SUBJECT:

Consideration and Direction for Processing and issuing a Request for Qualifications and Request for Proposals for the 2212 Beach Boulevard Development Opportunity Site

RECOMMENDED ACTION:

Move to authorize staff to prepare a new Request for Qualifications (RFQ) and Request for Proposals (RFP) and issue a RFQ to solicit hotel, retail and restaurant development proposals for the 2212 Beach Boulevard site.

STAFF CONTACT:

Kevin Woodhouse, City Manager
kwoodhouse@ci.pacifica.ca.us
(650) 738-7409

BACKGROUND/DISCUSSION:

The City Council adopted policies in its 2015-16 Workplan to develop the city owned property at 2212 Beach Blvd and to complete the Palmetto Streetscape project as its top economic development priorities.

The City previously solicited proposals in 2016 for the development of the 3.5-acre site parcel (See Attachment 1) after the City closed the former City wastewater treatment plant. The solicitation followed several years of substantial site preparation including soils and groundwater studies, removal of underground tanks, preparing concept designs for new development, and preparing an environmental impact report (EIR). The concept plan and solicitation documents included hotel, restaurant, residential, and a public library as potential uses for the site.

The prior solicitation involved a two-step process whereby all developers could submit statements of qualifications and then a select number of the best-qualified developers were asked to submit proposals. A single developer was selected for negotiations, which commenced in 2017. The first step in the negotiations, entering into an Exclusive Negotiating Agreement (ENA), was not completed for a number of reasons. The use of a portion of the site as a new City library was dependent upon a November 2017 voter approved funding measure, which gained majority support, but not the 2/3rds required. This led to a follow-up study of various library sites, which recently concluded. On January 22, 2018, the City Council determined that the 2212 Beach Blvd. site would no longer be considered for the new library. During this time period the City and the developer were unable to agree on key terms for the development and operation of the hotel, which led the City Council and developer to mutually agree to terminate negotiations.

The Palmetto Streetscape project is nearing completion of Phase 1 and recent Council
decisions regarding terminating ENA negotiations with the developer and removing a library site from 2212 Beach Blvd. create an opportunity to solicit new development proposals for a beachfront hotel.

Due to these key decisions, the City is now in position to solicit new hotel development proposals with a larger site area and a better-defined set of expectations for the development and operation of the hotel. The purpose of this staff report is to confirm with the City Council the potential contents of a new RFQ/RFP and for the Council to consider directing the City Manager to issue a new RFQ/RFP for development of the 2212 Beach Blvd site.

DISCUSSION

The City Manager recommends the City Council discuss the following elements of a new RFQ/RFP and then direct the City Manager to prepare the RFQ/RFP and release the RFQ, with the RFP attached so the potential RFQ responders understand clearly upfront the requirements of the project. The following are key phases of the solicitation and important terms and selection criteria for inclusion in an RFQ/RFP which are derived both from the prior solicitation and new elements identified over the past year:

1. **Confirm Hotel Development as the Preferred Land Use**
   
   The solicitation expects to make a clear statement regarding the City’s goals for development of the site: 1) increase tax revenues, transient occupancy tax in particular, which will help support community-serving City operations; 2) strengthen Pacifica’s economy; 3) anchor the Palmetto ‘Main Street’ project; and 4) expand visitor serving business and recreational opportunities. The solicitation will seek proposals for a hotel and associated restaurant/retail uses to achieve these goals.

2. **Two Phase Solicitation**
   
   a) **RFQ** - Prepare and distribute an RFQ based on the prior document with updates on current expectations. Developers will be asked to submit qualifications and a preliminary concept for the site as depicted in Attachment 1. Qualifications will include track record of prior hotel development and brands. This allows all interested parties with the opportunity to compete for the site at a low cost, and for the City to solicit from a broad range of experienced developers. Staff will evaluate and recommend selection of a short list of 3-5 potential developers to proceed to the next step following approval by Council.

   b) **RFP** - Prepare and, following Council approval of a short list of potential developers, invite the short list to propose on the RFP, which will include the submittal of a concept plan, pro-forma, interested hoteliers, and schedule. Staff will evaluate the submittals and recommend a single developer to the Council for negotiations.

