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**DEPARTMENT OF PARKS  
AND COMMUNITY SERVICES**

**CITY OF SACRAMENTO**  
CALIFORNIA

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SUITE 400  
SACRAMENTO, CA  
95814-2977

ROBERT P. THOMAS  
DIRECTOR

G. ERLING LINGGI  
ASSISTANT DIRECTOR

WALTER S. UEDA  
DEPUTY DIRECTOR

916-449-5200  
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DIVISIONS:  
GOLF  
CROCKER ART MUSEUM  
HISTORY AND SCIENCE  
METROPOLITAN ARTS  
SACRAMENTO ZOO  
PARKS AND RECREATION  
• NORTH  
• SOUTH  
• CITY-WIDE

October 19, 1990

Budget and Finance\Transportation and  
Community Development Committee  
Sacramento, California

Honorable Members in Session:

**SUBJECT: Proposed Hotel Development at Haggin Oaks Golf Course**

**SUMMARY**

This report provides information on the developer selection process for a proposed hotel development at Haggin Oaks Golf Course. This report also recommends that City Council: (1) authorize the City Manager to execute an Offer to Lease/Option agreement with Lama Interests; and (2) authorize staff to negotiate a ground lease and development agreement with Lama Interests for development of a hotel at Haggin Oaks Golf Course.

**BACKGROUND INFORMATION**

**Project History**

In July 1988, City Council approved the concept of development of a hotel complex at Haggin Oaks Golf Course and directed staff to call for Request for Qualifications for selection of a developer. The approved concept consisted of a 250 room hotel with restaurant and meeting space to be located on 14.9 acres of undeveloped land adjacent to Haggin Oaks Golf Course (Exhibit A).

The impetus for the proposed development was multifaceted. Its purpose was not only to maximize an under-utilized land resource but also to develop a revenue stream with the long term strategy of reducing Golf's dependency on golf fees. There was the added incentive of increased public service through food services, golf pro services, and city administrative space.

A Request for Qualifications (RFQ) was issued in September 1988, and over 120 copies were distributed nationally. The City received two responses to the Request for Qualifications. One respondent was a development team from the midwest with Marriott Hotels as the operator, and the other was a group from the west coast with Sheraton Hotels as the operator.

The responses were reviewed by a project team consisting of staff from the City Manager's office, Economic Development Office, Golf Division, Resource Development and Management Section, and ZHA Consultants, a real estate development consultant hired by the city. Both packages were also reviewed by the Budget Office, City Treasurer, and City Attorney's office. The qualifications were evaluated based on experience, financial capability, and success with similar projects.

Based on the information submitted, it was agreed that both submittals met the minimum qualifications outlined in the Request for Qualifications and had the experience necessary to complete the project successfully. Staff reported their findings to Council in November 1988 and proceeded to develop a Request for Proposals (RFP) package which was distributed to both entities. Responses to the Request for Proposals required a detailed development proposal including project design concepts and preliminary business terms. Responses were due in March 1989.

During this period, staff was approached by the development team representing Marriotts concerning creative financing alternatives with which to fund the proposed project. Their proposition for a joint financing partnership with the City was denied and they subsequently withdrew from the proposal process.

#### Proposal Evaluation

A formal proposal was submitted to the City for the west coast development team by developer Phillip Lama in March 1989. The proposed project was for a 250 room all suites Sheraton Hotel with restaurant facilities, meeting rooms, and other typical hotel amenities. The project also included city administrative offices, a new pro shop, and snack bar to service golf clientele. Total construction costs were estimated at \$22.5 million.

The project team reviewed the proposal and developed a list of clarification questions and further information needed from the developer for a complete evaluation. During this evaluation period, several major hotels in the Sacramento area filed under Chapter 11 due poor management and/or business practices. The hotel market in Sacramento was considered very "soft." The Sheraton Corporation subsequently expressed its concern as to the potential and timeliness of this proposed project.

