

CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM STAFF REPORT

Meeting Date: August 7, 2018
To: Honorable Mayor and City Councilmembers
From: City Administration
Subject: Request from Paolo Petrone, Piazza Hospitality for Fee Reductions/Fee Deferrals for the Hotel Sebastopol Project
Recommendation : That the City Council Consider the Request and Provide Direction to Staff
Funding: Currently Budgeted: _____ Yes _____ No XX N/A

INTRODUCTION: This item is to request that the City Council Consider the Request from Paolo Petrone, Piazza Hospitality for Fee Reductions/Fee Deferrals for the Hotel Sebastopol Project and Provide Direction to Staff.

BACKGROUND:

Application fees for City permits, applications and services are collected at the time an application is submitted. These fees were established by the City Council to more fully recover the costs of staff time spent reviewing and processing the applications. The purpose of these fees is to pay for the installation of public utilities and service facilities needed to serve the property being developed, to collect charges for the use of certain facilities from those benefitting by those services and to help pay the costs borne by the City in providing preconstruction, construction, inspection and public safety services.

DISCUSSION:

The City of Sebastopol approved an application from Piazza Hospitality for the Hotel Sebastopol project; a hotel with a mix of uses and surface parking at 6828, 6826, and 6824 Depot Street and 215 and 225 Brown Street. As stated in their application, the project involves the development of a 66-room hotel, which will consist of multiple buildings, ranging from two to four stories with a height of 50 feet at its highest elevation. The hotel will contain the following amenities and mix of uses: a lobby and reception area, hostel rooms, retail space, artist maker studios, restaurant, bar, lounge, wellness center, public courtyard, private gardens, outdoor rooftop decks, meeting rooms, and various other hotel amenities.

In relation to this project, the City received a letter dated June 27, 2018 from Piazza Hospitality requesting various fee deferral and reduction measures for Council review and consideration to help reduce development costs associated with construction as well as to accomplish such goals as LEED certification and zero net energy status. In their letter, Piazza Hospitality states, "the cost of achieving these goals has increased dramatically due to unanticipated external factors, the largest of which is rising construction costs associated with last year's wildfires in Sonoma and Napa counties (some trades have seen price increases between 50%-100%). The project also must now absorb additional costs such as extensive archaeological excavation (at a cost of \$90,000 to \$100,000) and an increase in interest rates for financing. We remain committed to the project (as evidenced by our progress with construction documents), but now view the City as a necessary partner to help fully implement planned community and environmental benefits and ensure that rising costs do not negatively impact the project considering it sits on such a prominent site." The letter is attached for Council's information and review.

The applicant is requesting a fee reduction program aimed at energy savings and efficiency measures such as those outlined in the letter. The amount of the fees that are requested to be reduced and deferred are listed below:

- Reducing the water/sewer fees (\$109,369 reduced by 35% = \$71,090.).
- Reducing the Building Plan Check fee of \$80,020 by 50% (\$80,020 reduced by 50% = \$40,010).
- The elimination of the project's transportation impact fee (\$57,673.29)
- Enacting a fee deferral program similar to that of the Barlow that would include:
 - The deferral of development fees until one year after opening or three consecutive months with over 75% occupancy, whichever came first.
 - Fees paid in monthly installments after the above date and over the course of five years.

Piazza Hospitality has indicated certain savings calculations in their letter. The City Manager and Planning Director met twice with Piazza representatives to discuss these calculations and concluded that they seemed accurate as far as they could be predicted. Last week the City Manager and Building Official also discussed the project's attributes, and in staff's opinion the project is unusual in that it greatly exceeds energy code compliance and is going to be built to a very high standard. The Building Official also confirmed the accuracy of the points raised regarding increased construction costs. All that said, however, City staff does not have the expertise to fully analyze all the points raised by Piazza.

As referred to in the letter from Piazza Hospitality, the City has in the past approved a deferral agreement with the Barlow project for deferral of fees. The Council could authorize a Council sub-committee to work with Piazza Hospitality on a deferral agreement and/or reduction of fees and return to the City Council with recommendations, including the possibility of working with an outside consultant. The Council could also accept the staff review which has taken place as sufficient and take action at this meeting to direct such fee reductions and deferrals as the Council deems appropriate.

RECOMMENDATION:

That the City Council provide direction to staff.

Attachment:

Piazza Hospitality Letter

Paolo Petrone
Piazza Hospitality
June 27, 2018

City Councilmembers
City of Sebastopol
7120 Bodega Avenue
Sebastopol, CA 95473

Dear Councilmembers,

This letter presents an update on the Hotel Sebastopol project. In light of dramatically increased construction costs, planned project community benefits, and the breadth of our proposed sustainability program, we are requesting various fee deferral and reduction measures for Council review.

PROJECT UPDATE:

As you know, the Hotel Sebastopol project will seek to be the missing connection between the historic core of downtown Sebastopol and the Barlow to the east by filling a gap in active uses and creating an improved, attractive, and continuous pedestrian realm. The redevelopment of this underutilized downtown parcel will help accomplish this long-standing community goal, and will include the reconstruction of Brown Street and Depot Street (at a cost of approximately \$200,000), and the installation of wider sidewalks and publicly accessible passages through the hotel property.

