



ITEM NO.: 12b

MEETING DATE: April 6, 2016

AGENDA SUMMARY REPORT

SUBJECT: REVIEW OF THE DRAFT REQUEST FOR PROPOSALS FOR A FEASIBILITY ANALYSIS FOR A DOWNTOWN HOTEL

Summary: The City Council authorized City Staff to draft a Request for Proposals for a downtown hotel feasibility analysis at the March 16, 2016, Council meeting. This analysis would provide the economic basis on which a developer would rely to develop a hotel in this area. An anchor business that will generate customer/business traffic in the downtown is consistent with the City's long range planning efforts and is vital for continued economic growth and vitality. In addition, revenue generation through sales tax and transient occupancy tax supports critical municipal services.

Background: At the March 16, 2016, City Council meeting, the Council authorized Staff to draft a Request for Proposals for a downtown hotel feasibility analysis and authorized funding up to \$20,000 (available without a budget amendment in the Economic Development budget) for the project. (See Attachment 1 for complete Agenda Summary Report.) The total cost of the analysis is estimated to be up to \$30,000; Visit Ukiah has committed \$10,000 and an additional \$10,000 match has been formally requested from the Mendocino County Tourism Commission (MCTC, formerly Visit Mendocino County, Inc.).

Discussion: In the absence of redevelopment funding, cities must find other ways to encourage and/or support private investment in areas like the historic downtown. The City of Ukiah's Economic Development Department considers these types of activities, along with other business recruitment and retention measures, and seeks out projects and activities that accomplish this while meeting goals established by the Council. Therefore, in accordance with the City Council's strategic plan, the general plan, and other long-range planning documents, it has been determined that the development of a downtown hotel would potentially meet multiple goals, have a significant positive impact on the downtown, and positively impact the City's General Fund through the addition of sales tax and transient occupancy tax revenues.

The following excerpt from the City Council's Strategic Plan demonstrates the importance of the proposed project:

Continued on Page 2

RECOMMENDED ACTION(S): Review the Request for Proposals for a feasibility analysis for a downtown hotel and authorize its release.

ALTERNATIVES: Provide alternate direction to Staff.

Citizens advised:	Visit Ukiah Task Force
Requested by:	Visit Ukiah Task Force
Prepared by:	Shannon Riley, Senior Management Analyst
Coordinated with:	N/A
Presenter:	Shannon Riley, Senior Management Analyst
Attachments:	1. March 16, 2016, Agenda Summary Report on the same topic 2. Draft Request for Proposals for Professional Services to Conduct a Market Feasibility Study for a Proposed Hotel to be Located in Downtown Ukiah, California

COUNCIL ACTION DATE: _____: Approved Continued to _____ Other _____

RECORDS APPROVED: Agreement: _____ Resolution: _____ Ordinance: _____

Note: Please write Agreement No. in upper right corner of agreement when drafted.

Approved: 
Sage Sangiacomo, City Manager

Facilitate the development of a sound local economy that attracts investment, promotes economic diversity, supports businesses, creates employment opportunities, and generates public revenues.

Recommended Strategy:

Identify and remove barriers to economic development while leveraging economic opportunities

Actionable Items:

- Leverage partnerships with other local agencies and stakeholders to provide economic development resources and services for the retention and recruitment of businesses.

This project: Leverages partnerships with Visit Ukiah (and possibly MCTC) to help fund the recruitment of this new business

Recommended Strategy:

Develop and preserve the downtown historic place as a regional center of civic and economic activity.

Actionable Items:

- Develop a plan to identify and attract anchor tenants to the downtown core

This project: Provides the economic basis and the logistics related to the attraction of a hotel as an anchor tenant, which would simultaneously attract new business and support existing businesses. A hotel is a particularly effective anchor tenant due to the fact that it would be open 24 hours per day, seven days per week; that it would retain customers in the evenings, thereby benefitting the restaurants in the downtown; and that it would help attract additional customers to the Ukiah Valley Conference Center.

