



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 1

Agenda Date: March 16, 2022

In Control: City Council B Session

DEPARTMENT: Center City Development & Operations

DEPARTMENT HEAD: John Jacks

COUNCIL DISTRICTS IMPACTED: District 1

SUBJECT:

Hemisfair P3 Update

SUMMARY:

Briefing on the Public-Private Partnership project located in Hemisfair at the corner of South Alamo and Market Street.

BACKGROUND INFORMATION:

The City created the Hemisfair Park Area Redevelopment Corporation (HPARC) in 2009 and City Council adopted the Hemisfair Master Plan in 2012. After plan adoption, City staff worked with the State legislature to realign designated parkland to clearly delineate parkland from non-park areas available. Acting under authority of specific legislation for Hemisfair, City Council, in December of 2013 designated 18.47 acres of parkland in Hemisfair. City Council also designated several parcels for intended future development and conveyed those to the Hemisfair Park Public Facilities Corporation (HP PFC), a corporation governed by City Council. City Council also approved a deed restriction in 2013 that limited hotel development in Hemisfair to no more than 200 rooms.

Consistent with Council's prior action and the adopted Master Plan, on June 26, 2014, City Council subsequently authorized HPARC to solicit private development proposals. The Master Lease requires the HP PFC to approve development leases involving its property.

In March 2015, HPARC issued the solicitation for several parcels at the corner of South Alamo and Market Street. The solicitation resulted in 11 proposals; Zachry Hospitality was the recommended respondent. In February 2017, City Council approved a Development Sublease Agreement between HPARC and ZH Downtown Development Company, LLC.

The Development Sublease Agreement and other Agreements included the following terms and conditions:

- Zachry Hospitality and/or its affiliate would invest \$200 million that would result in a 200-room hotel, 385-unit housing project that included 38 work force housing units, 50,000-75,000 square feet of retail, 60,000 to 110,000 square feet of office, and at least 800 parking spaces.
- The primary term of the agreement was 50 years, with four 10-year renewal options and one 7-year renewal option.
- Zachry Hospitality would pay rent to HPARC in the amount of \$1.925 million annually, subject to adjustments on a percentage rent scheme and escalations over time.
- The commercial and multi-family residential project would receive incentives as provided through the then-authorized Inner City Reinvestment Infill Policy and the Center City Housing Incentive Policy
- The developments are in the Hemisfair Tax Increment Reinvestment Zone. All tax increments would be used to support Hemisfair.

The project was not permitted to start construction until after the NCAA Final Four in 2018 and the City's Tricentennial but was further delayed due to construction delays associated with the Civic Park, the need to identify a new housing developer, and the COVID-19 pandemic. In addition to a delay, the pandemic also altered the demand for commercial office space. As a result of the delays and the impacts of the pandemic, the partners had to revisit the project scope and renegotiate several terms and conditions in the approved agreement.

ISSUE:

The Development Sublease Agreement between HPARC and Zachry must be amended. Per the Master Lease Agreement between the HP PFC and HPARC, City Council must approve all development agreements for P3 projects within Hemisfair. Some of the revised terms may require amendments to other related documents or the creation of new agreements. The amendments to the Development Sublease Agreement and other related agreements are best summarized in three categories: revised development proposal, restructured financial benefits to HPARC, and modified City concessions.

Revised Development Proposal

The revised development proposal is similar to the 2017 project except for the availability of leasable office space. This component of the project was removed due to the impact of COVID on the commercial real estate market. The office project was replaced by another residential project which increased the total residential unit count from 350 units to 525 units. The total private investment also increased from \$200 million to \$340 million. The increase is due to inflation and parking. The amended lease agreement now requires the developer to fund and construct the parking facility. Previously this was the responsibility of the City and was formalized through a Parking Garage Development Agreement between the City, Zachry, and HPARC. If the Development Sublease Agreement is amended, the Parking Garage Development Agreement will be terminated.

| Components | 2017 Project | 2022 Proposal |
|--------------------------|--|--|
| Full-Service Hotel | 200-room Hilton-brand hotel | 200-room Hilton-brand hotel |
| *Multi-family Housing | 385 units (38 workforce housing units) | 525 units (87 workforce housing units) |
| Retail/Restaurants | 50,000 – 75,000 gsf | 65,000 gsf |
| Office (leasable) | 60,000 – 110,000 gsf | none |
| Parking | 800 spaces | 1,100 spaces |
| Total Private Investment | \$200 million | \$340 million |
| Completion Date | 2021 | 2025 |

* The solicitation required that the housing project reserve 10% of the total unit count for workforce housing.

