



DATE: October 16, 2018

TO: Mayor and City Council

FROM: Interim Director of Public Works

SUBJECT: Resolution Authorizing the City Manager to Negotiate and Execute a First Amendment to the Existing Ground Leases with Ramesta Hospitality, LLC, and Mahabal Hospitality, LLC

RECOMMENDATION

That the City Council adopts the attached Resolution (Attachment II) authorizing the City Manager to negotiate and execute a First Amendment to the Ground Leases with Ramesta Hospitality, LLC, and Mahabal Hospitality, LLC.

SUMMARY

In November 2017, the City entered into a lease agreement with a developer to build two new hotels on vacant airport parcels. Plans for each site are currently under final review and construction is expected to commence shortly.

Prior to construction, the developer's lender requested clarifying language in the lease that complies with the terms of the construction loan. In general, the proposed amendments address such matters as: the right to sublease, mortgage, and encumber; termination or bankruptcy by lessee; and the commitment to abide by the FAA's rules and regulations related to grant covenants. The amendments have been reviewed by both the developer's lender and the City Attorney's Office; both concur with and agree to the revisions.

BACKGROUND

Over the past several years, staff developed a plan to market non-aeronautical parcels on Airport property, with a primary focus on attracting a hotel chain for either available Airport parcels or other City parcels. The City was approached by a developer who expressed an interest in three parcels for the potential development of two hotels. This interest culminated in an agreement between the two parties, and on November 14, 2017, Council formally approved ground lease agreements between the City and both Ramesta Hospitality, LLC and Mahabal Hospitality, LLC.

DISCUSSION

The developer is in the process of submitting final designs for the two hotels at the Airport. One hotel will be located on the corner of West A Street and Skywest Drive, while the other will be located along Hesperian Boulevard. Both leaseholds are approximately 160,000 square feet and will contain the following features and amenities:

- A minimum of 110 hotel rooms;
- A banquet facility that seats approximately 150 persons, and can be subdivided into smaller rooms;
- A swimming pool;
- A nationally-branded, stand-alone restaurant that is approximately 6,000 square feet in size; and
- A small, ancillary retail store

The developer has secured project financing; however, the lender requires an amendment to the lease in order to finalize financing requirements. More specifically, the leases for each project were updated to include language pertaining to the following:

- Amount of time required to obtain all needed permits and complete construction
- Adherence to approved site development plans
- Right to sublease property; requirement for sublessees to provide proof of insurance
- Right to mortgage and encumber
- New lease provisions associated with termination or bankruptcy by Lessee
- Agreement by lessee to abide by all FAA rules and regulations, including height limits, so that the Airport remains in compliance with grant covenants
- Clarifications on the assignment of responsibility for any hazardous waste existing on the hotel sites

The amendments have been reviewed by both the developer's lender and the City Attorney's Office; both concur with and agree to the revisions.

ECONOMIC IMPACT

The hotel developments will generate work for skilled and unskilled tradespeople during the construction phase, and retail/service sector jobs after the hotels are built. Furthermore, the City's General Fund will benefit from additional business license fees and sales/transient occupancy taxes.

FISCAL IMPACT

Once a Certificate of Occupancy is issued, the Airport Operating Fund will realize a revenue increase of approximately \$210,000 per year from each hotel, or an annual total of \$420,000.

Additional economic impact will occur from the generation of transient occupancy tax, sales tax, and property tax, which will benefit the City's General Fund.

STRATEGIC INITIATIVES

The projects associated with this agenda item support the Complete Communities Strategic Initiative. The purpose of the Complete Communities initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work, and play for all. These projects support the following goal and objectives:

Goal 1: Improve quality of life for residents, business owners, and community members in all Hayward neighborhoods.

Objective 1: Increase neighborhood safety and cohesion.

Objective 2: Foster a sense of place and support neighborhood pride.

SUSTAINABILITY FEATURES

The Airport is strongly committed to developing projects that are environmentally responsible. Therefore, staff is ensuring that all plans proposed by the developer incorporate features that are in line with the City's sustainability guidelines.

PUBLIC CONTACT

This topic was discussed at the Council Airport Committee meeting of October 12, 2017, with unanimous support expressed for the project. Furthermore, the projects were approved by Council on November 14, 2017.

NEXT STEPS

If approved, the existing ground leases will be amended, and the projects' construction will commence.

Fall 2018 Complete design
Spring 2020 Complete construction

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Alex Ameri, Interim Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager