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CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt Resolution Authorizing the City Manager to Execute a Downtown Hotel Exclusive Exploration Period Agreement with Russ Munson

MEETING DATE: July 18, 2007

PREPARED BY: City Manager

RECOMMENDED ACTION: Adopt resolution authorizing the City Manager to execute a Downtown Hotel Exclusive Exploration Period Agreement with Russ Munson.

BACKGROUND INFORMATION: In 1998, Gruen & Gruen Associates, under contract to the City, prepared a report on strategies for enhancing Downtown. It recommended three Downtown anchors, which were: 1) "state-of-the-art multiplex with stadium seats"; 2) wine-related outlets and restaurants; and 3) a Downtown hotel. The City has addressed two of the three anchors; however, development of a Downtown hotel has yet to occur.

In November 2005, the City engaged the services of nationally recognized hospitality industry consulting firm PKF to evaluate the demand for a Downtown hotel. On April 25, 2006, the City Council received a presentation on PKF's report. PKF looked at the possibility of developing a hotel upon the City-owned property and the site of the former Public Safety building and concluded a Downtown hotel with some subsidy was feasible.

The Council was interested in the concept of a Downtown hotel, but not necessarily at the old Public Safety building site.¹ The Council desired that interest from the development community be solicited for the development of a hotel on other City-owned Downtown property.

For over a year, the City Manager has sought interest in the development of a Downtown hotel via informal direct contact. Mr. Russ Munson of Wine and Roses has now expressed a desire to enter into an exclusive exploration period to test the feasibility of the development of a Downtown hotel. Mr. Munson is requesting this time to develop a business plan and seek interest from investors without the fear that other interests will capitalize upon his work before he is ready.

The City agrees that it will not sell or lease any of its property in Downtown Lodi for nine months—a very safe commitment for the City to make. The Developer will deposit \$5,000 with the City and enter into a feasibility study period to see if a Downtown hotel is viable. The Developer will consider City-owned parking lots, but not the old Public Safety building. At the end of nine months, the Developer can request the City enter into good faith negotiations to secure the sale or lease of a possible site for an additional three months; however, the City is not obligated to enter into an agreement to sell or lease. If the Developer wishes to enter into negotiations, an additional \$3,000 deposit is required. Because the City's objective is to develop a Downtown hotel, it is hoped that Mr. Munson wants to seek the development of a Downtown property for a hotel.

¹ This building remains mostly vacant with no immediate plans for renovation or reuse.

APPROVED: _____
Blair King, City Manager

Downtown hotels are gaining in popularity. Examples include the Hotel Healdsburg and Les Mars Hotel in Healdsburg, the Carlton Hotel in downtown Atascadero, and the Hotel Diamond in Chico.

FISCAL IMPACT: The opportunity cost of this agreement is little to nothing. At this point in time the interest in the development of a Downtown hotel has been minimal.

It is possible that a new hotel could generate \$200,000 annually in new Transient Occupancy Tax (TOT). The City's projected fiscal year 2007-08 TOT is \$397,066. In addition, a new hotel would generate property and sales tax and contribute to the overall goal of revitalizing downtown and serving as a Downtown anchor.

FUNDING AVAILABLE: Not applicable.

Blair King
City Manager

DOWNTOWN HOTEL
EXCLUSIVE EXPLORATION PERIOD AGREEMENT

This Downtown Hotel Exclusive Exploration Period Agreement (“Agreement”) is entered into between the City of Lodi and Russ Munson (“Hotel Developer”), as of July 18, 2007.

Whereas, the City of Lodi desires to encourage the development of a hotel in Downtown Lodi (as defined in the map attached hereto as Exhibit A);

Whereas, the City owns a number of parcels in Downtown Lodi that could be leased or sold to a prospective hotel developer;

Whereas, Hotel Developer is only willing to expend the resources necessary to explore the development of a hotel in Downtown Lodi if the City agrees not to sell or lease its property in Downtown Lodi to a third party hotel developer.