- Continue efforts to affect positive change with the Palace Hotel

This project: May provide valuable economic data to possible investors that could determine whether the Palace Hotel could viably serve as a hotel or if it might be better suited to alternative uses.

With hospitality emerging as an increasingly important source of revenue and jobs in Mendocino County, a new hotel would provide much-needed employment opportunities and would have a significant positive impact on the hospitality industry area-wide. A downtown hotel will also serve the expanding hospital and the new courthouse. For the downtown, it would mean a steady flow of traffic, even on the weekends and after 5 pm on the weekdays.

The City of Ukiah is in a unique position to commission this analysis because we own many of the viable properties and/or have fostered relationships with downtown property owners who may be willing to participate. Therefore, City Staff may be able to leverage resources and relationships to facilitate the designation of an appropriate site consisting of multiple parcels.

The attached Request for Proposals (RFP) provides the scope of work for a feasibility analysis for a downtown hotel (Attachment 2). It is not site specific; however, it should be located within the core of the downtown for maximum benefits. This analysis may assist with attracting financing for the rehabilitation of the Palace Hotel, but even if it doesn't, there are City-owned properties that may be viable for this development, as well as other existing facilities and privately owned properties. Therefore, the scope of work will include:

- Analysis of the sites (including access, visibility, current land use, proximity to demand generators, and more)
- Market area review (includes an evaluation of current lodging demand and facilities and interviews with stakeholders)
- Demand growth estimates (includes an analysis of projected growth of business)
- Facilities recommendations (includes the number and type of rooms, other hotel amenities and more)
- Market share estimates (includes analysis of the competitive position of this development)
- Statements of estimated annual operating results (includes an estimate of occupancy, average daily room rate, revenues and operating expenses for the development for its first ten years of operation)

There are countless people and businesses who would benefit from a new hotel in the downtown; we can easily determine that it will create temporary construction jobs and permanent hospitality-related jobs and significantly benefit the area’s restaurants and retail shops. It will serve as an anchor for a downtown that is facing—within the next two years—the relocation of the courthouse (and potentially some of the foot traffic that comes with it), a major streetscape project along State Street, and the perseverance of privately-owned blight. It provides additional incentive to lengthen a visitor’s stay in Mendocino County.

In terms of benefit to the community, the multiplier effect of tourism is tremendous. A downtown hotel would help secure inland Mendocino County’s position as a wine-country destination that rivals Sonoma County; it would attract and serve the more affluent visitor and provide the lodging to match the high-end weddings that are coming to the area.

The City’s General Fund, from which street repairs, public safety, parks, and more are funded, relies heavily on sales tax and transient occupancy tax revenues. The development of a downtown hotel potentially increases both of those revenue sources, as well as supports existing businesses and contributes to the vitality of the downtown.

Therefore, Staff requests that Council reviews the attached RFP and authorizes Staff to proceed with its release.

FISCAL IMPACT:					
Budgeted Amount in 15-16 FY	New Appropriation Source of Funds (Title & No.)	Account Number	Budget Amendment Required		Previous Contract or Purchase Order No.
\$20,000	N/A	10017100.52100	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	N/A
\$10,000	N/A	75017110.52100	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	N/A



ITEM NO.: 12b

MEETING DATE: March 16, 2016

AGENDA SUMMARY REPORT

SUBJECT: DISCUSSION AND DIRECTION REGARDING SOLICITATION OF A FEASIBILITY ANALYSIS FOR A DOWNTOWN HOTEL

Summary: Due to increased tourism and other economic factors, there appears to be demand for development of an upscale downtown Ukiah hotel. In order to attract this type of development, a feasibility analysis is typically performed. The Council will consider whether to participate in the funding of this analysis.

Background: The effort to attract visitors to Ukiah has been extremely successful and, as a result, Ukiah's hotels are experiencing unprecedented occupancy rates. Inland Mendocino County is becoming an increasingly important wedding destination (due in part to restrictions on winery-hosted weddings in Napa and Sonoma Counties) and gaining notoriety for outdoor recreation, an up-and-coming food scene, and cultural tourism. Ukiah is also an important hub for business travel, providing weekday lodging traffic that nearly matches weekend traffic.

