

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

FILED
OFFICE OF THE CITY CLERK
OAKLAND

AGENDA REPORT

2010 JUN 30 AM 10:59
TO: City Council
FROM: Agency Administrator

ATTN: Dan Lindheim

FROM: Community and Economic Development Agency

DATE: July 13, 2010

RE: **An Agency Resolution Authorizing Allocation of Agency Funds in an Amount of up to \$4,000,000 for Necessary Capital Improvements, Repairs and Rehabilitation to the George P. Scotlan Memorial Convention Center, and Authorizing the Agency Administrator to Negotiate and Execute an Amendment to the Management Agreement with Integrated Services Corporation to Include Construction Management for the \$4,000,000 in Capital Improvements, including up to \$153,000 for Management Fees.**

SUMMARY

It is recommended that the Agency authorize a Resolution approving the allocation of Agency funds up to the amount of \$4,000,000 for performance of imminent necessary capital improvements, repairs and rehabilitation to the George P. Scotlan Memorial Convention Center (the "Scotlan").

It is also recommended that the Agency Administrator be authorized to negotiate and execute an Amendment to the Oakland Convention Center and Convention Center Garage Management Agreement (the "Agreement") with Integrated Services Corporation ("ISC") to transfer the contract to the Agency now that the Agency is leasing the facility and to add construction management services for the capital improvements, including up to \$153,000 in project management fees, which would be payable out of the \$4,000,000 capital improvement allocation.

On June 1, 2010, the City Council and Joint Powers Financing Authority approved legislation for the Redevelopment Agency ("Agency") to sublease the Scotlan from the City of Oakland ("City") in order to "...develop appropriate marketing strategies and a capital improvement program for the renovation and modernization of the aging facility in order to enhance its appearance, marketability and long-term economic success. This redevelopment effort will reduce blight and complement other successful development activities in the Central District Project Area and strengthen the Central District's existing role as a center for administrative, financial, business service and governmental activities."

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FISCAL IMPACT

Approval of the proposed legislation will require that the Agency provide \$4,000,000 of Agency funds for necessary capital improvements, repairs and rehabilitation to the Scotlan. Funds in the amount of \$4,000,000 are available from the Agency's Central District Tax Allocation Bond Series 2005 (Fund 9533), Capital Improvement Project – Economic Development Organization (#94800), Central District Parking Garage Development (Project P128670) and will be transferred to a new project yet to be created.

Appropriation of these funds will reduce funds available for downtown parking and other activities eligible for tax exempt bonds, including the Broadway/Valdez District Retail Strategy. There is no direct impact on the General Purpose Fund, but the improvements to the Scotlan may add up to 10,000 additional room nights at the Marriott Hotels. This would generate an additional \$200,000 annually in transient occupancy tax and other taxes for the General Purpose Fund.

BACKGROUND

On June 1, 2010, the City Council passed Resolution No. 2010-0070 C.M.S., authorizing the City to sublease the Scotlan to the Agency for a term of up to 12 years.

The Scotlan includes a public parking garage with 585 spaces and is attached to a 484-room Marriott-branded hotel that is owned by the CIM Group. The original 1997 Management Agreement for the Convention Center and Garage was between the City and ISC. When CIM purchased the hotel in 2007 they also bought ISC. As part of the 2010 sublease, the Agency assumed the Management Agreement from the City.

PROJECT DESCRIPTION

The Scotlan opened in 1983 and features 64,000 square feet of convention, exhibit, social gathering and conference room space, as well as a public garage with 585 spaces. The Scotlan has not been substantially renovated or modernized since its opening in 1983. The Convention Center is often one of the first, and sometimes the primary impression of Oakland that visitors have.

The Convention Center management has worked with Agency staff to assess the existing conditions of the Scotlan and prepare a capital improvement program that will enhance the marketability and financial performance of the Convention Center Facilities.

Hotel Improvements

This year, CIM is investing almost \$20 million to renovate the 484-room Marriott into downtown Oakland's only Class A hotel. Every room in the hotel is being redecorated and the common areas are undergoing major redesign. The renovation will be completed by the end of 2010. CIM has undertaken a marketing campaign to capitalize on this investment. That campaign will target potential convention groups as well as hotel visitors.