Now, therefore the parties hereby agree as follows:

- 1) City agrees not to sell or lease any of its property in Downtown Lodi for a period of nine (9) months following the execution of this Agreement (“Feasibility Study Period”).
- 2) During the Feasibility Study Period Hotel Developer will explore the preferred location and financial feasibility of a hotel in Downtown Lodi.
- 3) Hotel Developer’s Deposit: Hotel Developer will deposit security in the amount of \$5,000 with the City in a form acceptable to the City Attorney as earnest money. If Hotel Developer provides the below reports, the deposit (with interest actually earned) will be either refunded to Hotel Developer or applied toward any sale or lease of property to Hotel Developer for construction of a hotel in Downtown Lodi.
 - a) Interim Progress Report: Within five (5) months of the execution of this Agreement Hotel Developer will provide the City Manager with a preliminary report analyzing the preferred location of a hotel in downtown Lodi, conceptual design and target market.
 - b) Final Progress Report: Within nine (9) months of execution of this Agreement, Hotel Developer will provide the City Manager with a final report setting forth an estimate of the hotel construction and start-up costs and a financial proforma.
- 4) The City agrees to negotiate in good faith exclusively with Hotel Developer toward the sale or lease of City owned or any other property for the creation of a hotel in Downtown Lodi for a period of three months following the end of the Feasibility Study Period, however, nothing herein shall obligate the City to ultimately sell or lease to Hotel Developer. If Hotel Developer elects to initiate exclusive negotiations under this paragraph, he will make an additional deposit of \$3,000 with City subject to the same terms and conditions set forth in Paragraph 3 of this Agreement.

- 5) This Agreement may not be assigned or transferred without the express written consent of City, which it may withhold in its absolute discretion.

IN WITNESS WHEREOF, the parties hereto, being in agreement with the terms of this writing, have set their hands as follows:

CITY OF LODI, a municipal corporation

BLAIR KING
City Manager

RUSS MUNSON
Hotel Developer

ATTEST:

RANDI JOHL
City Clerk

APPROVED AS TO FORM:

D. STEPHEN SCHWABAUER
City Attorney

RESOLUTION NO. 2007-_____

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING THE CITY MANAGER TO EXECUTE A DOWNTOWN HOTEL EXCLUSIVE EXPLORATION PERIOD AGREEMENT WITH RUSS MUNSON

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WHEREAS, in 1998, Gruen & Gruen Associates prepared a report on strategies for enhancing Downtown and recommended three Downtown anchors: 1) "state-of-the-art multiplex with stadium seats"; 2) wine-related outlets and restaurants; and 3) a Downtown hotel; and

WHEREAS, in November 2005, the City engaged the services of PKF to evaluate the demand for a Downtown hotel. It studied the possibility of developing a hotel upon the former Public Safety building site and concluded a Downtown hotel with some subsidy was feasible. The Council was interested in the concept of a Downtown hotel, but not at the old Public Safety building site, and requested that interest from the development community be solicited for a hotel on other City-owned Downtown property; and

WHEREAS, Russ Munson of Wine and Roses has expressed a desire to enter into an exclusive exploration period to test the feasibility of the development of a Downtown hotel and is requesting time to develop a business plan and seek interest from investors; and

WHEREAS, the City agrees that it will not sell or lease any of its property in Downtown Lodi for nine months. The Developer will deposit \$5,000 with the City and enter into a feasibility study period to see if a Downtown hotel is viable. At the end of nine months, the Developer can request the City enter into good faith negotiations to secure the sale or lease of a possible site for an additional three months; however, the City is not obligated to enter into an agreement to sell or lease. If the Developer wishes to enter into negotiations, an additional \$3,000 deposit is required.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize the City Manager to execute a Downtown Hotel Exclusive Exploration Period agreement with Russ Munson, as described above.

Dated: July 18, 2007

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I hereby certify that Resolution No. 2007-_____ was passed and adopted by the Lodi City Council in a regular meeting held July 18, 2007, by the following vote:

- AYES: COUNCIL MEMBERS –
- NOES: COUNCIL MEMBERS –
- ABSENT: COUNCIL MEMBERS –
- ABSTAIN: COUNCIL MEMBERS –

RANDI JOHL
City Clerk