Based on this concern and with the City's approval, the developer spent the next several months restructuring his proposal based on input from Sheraton and various financial institutions. The amended proposal was submitted to the City and was again evaluated by the project team and the real estate development consulting firm of Keyser Marston Associates. The amended proposal had a phased project of a 175 room all suites Sheraton with restaurant, lounge, and other amenities with construction costs at \$15 million. Another 75 rooms would be built at some future time to be determined during negotiations (Exhibit B).

The project team felt that this amended proposed project was more realistic given the current hotel market demand and potential future competition. However, both the project team and the consultant felt that the proposed return to the City was not adequate. With the assistance of Keyser Marston and the development consulting firm of Andrew Plescia Company, staff developed minimum acceptable business terms for the ground lease. The project team concurred that unless the developer was willing to provide this minimum level of return to the City as a negotiation starting point, then they were unwilling to proceed with the process.

These minimum acceptable business terms were presented to and subsequently agreed to by the developer (Exhibit C). They are as follows:

- . Ground lease payments based on percentage of gross sales stepped in over first five years to 6% of gross room sales, 3% of food and beverage sales, 2% of other.
- . Minimum annual rent based upon 7-10% of land value - land value reassessment schedule to be negotiated.
- . Ground lease payments will be subordinated only to debt service and the 3% base management fee to Sheraton.

These proposed minimum business terms have been reviewed by the project team, the City Finance Director, and City Treasurer. All concur that it is a realistic and strong starting position for the City. Projected annual revenues to the City based on a stabilized year of operation, an occupancy rate of 65%, and a daily room rate of \$92.24 are:

Ground Lease Payment	\$296,795
Property Tax	\$ 57,816
Sales Tax	\$ 1,346
TO Tax	\$421,266
TOTAL	\$777,223

All tax revenues would be deposited into their appropriate accounts. Ground lease payments would be deposited into the golf fund for development of new courses and to offset operating costs. Potential return to the City for ground lease payments in the first ten years of operation based on sales projections is \$3.4 million.

Based on industry standards and the recommendations of the consultants, staff is recommending the following additional terms:

- . Contract term of 55 years with two 10 year options to extend conditioned upon performance and/or reinvestment in the property.
- . City will contribute \$1 million (from Golf fund) towards infrastructure costs. City will receive its \$1 million back plus 12.50-15% of profits participation upon sale or refinancing. Developer will pay any additional costs for infrastructure over \$1 million.

Staff and the consultant concur that these conditions are required in order to make the project viable.

The proposed development team consists of:

Developer:	Phillip J. Lama Lama Interest's Scottsdale, Arizona
Architect:	Ted Kopecko TDK Architects Sacramento, California
Contractor:	J R Roberts Construction Sacramento, California
Operator:	Sheraton Suites Sheraton Corporation San Diego, California

Mr. Lama has successfully completed many hotel projects including a 300 room conference center hotel in Concord, California and a 250 room Hilton Hotel in Las Cruces, New Mexico. He is currently working with the city of Palm Desert, California on a 300 room conference center hotel.

#### Offer to Lease/Option Agreement

This report also requests authorization for the City Manager to execute the Offer to Lease/Option Agreement that has been signed by the developer (Exhibit D). This agreement requires the developer to deposit a \$50,000 option fee with the City for the right to negotiate exclusively with the City for the next 180 days to complete a contract for the lease and development of the proposed hotel project. Should no agreement be reached and the developer has negotiated in good faith, then the fee will be returned. If an agreement is reached, then the fee is credited against the required security for performance deposit, the exact amount of which will be determined as part of negotiations. The security for performance deposit will be structured to be returned to the developer in increments that reflect fulfillment of his obligations and construction of the project in phases.

Additionally, the Offer to Lease/Option Agreement requires the developer to obtain approvals of the City Design Review/Preservation Board and the Planning Commission. The developer will be responsible for complying with all environmental requirements. An environmental analysis will be required prior to final project approval by the City Council.