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There are two ballrooms and a lobby area that are on hotel property but also function as part of the Convention Center. CIM's \$20 million renovation includes those spaces, an investment that will directly benefit the City.

Convention Center Facilities' Physical Condition

The physical condition of the Convention Center is inferior to competing facilities in the Bay Area. The furniture is old and stained, the wall coverings are marred, and in some places the carpets seams are held together with duct tape. The substandard condition of the Convention Center, coupled with the lingering effects of the recession on the hospitality industry, have resulted in a significant decrease in event bookings and weakened the Convention Center's financial performance.

The Scotlan lost over \$2 million in revenue from groups that would have booked events in 2010, 2011, and 2012 (see *Attachment A*). Each of the 21 groups has walked away from hosting their event at the Scotlan due to the condition of the facility. It is likely there were additional losses from groups that did not even approach the Scotlan because of its condition.

The proposed capital improvement program will renovate and modernize the aging facility and enhance the convention center's appearance and likelihood of long-term economic success. This redevelopment effort will complement and enhance other successful development activities in the Central District Project Area.

Here is the preliminary scope and budget for the proposed renovation:

Convention Center Cost Breakdown	
Fire Life Safety	\$117,750
Convention Center Restrooms	\$522,213
Waterproofing	\$200,000
Integration of Convention Center into Renovated Hotel	\$132,250
FF&E for the Convention Center	\$500,000
Main Convention Hall and First Floor Lobby	\$1,478,830
Second Floor Meeting Space	\$652,000
Second Floor Lobbies and Corridors	\$493,379
Upgrades to Parking Elevator Landings	\$317,000
TOTAL	\$4,413,422

The proposed total costs exceed the \$4,000,000 which is being requested. However, Agency staff will work with the contractor to identify priorities and reduce the budget by \$413,422.

It should be noted that this preliminary \$4,413,422 budget was reduced from an original proposed budget of \$12,000,000. This \$4,413,422 budget is considered the minimum of what is needed to bring the Scotlan up to a standard where it can compete for local corporate, government, and association conventions and conferences.

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Convention Center Economics

Convention Center users can be categorized into four groups: Corporate, Association, Government, and SMERFE.¹ Corporate users are considered the most desirable as they tend to have the highest event budgets. Associations and government users tend to have more modest budgets but they will attract additional room nights for the adjacent hotels, which is the largest single source of revenue to the City's Transit Occupancy Tax. SMERFE users are usually local and also tend to buy less food and beverage on site.

The Scotlan will never be competitive against centers such as Moscone for large national conventions, but in its current state it is not even competitive for smaller events that are now booking in San Jose or Santa Clara. The configuration of the Scotlan lends itself to a two-pronged marketing approach, one focused on renovating the exhibit hall so it is attractive to the corporate, association, and government users in addition to SMERFE, and the other on repositioning the combination of the ballrooms and the breakout rooms as a higher end conference center, which is a growing sector of the convention and visitors market.

KEY ISSUES AND IMPACTS

The Scotlan represents an ongoing investment by the City in attracting visitors to the downtown area. Nationwide, convention centers are almost always unprofitable, and the Scotlan is no exception. The City has authorized a continuing annual subsidy of \$675,000 to cover the cost of utilities for the property.

Revenue from the convention center is distributed in three ways:

1. **Fees and commissions for site rental.** Groups that use the Scotlan pay for room and equipment rental, and pay an 8% commission on food and a 15% commission on beverages provided by the hotel, which goes into the Convention Center's operating fund.
2. **Parking garage fees.** This revenue goes into the Convention Center's operating fund.
3. **Taxes on hotel rooms, food and beverage.** The Transient Occupancy Tax (TOT) directs 14% of every room night in any hotel in Oakland to the general fund. Food and beverage sales are taxed at the standard sales tax rate. The City portion of the sales taxes go directly to the City's general fund.