Feedback provided from event and travel planners and echoed by our visitors is that Ukiah needs a "higher end" hotel—specifically, a higher end hotel in the downtown.

Staff believes that, based on dramatically increasing transient occupancy tax revenue, sales tax data, and research by the Visit Ukiah team, a professionally-sourced hotel feasibility analysis would support the development of a high-end hotel in the downtown by providing the industry grade financial analysis desired by developers and is therefore requesting Council's authorization to proceed with the solicitation thereof.

Discussion: Currently, Ukiah's highest rated hotels are located in a commercial business park. While there is convenient freeway access and nearby services, these hotels are 1.5 miles away from the Ukiah Valley Conference Center, as well as the restaurants and shops of the historic downtown. As a result, the downtown businesses that would typically benefit from these visitors are struggling to attract them. Additionally, the likelihood of attracting return visits is diminished when visitors are not exposed to the more unique parts of the community.

With hospitality emerging as an increasingly important source of revenue and jobs in Mendocino County, a new hotel would provide much-needed employment opportunities and would have a significant positive impact on the hospitality industry area-wide. A downtown hotel will also serve the expanding hospital

Continued on Page 2

RECOMMENDED ACTION(S): Authorize Staff to solicit a feasibility study for a downtown hotel.

ALTERNATIVES: Provide alternate direction to Staff.

Citizens advised:	Visit Ukiah Task Force
Requested by:	Visit Ukiah Task Force
Prepared by:	Shannon Riley, Senior Management Analyst
Coordinated with:	n/a
Presenters:	Shannon Riley, Senior Management Analyst
Attachments:	n/a

COUNCIL ACTION DATE: _____ : Approved Continued to _____ Other _____

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Approved: 
Sage Sangiacomo, City Manager

and the new courthouse. For the downtown, it would mean a steady flow of traffic, even on the weekends and after 5pm on the weekdays.

With the dramatic increase in visitor stays over the last few years, development of a new hotel might seem like an obvious next step—even without a feasibility analysis. However, when one considers that the actual population of Ukiah is only about 16,000 and we have not historically been considered a tourist destination, one can see that, from a developer's perspective, the numbers don't add up at first glance.

What is not widely understood is that Ukiah's weekday population swells from roughly 16,000 to 30-40,000 and the retail market base within a 30-minute drive is over 104,000; our community is the business, education, and service hub for the entire county (as well as parts of Lake County and northern Sonoma County). On a typical weekday, the downtown streets and businesses are buzzing with activity; however, after 5pm, the business traffic vacates and along with it, the customers that the restaurants and businesses rely on. A hotel in this part of the city would provide a constant flow of traffic; it would also serve the expanding hospital and the new courthouse.

It is impossible to quantify the number of people who would benefit from a new hotel in the downtown, though we can easily determine that it will create temporary construction jobs and permanent hospitality-related jobs and significantly benefit the area's restaurants and retail shops. It will serve as an anchor for a downtown that is facing—within the next two years—the relocation of the courthouse (and potentially some of the foot traffic that comes with it), a major streetscape project along State Street, and the perseverance of privately-owned blight. It provides additional incentive to lengthen a visitor's stay in Mendocino County.

In terms of benefit to the community, the multiplier effect of tourism is tremendous. An upscale hotel would help secure inland Mendocino County's position as a wine-country destination that rivals Sonoma County; it would attract and serve the more affluent visitor and provide the lodging to match the high-end weddings that are coming to the area.

Development of a downtown hotel would also help accomplish goals related to the downtown that have been long-established in the various regional plans:

The General Plan contains the following:

Goal GP-3: "Support the creation of combined public-private facilities in downtown areas for educational, business, civic, and personal growth purposes."

Policy GP-3.1: "Located public-private facilities so that they enhance existing downtown businesses."

Policy GP-3.2: Promote the private development of a downtown to promote a seven days a week economy."