Should this report be approved and upon deposit of the \$50,000 option fee, staff will enter into a negotiation period as outlined in the Offer to Lease/Option agreement. Staff will report back to Council in approximately six months as to the progress of those negotiations. Any final agreement will be presented in full to Council for approval.

FINANCIAL

No additional funds are requested. Costs related to the negotiation process will be paid from the Golf Fund.

POLICY CONSIDERATIONS

The Council has supported public/private partnerships and maximizing under-utilized resources for the purpose of enhanced public services and revenue generation.

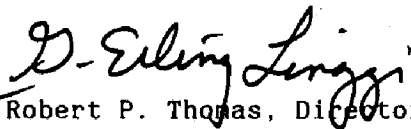
MBE/WBE EFFORTS

Under a ground lease and development agreement, the developer would be required to comply with applicable Affirmative Action, Equal Employment Opportunity and Prevailing Wage Standards as may be required by the City.

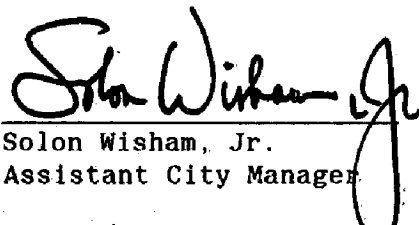
RECOMMENDATIONS

It is recommended that the joint Transportation and Community Development/Budget and Finance Committee approve this report and forward it to full City Council. Further, it is recommended that City Council, by resolution: (1) authorize the City Manager to execute an Offer to Lease/Option agreement with Lama Interests; and (2) authorize staff to negotiate a ground lease and development agreement with Lama Interests for development of a hotel at Haggin Oaks Golf Course.

Respectfully submitted,

*for*   
Robert P. Thomas, Director  
Parks and Community Services

Approved:

  
Solon Wisham, Jr.  
Assistant City Manager

RPT:ja

October 30, 1990  
District 2

Contact Person: Patti Bisharat (Gonzales)  
Administrative Services Officer  
449-5375

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# RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE  
AN OFFER TO LEASE AGREEMENT WITH LAMA INTERESTS  
FOR AND AUTHORIZING STAFF TO NEGOTIATE A GROUND  
LEASE AND DEVELOPEMENT AGREEMENT FOR A PROPOSED  
HOTEL DEVELOPMENT AT HAGGIN OAKS GOLF COURSE

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the City Manager is authorized to execute an Offer to Lease and Develop Agreement with Lama Interests for the proposed development of a hotel project at Haggin Oaks Golf Course.
2. That staff is authorized under City Code 12.39(f) to negotiate a ground lease and development agreement with Lama Interests for proposed development of a hotel project at Haggin Oaks Golf Course.