The fees and commissions and the parking revenue are used to operate the property. Most years there has been an operating surplus, between \$100,000 and \$300,000 per year, which has been invested into necessary routine repairs and capital improvements to keep the space functioning and to enhance revenue. Examples from this past fiscal year are fire inspection, water pumps,

¹ SMERFE is an acronym used by convention center operators that stands for Social, Military, Educational, Religious, Fraternal, and Ethnic events – including weddings, fundraisers, educational seminars, religious gatherings and other community events that have a civic, social, or entertainment purpose.

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internet upgrade, pay stations for the garage, intercom system for the garage, signage, and water heaters.

The annual operating surplus has increased since Interstate assumed management because Interstate markets more aggressively and has cut operating costs. However, this year's operating surplus is down, and the next two years are also projected to be lower, because of the recession and the deteriorating quality of the space. Moreover, as the property continues to age and becomes even less competitive, there will not be sufficient operating surplus to cover even routine repairs, and the Agency or City will be required to fund those improvements directly.

It is evident that the Scotlan cannot generate sufficient revenues to initiate major rehabilitation, repairs and capital improvements that are necessary to renovate and modernize the facility at this time. It is critical that the Agency appropriate the proposed funding to provide an additional source to cover the basic, much needed improvements to the building.

Explanation of Fiscal Impact

The proposed capital improvements to the Scotlan are expected to have a positive impact on the financial performance of the Scotlan and the Marriott Hotel.

Fees and commissions and parking revenue are estimated to go up by approximately \$260,000 per year based on projected increased use. This would free capital funds for mechanical upgrades to the chiller, air handler, elevator, and additional garage pay stations.

Taxes collected by the City on hotel rooms, food and beverage are estimated to go up by approximately \$200,000². This estimate is only for taxes directly related to the hotel. Convention center visitors will also spend money on transportation to and from the hotel, and on offsite food and beverage purchases, which will yield additional tax revenue.

The Oakland Convention and Visitor's Bureau estimates that each out-of-town convention visitor to Oakland spends \$422 per day with an average stay of three days. Visitor spending for single day meetings is approximately \$85 per day. This could lead to significantly greater tax revenue than the estimated \$460,000.

This projected \$460,000 in additional revenues represents an 11.5% annual return on cost for the \$4 million investment.

The management company also projects adding 12 Full-Time Equivalent employees to handle the additional events.

² The \$200,000 figure is based on 10,000 additional room nights at \$119 per night, which produces \$166,600 at the 14% TOT. The remainder comes from taxes on food, beverage, parking and room rental. The 10,000 additional room nights are based on the assumption of capturing 8 additional larger events at 300 attendees for 3 nights, and 25 smaller events with 50 attendees for 2 nights.

Amendment to Management Agreement

The original Management Agreement was signed in 1997 and amended in 2005. The amended Agreement allows ISC, as an agent of the Agency, to contract for and supervise all Capital Improvements authorized by Agency staff.

This legislation would amend the agreement to create specific requirements for ISC with regard to this renovation. It would specify the hiring and insurance requirements, the scope, the budget, the schedule and the construction management process. ISC would be paid up to \$153,000 of the \$4,000,000 as a construction management fee. This is a lower fee than typical for other construction jobs of this type. By having ISC supervise the Capital Improvements, as provided for in the 2005 amendment to the Agreement, the Agency will take advantage of the timing of the hotel renovation. ISC will be able to use many of the same vendors and subcontractors, resulting in savings to the budget and a more timely completion.

SUSTAINABLE OPPORTUNITIES

Economic: Any renovation of the Scotlan will complement other successful development activities in the Central District Project Area and strengthen the Central District's economic vitality resulting in increased tax revenues for the City. Increased occupancy of the Scotlan will support retail and entertainment businesses in the downtown and throughout Oakland.

Environmental: The capital improvement program will include updating the energy efficiency of the building by the use of energy efficient lights, and all aspects of the development will adhere to green building standards, where applicable and feasible.

