



**CITY OF PACIFICA  
COUNCIL AGENDA SUMMARY REPORT**

**10/26/2015**

**SUBJECT:**

Developer Selection Criteria and Process for 2212 Beach Boulevard Development Opportunity Site

**RECOMMENDED ACTION:**

Move to Approve the Developer Selection Criteria and Process for the site at 2212 Beach Boulevard as presented, and direct staff to move forward with the process.

**BACKGROUND/DISCUSSION:**

**The City Council's Vision for Fiscal Sustainability via Economic Development**

The City Council has articulated a vision for Pacifica that is focused on optimizing the City's Economic Development opportunities as a way to ensure the City's fiscal sustainability. Inherent in the vision is the need to balance the elements of the City that are loved and appreciated by residents with strategic development that enhances our shared quality of life.

The City Council unanimously adopted a Work Plan for 2015-16 that, in addition to listing economic development as its #1 priority, includes development of the City-owned property at 2212 Beach Boulevard (also known as the "Beach Blvd." project) as its #2 Priority (in concert with completing the Palmetto Streetscape project).

Related to the development of Beach Blvd. is the realization of the community's vision for a new Pacifica Library, also listed in the Work Plan as a high priority (#9). The City Council will hear more about the library project at its November 9, 2015, meeting.

This report brings forward for Council approval the next steps to move the Beach Blvd. project forward.

**Past Planning Efforts Positions Beach Blvd. Project for Success**

During the period from 2010 through early 2013 the City of Pacifica was engaged in a planning phase for the development of site at 2212 Beach Boulevard. This approximately 3.5 acre site was available for development after the closure of the former City Waste Water Treatment Plant in 2000. The property is a valuable development opportunity because it fronts a beautiful shoreline and is wrapped by unblemished coastal mountains. In addition, it is one of the very few coastal development sites close to San Francisco and the Peninsula, one of the best hotel sites anywhere on the California coast, and it is surrounded by visitor amenities such as the Golden Gate National Recreation site at Mori Point, the Sharp Park Golf Course, the Pacifica Pier, and the seven-plus mile coastal trail that connects to the Devil's Slide Trail south of Pacifica. In sum, the property at 2212 Beach Blvd. is a rare and precious site.

(Please see preliminary marketing flyer included as Attachment 1.)

During the 2010 - 2013 planning phase, the City, community members, and a consultant team, Leland Consulting Group, worked together on the future of Beach Blvd. Their efforts prepared for new development with soil and groundwater studies, removal of the under-ground tanks associated with the former use, concept designs for the site, and an environmental impact report (EIR). The planning phase work was done during the Great Recession, a time when financing was largely unavailable for new real estate projects and little or no new development was underway. Although the concept plan proposed the new public library, a hotel and housing, there was widespread understanding that the market didn't support any private development, such as hotel or residential use, at the time. One city report stated, "This is the time to plan, so we can move forward when the market is strong again."

Today, in 2015, the market has recovered and is very strong, for both the hotel and residential uses proposed during the earlier planning phase. Therefore this report starts implementation of the Beach Boulevard development by presenting the Developer Selection Criteria and outlining the selection process. (The library will be publicly-funded, and therefore not mentioned in terms of the financial and real estate markets.)

Today's strong hotel market is a critical factor in the future of the Beach Boulevard site. The hotel market is now stronger than it has been in decades, giving Pacifica an unprecedented and unexpected opportunity to attract hotel developers. Further, a number of factors support hotel use on this unique and valuable oceanfront site (and are summarized at the end of this report). Therefore the Developer Selection Criteria listed in this document are targeted to hotel rather than residential developers.

This focus on hotels is an intentional strategy. It will allow hotel developers to create a vision of the hotel that best suits the Beach Boulevard site and Pacifica's beautiful, world class coastline. 'Getting the hotel concept right' is the first step to create a special place at this oceanfront site. Once the hotel concept is envisioned and defined, a developer will know what amount and kind of residential development could be paired with the hotel. (It is easier to fit residential around a hotel concept than the reverse. It is also easier to develop the hotel concept if it is not constrained at the outset to a part of the site.)

The City needs to understand each proposed vision because it is selling the site to achieve something special that benefits the City and the community. Is it a place that achieves visitor hospitality? Will it be a successful destination for years to come? Does it fit the quality of Pacifica's natural surroundings? This evaluation is part of the selection process described below.

### **Beach Blvd. Developer Qualifications and Proposals addressed in Two Phases**

The 2212 Beach Boulevard project has raised interest among a number of developers. Therefore, a two-phase selection process that starts with a Request for Qualifications (RFQ) is appropriate. It allows the City to evaluate a large number of developers and then narrow the field to a few finalists who submit full proposals.

The RFQ asks the developer to state his or her vision for a hotel on this site, and provide information and references that show a track record of past hotels and the capacity and expertise to develop the Beach Boulevard site. The visions will show the range of possible hotel concepts, and how and how much, each one brings value and benefit to the site and the community.

A developer can respond to an RFQ with relatively low costs in time and money. Therefore the City is able to encourage a large number of responses. The City then makes an initial selection based on qualifications and vision statements, and short lists the number of developers to probably three to five semi-finalists.

