



City of San Antonio

Agenda Memorandum

File Number: 17-1254

Agenda Item Number: 5A.

Agenda Date: 2/2/2017

In Control: City Council A Session

DEPARTMENT: Center City Development and Operations

DEPARTMENT HEAD: John Jacks

COUNCIL DISTRICTS IMPACTED: 1

SUBJECT: Hemisfair Public Private Partnership at the Northwest Zone

SUMMARY:

City Council shall consider several items related to the a Public-Private Partnership (P3) with ZH Downtown Development Company, LLC, an affiliate of local real estate developer Zachry Hospitality for the development of 5 acres of land on the corner of Market and South Alamo that are adjacent to the proposed 9 acre Civic Park in Hemisfair.

1. Approval of a Development Sublease Agreement between the Hemisfair Park Area Redevelopment Corporation (HPARC) and ZH Downtown Development Company, LLC for the development of 5 acres of land on the corner of Market and South Alamo that is owned by the Hemisfair Park Public Facilities Corporation;
2. Approval of a Parking Garage Development Agreement and License between the City, HPARC, and ZH Downtown Development Company, LLC to facilitate the construction of a parking facility to support current and future development within Hemisfair; and
3. Adoption of a process for certification that a proposed hotel complies with the approved Declaration of Restrictive Covenants that limited the number of rooms and size of a hotel built within Hemisfair.

BACKGROUND INFORMATION:

In 2012, City Council adopted the Hemisfair Master Plan. As a result of the master plan effort, HPARC and City staff worked with the state legislature to realign the actual designated parkland to clearly delineate what is parkland and what is available for potential development. Under authority of specific legislation for Hemisfair, the City Council, in December of 2013 designated 18.47 acres of parkland in Hemisfair, more than doubling the

unencumbered parkland. City Council also identified several parcels for development and conveyed these parcels to the Hemisfair Park Public Facilities Corporation (HP PFC), a corporation governed by City Council. In October 2013, City Council approved a deed restriction that limited hotel development in Hemisfair to no more than 200 rooms.

On December 11, 2014, the HP PFC authorized a Master Lease Agreement with HPARC to allow for long-term ground leases of the HP PFC properties. Consistent with Council's prior action and the adopted Master Plan, the City Council granted HPARC the authority to solicit P3 proposals on June 26, 2014. The Master Lease requires the HP PFC to approve development leases involving its property.

In March 2015, HPARC began the solicitation of two parcels of land in the northwest zone of Hemisfair through an extensive P3 process in accordance with adopted guidelines. Eleven responses were received to the initial request for qualifications. Through the subsequent RFP process, four proposals were shortlisted. In August 2015 and October 2015, addendums were issued which reduced the number of proposals to two. In January 2016, through the involvement of a Blue Ribbon review panel, a recommendation was provided to enter into exclusive negotiations with Zachry Hospitality.

The proposed \$200 million development includes 385 housing units (10% dedicated to workforce housing), 50,000 - 70,000 square feet of retail, 60,000 - 120,000 square feet of office space, 200 hotel rooms, and up to 800 public parking spaces. Since the selection, HPARC and City staff has been in negotiations with Zachry Hospitality.

The multi-family residential project will receive incentives as provided though the Center City Housing Incentive Policy as previously authorized by City Council. The hotel development will not receive any incentives from the City or HPARC. The projects are also located in the proposed Hemisfair Tax Increment Reinvestment Zone.

Development Sublease Agreement

The project will be constructed under a sublease from HPARC to ZH Downtown Development Company, LLC. It has a 50 year primary term, with four 10-year renewal options and one 7-year renewal option. It requires construction to commence by July 1, 2018. If all phases are built, HPARC will receive annual rental of \$1,950,000 until the retail portion is occupied, when the annual rental is reduced to \$1,450,000 and supplemented by a percentage of retail revenues. The lease revenue from these developments will support public improvements in Hemisfair as well as its operation and activation. The project only receives the CCHIP incentives on the multi-family residential project if the mixed-income housing requirements of the sublease are met.

Parking Garage Sublease

To accommodate the construction of an underground parking garage, HPARC will sublease to City the subsurface area underlying the land being subleased to ZH Downtown Development Company, LLC. City's payment of its share of the construction costs of the parking garage will be the paid-up rent for the sublease. The Parking Garage Sublease will continue in effect for the term of the Development Sublease.

Parking Garage Development Agreement and License

An approximate 800 space below grade parking garage underlying this development will be built by ZH Downtown Development Company, LLC pursuant to a Parking Garage Development Agreement and License between City, HPARC and ZH Downtown Development Company, LLC:

- 600 spaces will be operated by the City for public parking serving the Alamo, Riverwalk, La Villita, Convention Center, and Hemisfair.

- 200 spaces will be licensed to Zachry and will also be available to the public.
- The costs of construction will be paid pro rata by Zachry and the City but the City's share will not exceed \$18,000,000.
- The City will operate the parking facility, with operating expenses paid pro rata by Zachry and the City.

The City will finance its pro rata portion of the parking garage through the parking enterprise fund. Once the parking garage is designed and a project budget is developed, staff will return to City Council requesting authorization for the projects funding.

Adoption of a Process for Certification of Compliance with Hotel Deed Restrictions

City Council previously approved the adoption of a Declaration of Restrictive Covenants pursuant to Ordinance 2013-10-17-0711 to limit the number and size of hotels in Hemisfair Park. The City Manager or her designee will consult with the Director of the Department of Transportation and Capital Improvements to confirm that the plans for a proposed hotel comply with the hotel restrictions and, if so, will issue a certificate approved by the City Attorney.

ISSUE:

HPARC was created to oversee the redevelopment of Hemisfair, to fundraise for the construction of new park assets, and to activate and maintain the parks. P3 projects will generate revenue to fund operations, maintenance, development, administration and activation of the park, consistent with the approved Master Plan.

Hemisfair P3 Guidelines required City Council Committee approval of the negotiation phase with a recommended partner, which was approved by the Neighborhood and Livability Committee on January 24, 2017. The negotiated deal terms will assist towards completing the transformation of Hemisfair, including its civic park.

With the furthering of development and park improvements at Hemisfair and adjacent downtown destinations, a public garage is needed to support parking needs. Additionally, a process is needed to confirm that a proposed hotel complies with the Hemisfair hotel deed restrictions prior to construction.

ALTERNATIVES:

In the event that City Council, in its role as the Board of the HP PFC, does not approve the Development Sublease Agreement with ZH Downtown Development Company, LLC, HPARC will either have to engage with another responsive firm or re-issue the RFQ/RFP, thus resulting in a significant delay in the development of Hemisfair, Civic Park, and the proposed P3 site.

FISCAL IMPACT:

Revenues generated at Hemisfair are dedicated to the capital, maintenance, operations, and activation of the parks within the Hemisfair district. When the design and budget is complete for the parking garage, staff shall return to City Council with the Finance Plan for their consideration.

RECOMMENDATION:

Staff recommends authorizing an Ordinance of the Hemisfair Park Public Facility Corporation approving a Development Sublease Agreement between Hemisfair Park Area Redevelopment Corporation and ZH Downtown Development Company, LLC on approximately 5 acres of land in the northwest zone of Hemisfair owned by the Corporation; approval of a Parking Garage Development Agreement and License between the City, Hemisfair Park Public Facilities Corporation, and ZH Downtown Development Company, LLC, to support current and future development in Hemisfair; and approval of a process for City certification that a proposed hotel complies with the Hemisfair hotel deed restrictions.