The *Purpose* Statement in the Downtown Zoning Code (section 9220.1 B of the Ukiah City Code) states:

"To implement the vision for the study area created by the community during an intense and open community design charette process in 2007. That vision is one of environmentally sustainable and economically vital public spaces and buildings with a renewed civic square, attractive civic buildings and spaces, a healthy creek corridor, gateways that reflect Ukiah's sense of place, a mix of building types and affordability, new development that supports and enhances the train depot and rail corridor, interconnected and pedestrian-oriented public streets, specific locations for potential anchor buildings (such as large-scale retail, employment centers and parking structures), and pedestrian-friendly buildings and streetscapes."

The Ukiah Redevelopment Agency's Five-Year Implementation Plan states:
Continue efforts to revitalize downtown and strengthen its position as a viable retail district and the "heart" of our community.

Additionally, this type of development may help accomplish one of the City Council's recently adopted strategic planning areas: Facilitate the development of a sound local economy that attracts investment, promotes economic diversity, supports businesses, creates employment opportunities, and generates public revenues.

The Visit Ukiah Task Force has committed \$10,000 to the project and the Mendocino County Tourism Commission (MCTC, formerly Visit Mendocino) has been formally requested to match that commitment. The full cost of the analysis is estimated at up to \$30,000.

No particular site is identified for this development; however, it should be located within the core of the downtown for maximum benefits. This Study may assist with attracting financing for the rehabilitation of the Palace Hotel, but even it doesn't, there are City-owned properties that may be viable for this development, as well as other existing facilities and privately owned properties. Once the analysis is completed, it will become public information and available for developers and/or existing business and property owners.

Based on the information contained herein, Staff is requesting authorization to solicit and pay the balance of (after contribution from Visit Ukiah and possibly MCTC) a feasibility analysis for a downtown hotel, up to \$20,000.

FISCAL IMPACT:			
Available Amount in 15-16 FY	New Appropriation Source of Funds (Title & No.)	Account Number	Budget Amendment Required
\$20,000		10017100.52100	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
\$10,000		75017110.52100	



Request for Proposals for Professional Services to Conduct a Market Feasibility Study for a Proposed Hotel to be Located in Downtown Ukiah, California

OVERVIEW

The City of Ukiah wishes to promote development of a hotel facility within historical downtown Ukiah. Although a specific site has not been designated, there are several potential sites within the downtown core that may provide an opportunity for lodging development. The goal of the City of Ukiah is to determine if a hotel is feasible by the private sector. If a hotel is not fully feasible by the private sector, it is the City's desire to determine what financial gap might exist that could be filled by public incentives, along with recommendations of the most appropriate incentives to fill any identified financial gap.

The successful bidder will conduct a study to determine the optimal site, recommend a facility program and determine the overall market feasibility of the recommended facility. The resulting analysis will be provided to potential hotel developers, management companies and brands who may be interested in participating in a hotel project.

APPROACH

The work program for the study includes the determination of current and potential future lodging demand in the market area, the assessment of existing and potential future hotel supply and the share of the market that could reasonably be attained by the proposed hotel, and the estimation of potential cash flows from operations available to service debt and provide a return on invested capital.

SCOPE OF WORK

Analysis of the Sites

The successful bidder will evaluate potential sites to assess opportunities and constraints for development. Some of the factors to be analyzed include:

- Access, both vehicular and pedestrian;
- Visibility from principal access routes;
- Ambiance of the surrounding neighborhood;
- Current land uses in the vicinity;
- Topography of the site and immediate vicinity;

- Relationship to demand generators;
- Relationship to area amenities; and
- Advantages/disadvantages of the site versus the major competitors.

Market Area Review

The successful bidder will gather and analyze relevant economic data regarding the market area to determine whether the overall economic environment in the area appears to be suitable for the proposed development. The successful bidder will examine correlations between key economic factors and the demand for lodging and will utilize any available forecasts of these indicators in the evaluation of potential future demand.

The successful bidder will perform primary market research in the area, consisting of interviews with key demand generators, inspection and evaluation of competition and discussions with people familiar with development patterns and the local hotel market. Among those with whom interviews will be conducted are:

- Representatives of the City of Ukiah;
- Visit Ukiah;
- Owners and managers of potentially competitive lodging facilities;
- City of Ukiah Planning, Building, and Public Works Departments; and
- Managers of tourist and cultural attractions.

On the basis of the foregoing research, the successful bidder will prepare estimates of future growth, by segment, in the demand for, and the supply of similar quality hotel facilities in the market area.

Demand Growth Estimates

The successful bidder will analyze historical economic growth in the area and the characteristics of each of the principal segments of demand. Then, using the information gathered from the research, estimates will be made of growth in demand for each market segment and demand for the hotel project for each of the next seven to ten years, expressed in room nights.

Facilities Recommendations

As part of the analysis, and based on the nature and kind of requirements associated with the identified potential users of the hotel, the successful bidder will recommend the facilities program relating to the:

- Number and mix of guest rooms;
- Room configuration;
- Food and beverage concept;
- Banquet and meeting space requirements;
- Brand affiliation and
- Other facilities and amenities.

Market Share Estimates

The focus here will be on estimated demand for the hotel project. Upon completion of the estimate of market area supply and demand for the future, the successful bidder will estimate the share of the market that the proposed recommended facilities should reasonably be expected to capture for the property's first five years of operation. The analysis will include an estimate of the demand that could be induced through the development of the subject property.

Based upon an analysis of the sources of demand available to the subject property and its estimated competitive position, the successful bidder will estimate the average daily room rate that could potentially be achieved in a representative year, in current value dollars, and over the first five years of operation of the subject hotel.

Statements of Estimated Annual Operating Results

Based upon the analysis of market demand, the successful bidder will estimate occupancy, average daily room rate, revenues and operating expenses for the subject hotel for its first ten years of operation. These estimates will result in a "bottom line" of net operating income after management fees and reserves for replacement of fixed assets but before interest, depreciation, amortization and income taxes.

DRAFT AND FINAL REPORTS

The successful bidder shall issue a full draft narrative report of the completed study. The report will be a comprehensive document that sets forth findings, conclusions, and recommendations concerning the proposed project. The draft report will be an executive summary to include a discussion (bullet points) of the demand for and supply of the existing lodging facilities in the market, recommendations of the appropriate concept and facility program, demand (penetration analysis) that the proposed project should be able to capture as well as the expected average daily rate the project will be able to achieve. Cash flow projections will present comparable historical operating results of similar hotels as well as a projection of cash flow for the subject with only a summary discussion.

The report is to be a comprehensive document that sets forth the successful bidder's findings, conclusions and recommendations concerning the proposed hotel. After the City has reviewed the draft narrative report and any review comments the City may have are resolved, the successful bidder will prepare the report in its final written form sufficient for the City's internal use and for distribution in support of hotel development and financing purposes. The report will be provided to potential hotel developers, lending institutions, management companies and franchisers that may be interested in participating in the hotel project. Two print copies and a digital copy of the final report are to be provided to the City.

Finally, the successful bidder will meet with the City and its designees to present findings, conclusions, and recommendations, which will be prioritized based on identified market demand and potential economic importance.

Project Time Frame: Approximately ten (10) weeks from kickoff to final presentation.

Project Fee: The fee for completion of the project shall be stated in a lump sum dollar amount with any anticipated travel expenses outlined and billed at cost with a not-to-exceed cap.

The response to the Request for Proposal shall also include the following:

- Name and address of the consulting firm submitting a proposal
- Names and professional qualifications of the representatives of the firm that will be conducting the study
- List of firms or entities, including the names and contact information, for which the bidder has conducted similar studies (list of references). Include a brief summary of the purpose of the study and any measurable results to date.
- Statement on the qualifications of the firm to conduct the proposed hotel feasibility study.
- The City of Ukiah reserves the right to accept or reject any or all proposals based solely on its analysis of the proposals received including the cost thereof.