\_\_\_\_\_  
MAYOR

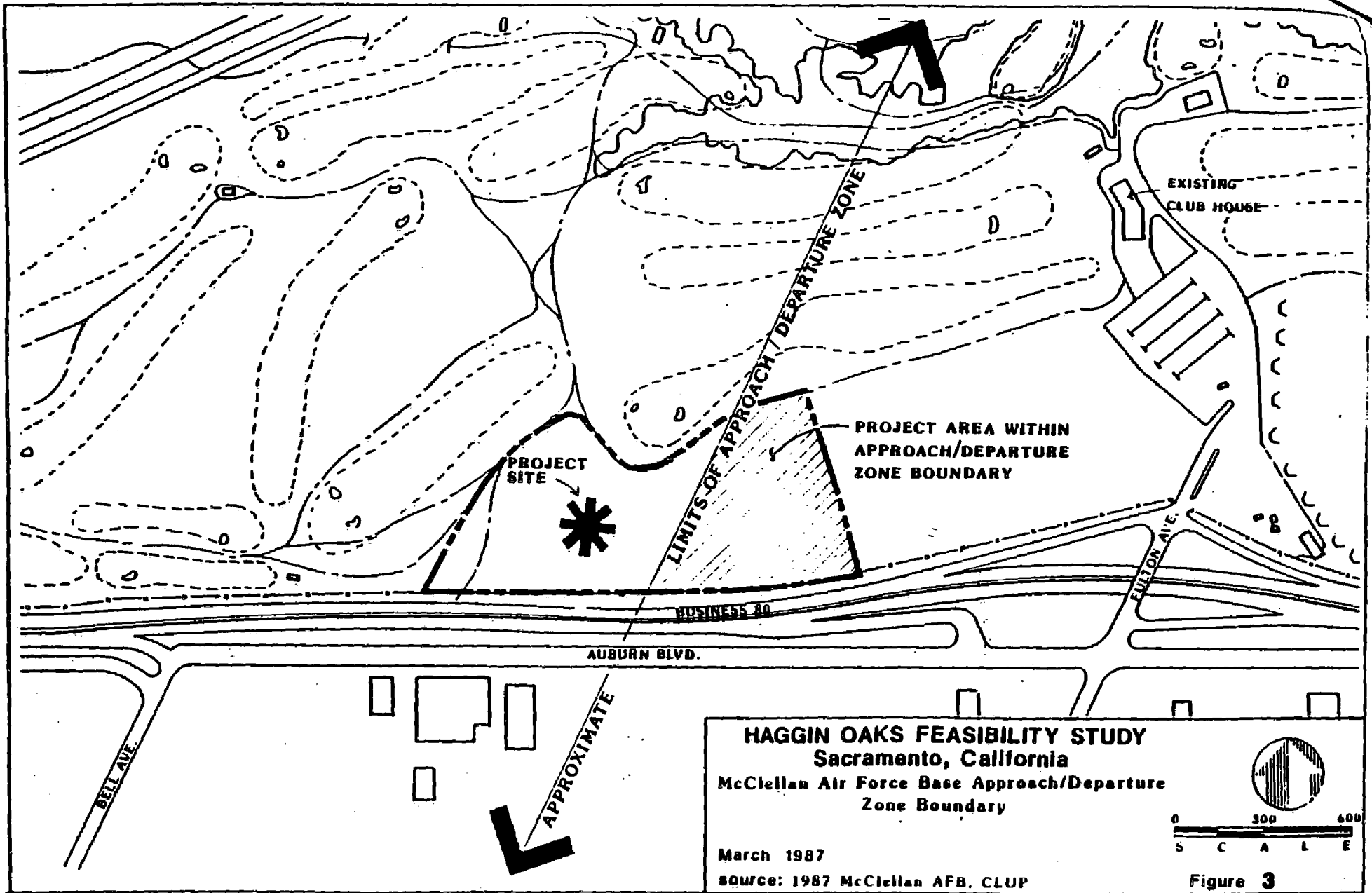
ATTEST:

\_\_\_\_\_  
CITY CLERK

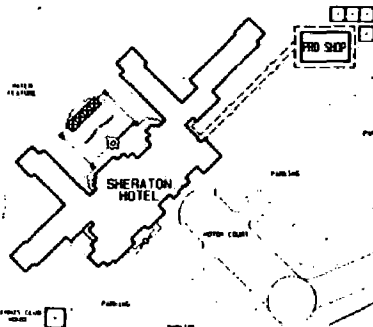
FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_



