA. On September 24, 2024, per the terms of the ENA, HRI presented the proposed hotel project to the City's Design Commission for preliminary consultation. The Commission expressed support for the proposed project and provided a series of comments for the applicant to study and modify the proposed design to ensure that the building will be compatible with the surrounding sensitive historic context of the Civic Center.

### **SUMMARY OF EXCLUSIVE NEGOTIATION AGREEMENT:**

The City and HRI entered into good faith negotiations pursuant to the terms and conditions of the ENA dated August 30, 2023, whereby the City agreed to negotiate with the HRI on an exclusive basis for a specified period of time regarding the terms of a lease agreement. The lease will specify the terms and conditions of the proposed project transaction including but not limited to the disposition of the property, environmental requirements, project concept, scope of development, schedule of performance, financing plan, City financial assistance, and City polices and regulations.

To date, HRI has been proactive and has met the terms and conditions of the existing ENA. They have delivered a preliminary site plan and architectural concept drawings; a conceptual development program for the project that includes a breakdown of the proposed scope of development, including building square footage, landscaped areas, and any off-site improvements. A preliminary financing plan and a preliminary schedule for State Historic Rehabilitation Tax Credits (SHRTC) and Federal tax credits are forthcoming. Staff has been and continues to be in frequent communication with HRI, facilitating and participating in meetings with various City Departments and being responsive in assisting HRI with completing these activities.

### **AMENDMENT REQUEST:**

HRI requests an amendment to the ENA to extend negotiation through June 30, 2025, with the option for either the City or HRI to request an additional six-month extension, in order to continue pursuing and analyzing favorable financing options to execute the project. While capital markets have somewhat improved since the execution of the ENA, construction financing for new hotels is still scarce and expensive. HRI continues to seek out creative financing solutions for the project and anticipates six-months is needed to complete this item.

### **PROPOSED NEXT STEPS:**

If Council approves the recommended actions, staff will execute the ENA amendment and continue negotiations with HRI. HRI will return to the Design Commission at a future date for Concept Design Review and Final Design Review approvals. Staff will

hold the required public subsidy hearing and negotiate a lease agreement with HRI which will be presented to Council for review and approval during a future open session meeting.

**COUNCIL POLICY CONSIDERATION:**

The proposed action is consistent with the City Council's goals to maintain fiscal responsibility and stability and to support and promote the quality of life and local economy.

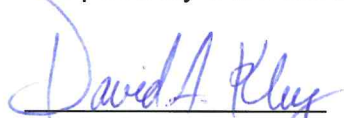
**ENVIRONMENTAL ANALYSIS:**

The action proposed herein is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061(b)(3), the "Common Sense" exemption that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Such is the case with the requested authorization to amend the terms of the executed ENA to extend the negotiation period.

**FISCAL IMPACT:**

There is no fiscal impact associated with this particular action. It is anticipated that the ENA will result in the development of various economic terms that would form the basis of a lease, which would be subject to further City Council action.

Respectfully submitted,



David A. Klug  
Economic Development Director

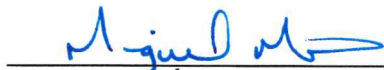
Prepared by:



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MIGUEL MÁRQUEZ  
City Manager