Social Equity: There are no social equity opportunities that apply to the proposed legislation. However, the Agency will require that ISC complies with the City's employment and contracting programs, including the Small/Local Business Construction Program, the Small/Local Business Professional Services Program (L/SLBE) and the Local Employment Program providing business and employment opportunities to Oakland businesses and residents.

DISABILITY AND SENIOR CITIZEN ACCESS

The project will require improvements that will need to meet current accessibility requirements including ADA accessible public restrooms on the first and second floors. The existing restrooms are not compliant with current ADA standards.

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RECOMMENDATION AND RATIONALE

Staff recommends that the Agency approve a Resolution authorizing the allocation of Agency funds in the amount of \$4,000,000, including up to \$153,000 for project management fees for necessary capital improvements, repairs and rehabilitation of the Scotlan to be undertaken by ISC. It is also recommended that the Agency Administrator is authorized to negotiate and execute an Amendment to the Agreement with ISC to include construction management services and construction of the capital improvements, including up to \$153,000 in project management fees, which would be payable out of the \$4,000,000 capital improvement allocation.

ACTION REQUESTED OF THE CITY COUNCIL/REDEVELOPMENT AGENCY

Staff requests that the Agency approve the resolution authorizing funds for capital improvements to the Scotlan Convention Center, and authorize the Agency Administrator to negotiate and execute an Amendment to the Agreement with ISC to include construction management services for the capital improvements, including up to \$153,000 in project management fees.

Respectfully submitted,



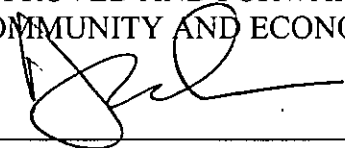
Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:
Gregory Hunter, Deputy Director
Economic Development and Redevelopment

Jens Hillmer
Urban Economic Coordinator

Prepared by:
Blair Miller
Urban Economic Analyst IV

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:



Office of the Agency Administrator

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OCC Lost Business Due to Condition of Facility

Booking Posted As	Arrival Date	Booking Market	Revenue	Status
Bio-Rad Laboratories	Jan-10	Corporate	75,000	Turned Down
CYSA	Mar-10	Sports	50,760	Turned Down
Unifed Grocers	Mar-10	Corporate	12,600	Turned Down
Institute of Transportation Engineers	Jun-10	National Association	43,727	Turned Down
Google	Oct-10	Corporate	3,900	Turned Down
Chevron Energy Tech Company	Dec-10	Social	50,050	Turned Down
2011 CSAA Leadership Conference	Jan-11	State Association	54,427	Turned Down
West Coast Dance Explosion	Apr-11	Special Markets	25,000	Turned Down
Coffee Fest June 2011	May-11	Corporate	30,800	Turned Down
Reconnaissance International Conference	Jan-12	Corporate	29,862	Turned Down
Urban Issues	Feb-12	State Association	29,497	Turned Down
State Association of County Retrimment	May-13	State Association	75,632	Turned Down
MedAmerica	Apr-11	Corporate	160,000	Turned Down
CAPCOA	Sep-10	State Association	90,000	Turned Down
CA Teachers Association (3 programs)	3 programs	State Association	250,000	Turned Down
CSAA	Jan-11	State Association	200,000	Turned Down
Affordable Comfort	Apr-11	Corporate	275,000	Turned Down
Western Association of Schools & Colleges	Apr-11	State Association	250,000	Turned Down
PG&E		Corporate	230,000	Turned Down
First Solar	May-10	Corporate	13,000	Turned Down
AAMAS	Apr-12	National Association	120,000	Turned Down
Kaiser Annual Shareholders Event	Annual	Corporate	90,000	Turned Down
Total			2,159,255	

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APPROVED AS TO FORM AND LEGALITY:



Agency Counsel

REDEVELOPMENT AGENCY
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RESOLUTION No. _____ C.M.S.

An Agency Resolution Authorizing Allocation of Agency Funds in an Amount of up to \$4,000,000 for Necessary Capital Improvements, Repairs and Rehabilitation to the George P. Scotlan Memorial Convention Center, and Authorizing the Agency Administrator to Negotiate and Execute an Amendment to the Management Agreement with Integrated Services Corporation to Include Construction Management for the \$4,000,000 in Capital Improvements, including up to \$153,000 for Management Fees.