HAGGIN OAKS  
GOLF COURSE



SHERATON  
HOTEL

INTERSTATE 80

FULTON

# Sheraton Suites Haggin Oaks

DEPARTMENT OF PARKS AND  
COMMUNITY SERVICES  
Sacramento, California

LAMA/HAGGIN OAKS ASSOCIATES  
Sacramento, California

LAMA INTERESTS  
Scottsdale, Arizona

OILLINGHAM CORPORATION  
Pittsfield, California

**TDK Architects & Planners**  
1340 North Market Blvd  
Sacramento, California  
95834-0055

DATE: MARCH 04, 1999

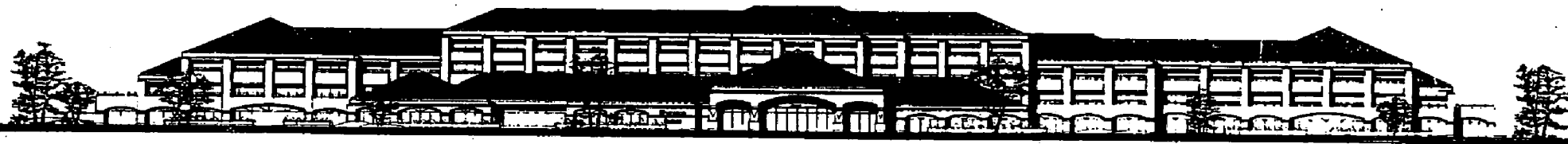
**SPECIFIC SITE PLAN**  
SCALE: 1" = 100'-0"

EXHIBIT 8-1

**TDK Architects & Planners**

X





FRONT ELEVATION



REAR ELEVATION

**Sheraton Suites  
Haggin Oaks**

DEPARTMENT OF PARKS AND  
COMMUNITY SERVICES  
Sacramento, California

LAMA/HAGGIN OAKS ASSOCIATES  
Sacramento, California

LAMA INTERESTS  
Stockton, California

**TDK Architects & Planners**  
1340 North Market Blvd. California  
Sacramento, CA 95834  
916-422-7000

**EXTERIOR ELEVATIONS**

SCALE: 1" = 30'-0"

**TDK Architects & Planners**

EXHIBIT B-2



Phillip J. Lama Interests

7119 E. Shea Blvd., Suite 108-146 • Scottsdale, Arizona 85254 • 602/391-1208

October 10, 1990

Ms. Patricia Gonzales  
City of Sacramento  
Department of Parks & Community Services  
Project Manager  
1231 I Street, #400  
Sacramento, California 95814-2977

Re: Sheraton Suites Haggin Oaks

Dear Patti:

I am pleased to inform you that I am in substantial agreement with the terms and conditions suggested by Keyser Marston Associates, Inc. (KMA)

Item 1: The discrepancies in the construction budget which Keyser Marston estimated to be \$14,400,000.00 were due in part to the fact that they were not privy to the costs associated with the City permits and fees. Therefore, the budget will remain at \$15,000,000.00.

Item 2: Since Keyser Marston and I concur on the land valuation of \$1,500,000.00, the only remaining issue is to determine the lease rate within a range of 7.00% - 10.00%.

Item 3: Additionally, the percentage rent of 6.00% of room sales, 3.00% of food and beverage revenues, and 2.00% of other revenues will also be achieved through incremental increases over the first five years.

Item 4: It is also agreed that the City will receive as additional revenues a 12.50% - 15.00% profits participation from a sale or refinancing of the project which percentage amount will be specifically determined during our lease negotiations and careful review of the hotel proforma assumptions.

Item 5: The structure of the management agreement with The Sheraton Corporation is a 3.00% base management fee of the total revenues and a management incentive fee of 7.00% of gross operating profit. The incentive management fee will be subordinated to debt service and the City's ground lease payments. These adjustments must appear in the KMA analysis. Their figures were substantially lower which has had a profound impact on the cash flow available for distribution to the City and the partnership.

Ms. Patricia Gonzales  
October 10, 1990  
Page 2

Item 6: A remaining minor detail which needs to be resolved, is to provide for an internal rate of return (IRR) at an equal rate for both the City as well as the investors once items 2, 3 and 4 are concluded.

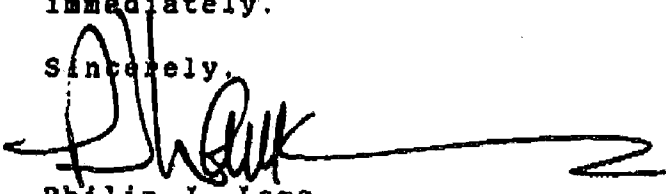
My primary objective is to maintain a fair and equitable balance between the City and the investors, and to insure the project is financially sound and attractive to the City of Sacramento, Department of Parks and Community Services, investors, and lenders alike.