Restructured Financial Benefit to HPARC

The financial terms were restructured to better reflect a partnership among all the development entities and diversify the funding sources. The first-year financial benefit to HPARC has grown from \$2.61 million to \$2.95 million.

| Benefit to HPARC | 2017 | 2022 |
|---|-------------|-------------|
| Annual Lease Payments | \$1.925 m | \$1.15m |
| Hotel Pavilion Revenue: Zachry shall provide additional consideration to HPARC in the form of an annual financial credit of \$150,000 which HPARC may apply toward facility rent of the Hotel Pavilion. In any year, if HPARC fails to use the full credit during that year, the Hotel shall compensate HPARC, by cash payment, in an amount equal to the value of the unused credit. | \$0 | \$150 k |
| Payment in Lieu of taxes for PFC: One of the residential projects will be a project of the HF PFC. However, the housing developer will pay HPARC a payment equal to the amount of city ad valorem taxes they would have paid if the project was not a PFC. | \$0 | \$200 k |
| Property Owners Association: Developers agree to participate in the creation of mandatory non-profit Property Owners Association (POA) and to contribute at an agreed rate. A minimum of \$125,000 | \$0 | \$125 k |

| Benefit to HPARC | 2017 | 2022 |
|--|-----------------|-----------------|
| will be raised, and funds generated by the Mayor Nirenberg led the Pledge of Allegiance to the Flag of the United States of America. will be limited to use within the Northwest Quadrant of Hemisfair. | | |
| Schultze House Redevelopment: Zachry currently leases the Schultze House from the City. The house has been used as an event venue. The lease with Zachry terminates in 2025. The City will amend the Master Lease agreement with HPARC and transfer the property for their use. HPARC would solicit a restaurant concept for the building and anticipates the rent to realize \$150k annually. | \$0 | \$150 k |
| HPARC TIRZ: The Hemisfair TIRZ was created to help fund improvements to Hemisfair and its operation. The additional investment will facilitate more increment and the benefit to HPARC will grow from \$687k to \$1.175 million. | \$687 k | \$1.175 m |
| TOTAL | \$2.61 m | \$2.95 m |

All these terms will be addressed in the amended Development Sublease Agreement except for the Schultze House Redevelopment. This item will be reflected in an amendment to the Master Lease Agreement between HPARC and the HP PFC.

Modified City Concessions

The City had various commitments to the project ranging from funding for a parking garage to fee waivers. The parking garage agreement is no longer necessary and will be terminated after the amended agreement is approved by City Council.

| Expense | 2017 | 2022 |
|---|-------------------------|-------------------|
| Parking Garage: in 2017, the City committed to funding and operating a parking garage for the project. The parking garage was to be funded through the parking enterprise fund. The amended Agreement requires that the parking is privately operated and funded. Therefore, the Parking Garage Agreement will be terminated. | \$59.5 m (estimate) | \$0 |
| Critical utility infrastructure: The utilities were to be funded by the developer. However, the utilities must be constructed as part of the South Alamo Street and Civic Park Improvements. Therefore, the City will fund and construct the utilities. They will be funded through the Hemisfair TIRZ. | \$0 | \$8 m |
| City and SAWS Fee Waivers: The 2017 project qualified for City and SAWS fee waivers through the Inner City Reinvestment Infill Policy and Center City Housing Incentive Policy. The revised project will only receive City and SAWS Fee waivers for the affordable housing units. | Approx \$1.5 million | Approx \$450 k |

| Expense | 2017 | 2022 |
|--|-------------|-------------|
| ROW Closure Fees: The 2017 project qualifies for ROW Closure fees through the Inner City Reinvestment Infill Policy. The ROW will also be closed for the City projects like S Alamo Street and Civic Park. Because the area will have multiple projects underway, staff will waive all ROW fees associated with project construction in this area. | \$300 k | \$300 k |

Another concession that the City will accommodate relates to a rebate of all State Hotel Occupancy Taxes (HOT) and State sales taxes generated at the Project. Per State law, the hotel project qualifies for such a rebate due to its proximity to the convention center and its location on City-owned land. For the project to receive these State funds, the City will pledge to HPARC, and HPARC in turn will pledge to ZH Downtown Development Company, LLC, all State HOT and all State sales taxes rebated to the project. The State rebate funds will be used to support the development, parking facilities, and other public improvements for Hemisfair.

Finally, the initial lease payment from Zachry was intended to support debt service on Phase 1 of the Civic Park. Due to the project delays and delayed rent payments, HPARC will be unable to remit the debt service payment. The City will defer HPARC's payment to the City through 2029 with the understanding that HPARC will reimburse the City, with interest.

These items will be addressed in a separate funding agreement between the City and HPARC. The City will pursue funding from the Hemisfair TIRZ for the utility infrastructure and will return to City Council in May with an amended project and finance plan for the Hemisfair TIRZ.

ALTERNATIVES:

This item is for briefing purposes only but will proceed to City Council on April 7, 2022.

FISCAL IMPACT:

This item is for briefing purposes only but will proceed to City Council on April 7, 2022.

RECOMMENDATION:

This item is for briefing purposes only but will proceed to City Council on April 7, 2022.