3. **Developer Selection Criteria**
   
   a) **RFQ Criteria**

   - Financial history and equity and debt arrangements for prior hotel developments
   - Prior designers, hotel operators, and restaurants used for prior hotel
developments

- Experience with coastline, destination, and main street hotel locations
- Prior experience with acquiring property from a governmental entity and ENA/DDA agreements, especially in California
- History of long term ownership of hotels and community participation, including experience with employee union representation
- Experience with multi-jurisdictional permit processes, including the California Coastal Commission
- Statement of the vision for the site

b) **RFP Evaluation Criteria**

- Evidence the proposed hotel is a destination hotel, and utilizes existing visitor features and amenities including the oceanfront, coastal trail, Sharp Park Golf Course, Mori Point and Palmetto Avenue main street
- Development details including preliminary site and floor plans, potential elevations, number of rooms and amenities, parking spaces (including replacement of existing public parking spaces), restaurant, meeting space, and retail space on Palmetto Avenue
- Quality of furnishings and fixtures
- Potential hotel brands and operators that will be solicited and quality/price level
- Ideas for complementary uses on Palmetto Avenue that can be supported by a hotel anchor
- Understanding of sea-level rise issues and potential design solutions
- Past experience with union hotel operations
- Prevailing wage or union work for the construction of the hotel, although not required, will be looked upon favorably
- Agreement to comply with a check card requirement allowing for potential union organization activities for establishment of a union hotel workforce, including terms to be specified in the RFP which allow for two organizing attempts using a check card method within an initial 3.5 year period
- Proposed land price and pro-forma for development costs and financing
- Pro-forma for hotel operations including rate of return
- Proposed development schedule
- As part of submission of its proposal, all interested respondents will be required to provide a cashier’s check payable to the City of Pacifica in the amount of $25,000 as a deposit against its agreement to pay for the City’s legal and other consulting costs for the negotiation and preparation of the Exclusive Negotiation Agreement (“ENA”) with the City, if the respondent is selected as the potential Developer. The RFP will further advise that if the cost to City of negotiating and preparing an ENA is less than $25,000, all unexpended sums will be returned to the selected Developer upon execution of the ENA. If the cost to City of negotiating and preparing an ENA is more than $25,000, or the total sum then on deposit, the selected Developer will be required to augment its deposit with the City in $10,000 increments until agreement is reached on the terms of the ENA.
- The ENA will require the selected Developer to pay for the City’s legal and other consulting costs for the negotiation and preparation of the Disposition and Development Agreement between the City and Developer that will govern the purchase, sale, development and construction of the project on the site.

### 3. Developer Selection
• Following recommendation by the City Manager, Council to select preferred developer for development of 2212 Beach Blvd.

4. Two Phase Negotiation

a) **ENA** - Prepare for City Council approval an ENA with the selected developer which will provide for exclusive negotiations for an extended period, anticipated to be 18-24 months. It is anticipated that the ENA itself with take approximately 3 to 6 months to negotiate.

Activities that will be required during the negotiating period discussed in the ENA include the requirement for the developer to obtain entitlements from the City and Coastal Commission, including environmental review in accordance with CEQA, conduct due diligence review of the site (i.e. geotechnical and environmental investigations), secure City approval to vacate a “paper street” (i.e. Pacific Avenue between Palmetto Avenue and Beach Boulevard), secure preliminary commitment from a hotel operator, and preliminary financing commitments. The product of the negotiations is a Disposition and Development Agreement (DDA).

b) **DDA** - Prepare for City Council approval a DDA, which is the agreement governing the purchase and sale agreement with the developer, but also the vehicle to ensure the site is developed in accordance with the envisioned project. Terms will include requirements to be met prior to the close of escrow, such as evidence of necessary equity and debt financing for construction of the hotel and restaurant/retail uses, proof of an executed construction contract for the project, evidence of an agreement with a hotel operator, and on-going requirements for the operation of the property, including the requirement to agree to the union-card check provisions. DDA will be subject to Council approval.

**CONCLUSION**

A new solicitation for a hotel on this site will be consistent with City Council priorities and have the following benefits:

- A hotel will utilize an unattractive and underutilized city parcel and return it to the tax rolls with an attractive use for both residents and visitors
- Much needed annual revenues to the General Fund will be generated from hotel occupancy and property taxes, and sales taxes from restaurant and retail uses
- The economy continues to remain strong and the City should pursue this opportunity while the business cycle is in a positive stage
- A hotel use aligns with the Coastal Commission policies for visitor serving uses
- Plans for economic development of Palmetto Avenue will be strengthened by a hotel anchor that attracts new visitors to the area

**FISCAL IMPACT:**

Staff time and some legal consulting services will be required to revise the prior solicitation
documents, evaluate qualifications/proposals, and negotiate an ENA. These costs are currently unknown but will be minimal, however, the solicitation will require all proposals to provide a deposit against the City’s costs of negotiating and preparing an ENA. Further, the ENA will contain a provision requiring the selected developer to pay for the costs of negotiating the DDA, which will involve significant legal and other consulting costs.

**ORIGINATED BY:**

City Manager’s Office

**ATTACHMENT LIST:**

1. Site Area Map    (PDF)
ATTACHMENT 1

2212 BEACH BOULEVARD
HOTEL DEVELOPMENT SITE AREA