It appears that we are within reach of achieving our mutual goals and objectives without any further delay. To that end, I have informed the members of my staff and the development team to proceed immediately in bringing this exciting hotel development opportunity to a speedy and successful conclusion.

I would also like to take this opportunity to express my appreciation to both you for your direct involvement throughout our discussions and the firm of Keyser Marston for their expedience in analyzing this project.

Should you have any questions or comments please contact me immediately.

Sincerely,



Philip J. Lama  
President

PJL/vk

- cc: Larry Dorman J.R. Roberts Corp.
- Ted Wiersema The Sheraton Corporation
- Ted Kopecko TDK Architects
- Mark Dodge Attorney
- Mitch Davis Sybedon Equities, Corp.



**Philip J. Lama Interests**

7119 E. Shea Blvd., Suite 106-146 • Scottsdale, Arizona 85254 • 602/391-1206

March 10, 1989

Mr. Robert P. Thomas  
Director  
City of Sacramento  
Department of Parks and Community Services  
1231 I Street, Suite 400  
Sacramento, CA 95814

**SUBJECT: Offer to Lease and Develop Land  
Haggin Oaks Hotel Development**

Dear Mr. Thomas:

The undersigned, Philip J. Lama Interests, Inc. on behalf of Lama/Haggin Oaks Association (a California Limited Partnership to be formed) hereinafter referred to as the "Offerer", hereby submits to the City of Sacramento, hereinafter referred to as the "City", an offer to lease and develop the subject property.

The Offerer requests that the City negotiate exclusively with the Offerer for a 180 day period hereinafter referred to as the "Option Period", commencing with the date of acceptance of this Agreement by the City, during which time the Offerer will seek to complete a contract for the disposition/lease and development of the Subject Property, hereinafter referred to as a "Ground Lease and Development Agreement".

This Offer is made pursuant to, and with full understanding of, all procedures, rules and instructions stated in the Request for Qualifications and Request for Proposals documents as well as the following terms and conditions:

1. The City will accept the Offer which it finds to be most advantageous to it, which determination shall be final and conclusive. The City shall reserve the right to reject any or all Offers, and to waive any informalities or defects as to form or procedure. The City shall determine and notify the successful Offerer of the acceptance of the Offer within the general time frame established at the time of the invitation for proposals.

Offer Letter  
Haggin Oaks Hotel Development  
Page 2

2. The City retains the responsibility to determine the timing, arrangements, and method of proposal presentations throughout the Developer Selection Process. The Offerer shall not undertake any activities or actions to promote or advertise the development proposal except in the course of City sponsored presentations. Further, it is understood that the City may present and explain the non-confidential aspects of this proposal.

3. Upon acceptance of this Offer by the City, the Offerer will within one week tender to the City, in the form of a cashiers check or letter of credit, an "Option Fee" in the amount of \$50,000 for the right to negotiate exclusively with the City during the Option Period. In the event a Ground Lease and Development Agreement between the City and the Offerer is approved by the City Council, the Option Fee shall be used as a credit against the Security for Performance Deposit outline in Item 5 below. The Option Fee is to be retained by the City. Actual interest earned, if any, shall be credited to, and become part of the fee. If the Offerer negotiates in good faith, but fails to reach an agreement with the City within the time period allowed, then the Option Fee shall be refunded. Examples of not negotiating in good faith would be missing meetings or not responding to information requests within a reasonable period of time. The City further reserves the right to require other forms of security as part of the Ground Lease and Development Agreement if so negotiated.

4. The Offerer further understands that negotiations may be extended beyond the Option Period at the discretion of the City to enable the Offerer and the City to reach an agreement.