WHEREAS, the Redevelopment Agency of the City of Oakland (the "Agency") subleases from the City of Oakland, the George P. Scotlan Memorial Convention Center located at 550 10th Street, Oakland, California ("Property") in the Central District Redevelopment Project Area; and

WHEREAS, no major repairs have been made to the Property since its construction in 1983, and certain repairs, rehabilitation and capital improvements are necessary to enhance the Property's appearance and long-term economic success; and

WHEREAS, a study by the CIM Group, owners of the adjacent Marriott Hotel, concluded that at least \$4,000,000 must be invested in basic repairs and improvements to the Property in order to enhance its marketability and attract users; and

WHEREAS, the Agency desires to allocate up to \$4,000,000 for necessary capital improvements, repairs and rehabilitation to the Property; and

WHEREAS, the City has a contract with Integrated Services Corporation ("ISC") for management of the Property, which adjoins the Oakland Marriott City Center Hotel (the "Marriott"), which contract will be assigned or otherwise transferred by the City to the Agency; and

WHEREAS, ISC is implementing a comprehensive renovation and modernization effort at the Marriott, and would like to undertake renovations at the adjacent Property simultaneously, in order to enhance the marketability of and maximize benefits to both the Property and the Marriott; and

WHEREAS, this redevelopment effort will complement other successful development activities in the Central District Redevelopment Project Area and strengthen the Central District's existing role as a center for administrative, financial, business services and governmental activities; and

WHEREAS, the Agency desires to amend the Oakland Convention Center and Convention Center Garage Management Agreement between the City and ISC, dated November 1, 1997 (the "Agreement"), to add construction management services and other necessary terms for the \$4,000,000 in capital Improvements, repairs and rehabilitation; and

WHEREAS, the up to \$4,000,000 allocation for capital improvements will include a management fee of up to \$153,000 for ISC; and

WHEREAS, the Agency has identified available funds in the amount of \$4,000,000 from the Agency's Central District Tax Allocation Bonds Series 2005 Fund (9533), CIP: Economic Development Organization (94800), with a project to be created; and

WHEREAS, the requirements of CEQA, the CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been met; now, therefore, be it

RESOLVED: That the Agency hereby allocates up to \$4,000,000 from the Agency's Central District Tax Allocation Bonds Series 2005 Fund (9533), CIP: Economic Development Organization (94800), with a project to be created, to fund capital improvements, repairs and rehabilitation at the Property; and be it

FURTHER RESOLVED: That the Agency hereby authorizes the Agency Administrator to acquire any necessary rights from and execute any necessary documents with the City, and negotiate and execute an amendment to the Agreement with ISC for an amount up to \$4,000,000 for capital improvements, repairs and rehabilitation to the Property, including a construction management fee of up to \$153,000; and be it

FURTHER RESOLVED: That the Agency Administrator is authorized to negotiate and execute, modify, amend and extend an amendment to the Agreement and any other necessary documents, with ISC, and to take whatever other action is necessary, consistent with this resolution and its basic purposes; and be it

FURTHER RESOLVED: The Agency has independently reviewed and considered this environmental determination, and the Agency finds and determines, based on the information in the staff report accompanying this Resolution, that this action complies with CEQA because this action on the part of the Agency is exempt from CEQA pursuant to Section 15301(Existing Facilities) of the CEQA guidelines; and be it

FURTHER RESOLVED: That the Agency Administrator or his designee, shall cause to be filed with the County of Alameda a Notice of Exemption and an Environmental Declaration (California Fish and Game Code Section 711.4) for this action; and be it

FURTHER RESOLVED: That all documents necessary to carry out this Resolution shall be reviewed and approved by Agency Counsel prior to execution, and copies will be placed on file with the Agency Secretary.

IN AGENCY, OAKLAND, CALIFORNIA, _____, 2010

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID AND CHAIRPERSON
BRUNNER

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____

LATONDA SIMMONS
Secretary of the Redevelopment Agency
of the City of Oakland, California