In the second phase of the selection, the City invites that short list of developers to respond to a Request for Proposals (RFP). This proposal phase requires a much more time-consuming and costly submittal, including a site development proposal, a land price offer with terms of payment, and a schedule of performance. This proposal requires the developer to analyze the proposed project financial pro forma. A developer will expend this at-risk money only if there are relatively few competitors (hence the short list). The City makes a final developer selection considering all criteria for selection.

The process described in the prior paragraph is different from other public bid processes such as a construction project. The City is not required to accept the highest price offered. Instead, the City can weigh the public benefits along with the land price and terms and the likelihood of a completed project, because the City is offering this property to achieve quality results that are most fitting for this remarkable ocean front site. Therefore the Selection Criteria are critical.

### **Developer Selection Criteria**

Developers will be evaluated at the RFQ phase based on criteria that include:

- Financial history and financial relationships for past hotel developments (equity and debt)
- History of relationships with hotel designers, architects and operators, and with restaurants and services or retailers that are potential hotel tenants
- Prior experience and demonstrated capacity to develop and manage a hotel with proximity to a “main street” and/or a coastline
- Prior experience developing and operating a hotel through a development agreement with the local government, including delivery of required public benefits such as coordination with the library development and operations
- Prior experience and demonstrated capacity to develop and manage a hotel that functions as a destination, including:
  - High quality design (architecture, finishes and fixtures)
  - Hotels that *function as an anchor and provide synergy* to attract or support visitor serving uses (restaurant, retail and activities) to nearby sites on Palmetto Avenue
  - History of long-term ownership and re-positioning or tenanting over time to maintain the desirability of the property and customer loyalty
- History of building and maintaining project working relationships, and participating in local community relationships and efforts
- Demonstrated knowledge and expertise in securing permits
- Statement of vision for the site that describes the type and character and extent of the hotel

development envisioned, its ambience, and how it would create a unique and special place

At the RFP stage, the criteria for evaluating the hotel proposals will include:

- Evidence that the development proposal is for a destination hotel that builds on and complements existing visitor features and amenities (the oceanfront, Pier, coast trail, golf course and Mori Point) and the future library and Palmetto Avenue “Main Street”
- Factual information demonstrating that the number of hotel rooms, the development layout and design, and the on-site amenities create an ambience that transforms the site into a hotel destination of choice in and of itself
- Evidence that the size of the hotel operation and amenities can be financially successful for the long term
- Identification of the anchor restaurant tenant and any other visitor serving amenities that help sustain the interest of the destination visitor, and help anchor the Palmetto “Main Street”.
- Quality of design, furniture, fixtures and finishes to support a destination hotel
- How the hotel will relate to the other uses on the site
- Price of land and the timing of the land payment
- Proposed development schedule and the likelihood to achieve it.
- *At the RFP evaluation, first priority will be given to offers with a date specific commitment to construct consistent with the approved plans and the developer who has direct experience with comparable hotel developments.*
- *Second priority will be given to offers with a date specific commitment to construct consistent with approved plans.*

The italicized priorities are intended to reduce the market risk of delay and gain commitment to start construction.

### **Developer Selection Process**

To assist with the evaluation of the submittals and make the best possible choice, City staff will involve others who will contribute perspective, expertise and experience to the process. For example, we expect to involve members of the Economic Development Committee, the Chamber of Commerce and the Hotel Business Improvement District as well as colleagues from other cities or other professional connections who will help evaluate our options and achieve success.

In addition, we expect the selection process to take several months and negotiating a formal agreement with the selected developer several months beyond that.

## **Facts that Support Hotel Development at the Beach Boulevard Site**

In paragraph 4 of the Background/Discussion section of this document, it was mentioned that additional factors about hotel development would be summarized at the end of the report. They are listed here as a matter of information and in reference to the earlier Background/Discussion section:

- Hotel development is highly cyclical, and today's market is unusually strong, creating a rare opportunity for the City to seek a new hotel on its valuable coastal property. A hotel in the very near term is a realistic possibility. This market opportunity will not last, and may not happen again for many years.
- The hotel will do far more to anchor and influence the "Main Street" development of Palmetto Avenue than residential because the hotel is a destination and generates activity. It will most likely include a restaurant(s) which also functions as an anchor.
- Hotel use (and the library use) is well-aligned with California policy and law requiring coastal access and visitor-serving amenities.
- Flood mitigation measures can often be more restrictive and therefore more costly for a residential development than a commercial (hotel and other businesses) development.
- Transient occupancy tax paid by hotel guests brings the largest financial benefit to the City compared to property tax and retail sales tax. Although a hotel would generate all three of these taxes, residential use would generate only the much smaller property tax. The City Council's current high priority to increase revenue through economic development is by far best achieved by a hotel.

## **CONCLUSION**

The City staff are excited to bring this report forward as the next step toward fulfillment of the City's and the community's vision for the former waste water treatment plant site. The past planning activities have well positioned the property for success in the current development market. We expect to have choices to make among proposals and have put forward the criteria to be used to make the selection for the Council's discussion and approval.

In addition, we have the right staff, community partners and professional assistance necessary to evaluate the options and bring back a strong recommendation to the City Council for final approval in 2016.

## **FISCAL IMPACT:**

There are no fiscal impacts associated with beginning the RFQ process of selecting a developer for Beach Boulevard. Fiscal impact will be considered when specific proposal(s) for development are brought forward for City Council review.

## **ORIGINATED BY:**

City Manager's Office

**ATTACHMENT LIST:**

Beach Blvd Dev Opp Announcement (PDF)