5. Upon City approval of the Ground Lease and Development Agreement, the \$50,000 provided by the Developer as an "Option Fee" will be credited towards a Security for Performance Deposit, the exact amount of which shall be negotiated as part of the Ground Lease and Development Agreement. This Deposit shall be held by the City as a security for the diligent performance of the Offerer's obligations pursuant to the Ground Lease and Development Agreement. Such Security Deposit is to be retained by the City. Actual interest earned, if any, shall be credited to, and become part of the deposit. Such Security Deposit will be structured to be returned to the Developer in increments that reflect fulfillment of Developer's obligations and construction of the project in phases, if the project is to be phased, with paybacks disproportionately weighted toward the later phases.

B

6. The Offerer understands that, except as allowed under the terms of the Ground Lease and Development Agreement, the Offerer shall not take any action to make, create, contract for, or agree to any total or partial sale, assignment, conveyance, lease or other transfer of the Subject Property, or any portion thereof or any interest therein, without the prior written approval of the City. The City shall be entitled to stipulate specific terms and conditions as to any such approval within the Ground Lease and Development Agreement.

7. The Offerer understands that the scale, nature and type of development if any, is subject to various approvals of the City, and various permits and approvals issued by the City Design Review/Preservation Board; City Planning Commission, and other commissions/officers/agencies of the City of Sacramento, County of Sacramento, State of California and Federal Government as may be required. Additionally, California State law requires that the potential environmental impacts of all public and private projects be evaluated prior to approval. This evaluation may take the form of a Negative Declaration or an Environmental Impact Report (EIR). Once the specific project and developer are selected, but prior to final project approval by the City Council, an environmental analysis is required. If no significant environmental impacts are foreseen, a relatively short environmental document preparation and public review period would occur. If significant impacts are projected, an EIR would be prepared and subjected to public review and hearings. Such a process would take 6 to 12 months. The selected developer will be expected to comply with all state environmental requirements. The City Council will decide whether or not proceed with this project only after environmental review.

8. The Offerer understands that full disclosure will be made to the City regarding all principals, officers, stockholders, etc. of the Offerer and all other pertinent information concerning the Offerer and Associates.

9. The Offerer understands that full disclosure will be made to the City regarding methods of financing to be used in developing the subject property.

10. The Offerer understands that the City reserves the right, at any time either before or after Offers are submitted, to specify additional terms and conditions, and to request additional information and data from the Offerer, and that the City particularly reserves the right to obtain further

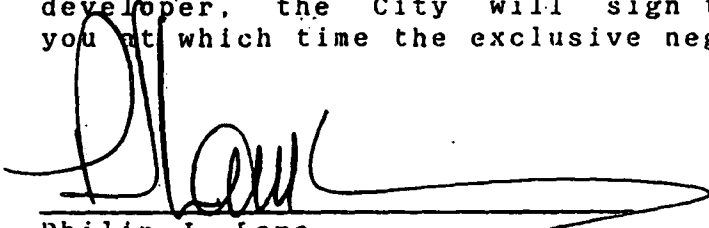
Offer Letter  
Haggin Oaks Hotel Development  
Page 4

information, data, and commitments to ascertain the depth of developer capabilities and desire to develop the Subject Property expeditiously. Adequate time to obtain and submit such additional matters will be provided by the City.

11. The Offerer understands that if negotiations culminate in a Ground Lease and Development Agreement with the City, such an agreement becomes finally only after and if the agreement has been considered and approved by the City Council.

12. The Offerer understands that as Developer, all contractors to the Offerer must comply with applicable Affirmative Action and Equal Employment Opportunity, as may be required by the City during the development process

Please sign and return this letter with your development proposal package. If you are selected as the designated developer, the City will sign the letter and return a copy to you at which time the exclusive negotiation period will begin.



Philip J. Lama

President  
Title

Philip J. Lama Interests, Inc.  
Managing General Partner  
Lama/Haggin Oaks Association  
Firm

7119 E. Shea Blvd., #106-146  
Scottsdale, AZ 85254  
Firm Address

This offer is hereby accepted as of the \_\_\_\_\_ day of \_\_\_\_\_  
1989, subject to the terms and conditions state above.

City of Sacramento

By \_\_\_\_\_