Our team of architects and consultants has recently finished our 90% construction document set, with the goal of having a set ready for permit submittal later this summer. We've also further defined our sustainability program, and now plan to fully embrace Sebastopol's commitment to environmental stewardship by aiming to achieve both LEED certification and zero net energy (ZNE) status. In other words, all energy needed for operations will be produced on site. To achieve this, plans include an array of solar panels on our roof and over our parking area, as well as a slew of energy efficiency measures. **Hotel Sebastopol will be the very first zero net energy hotel in the state of California.**

The above goals are only fully achievable, however, if the project can achieve minimum financial thresholds. Unfortunately, the cost of achieving these goals has increased dramatically due to unanticipated external factors, the largest of which is rising construction costs associated with last year's wildfires in Sonoma and Napa counties (some trades have seen price increases between 50%-100%). The project also must now absorb additional costs such as extensive archaeological excavation (at a cost of \$90,000 to \$100,000) and an increase in interest rates for financing. We remain committed to the project (as evidenced by our progress with construction documents), but now view the City as a necessary partner to help fully implement planned community and environmental benefits, and ensure that rising costs do not negatively impact the project considering it sits on such a prominent site. This document presents potential paths forward to enable us to achieve the desired outcome.

FEE REDUCTION:

We request that the City implement a fee reduction program, particularly aimed at encouraging our proposed energy saving and efficiency measures, and reducing impact fees to levels more in line with the project's true impacts.

For example, our proposed water efficiency system will result in an approximately 35% reduction in water use and sewer outflow compared to CalGreen Code. The actual cost savings on our monthly water bill, however, will only be about \$62, making it financially infeasible on its own. To help offset the cost of the system, we request the City reduce the following water/sewer development fees such as:

▪ Plumbing Permit Fee	\$24,942
▪ Water Connection Fee	\$43,503
▪ Water Meter Fee	\$ 1,845
▪ Sewer Connection Fee	\$39,079
▪ TOTAL:	\$109,369

As an example of a city undertaking similar measures to incentivize water recycling, the City of Oakland and the East Bay Municipal Utility District (EBMUD) recently reduced development fees associated with water and sewer hookups from \$450,000 to \$125,000 (72%) after a project demonstrated water savings above and beyond their assumed flow rates. The mixed-use project was developed by oWow Development at 674 23rd Street.

Accordingly, the Sebastopol City Council could similarly reduce the water/sewer fees for our project listed above, perhaps by 35% (our projects rate of water reduction). \$109,369 reduced by 35% = \$71,090.

Additionally, Hotel Sebastopol plans to go above and beyond City requirements for solar panel installation and achieve zero net energy status. City Code requires the installation of solar panels in new construction that either (1) produce two watts per square foot of conditioned building area or (2) offset 75% of the electrical load of the building on an annual basis. Our planned PV system will produce 302 kW (302,000 watts). With a total of 68,825 square feet of conditioned building area, planned production will be approximately 4.4 watts per square foot, over two times the City requirement. As the project will strive to become a signature project as it relates to energy efficient design, we request the City reduce our Building Plan Check fee of \$80,020 perhaps by 50% (\$80,020 reduced by 50% = \$40,010). We truly hope to set a new standard for energy efficiency in Sebastopol that the City can point to as an example of desirable development.

Finally, our project includes the construction of various transportation improvements to reduce project impacts and improve conditions in the project area. These include:

- The complete reconstruction of Brown Street (including roadway, sidewalk, curb, and gutter)
- The partial reconstruction of Depot Street (including half of the roadway, sidewalk, curb, and gutter)
- New sidewalks, curb, and gutter along Petaluma Avenue, as well as two high visibility crosswalks with in-roadway warning lights.
- New sidewalks, curb, and gutter along McKinley Street.

While we agree that the above work is important to improve conditions for pedestrians, bicyclists, and motorists in the downtown area, the improvements are beyond our fair share of work. We will be reconstructing portions of Brown Street not along our property. We will be building high visibility crossings to parcels we do not own. In sum, our improvements will be mitigating impacts of both past and future developments, yet we are bearing all the costs. In addition to the above work, the project must also pay a \$57,673.29 traffic impact fee. Given the planned transportation benefits detailed above and that they will mitigate issues we are not fully responsible for, we propose the elimination of this fee.

FEE DEFERRALS:

An additional City action to help support the project is the deferral of all or the majority of City development fees, similar to the agreement reached with The Barlow. As a reminder, in 2012 the City Council unanimously approved an agreement in which the developer of the Barlow paid a small amount of fees up front with the vast majority of fees paid over five years in monthly payments, beginning either when the development was 75 percent occupied or on a set date, whichever came first.

A similar agreement for our project could consist of the following:

- The deferral of the development fees until one year after opening or three consecutive months with over 75% occupancy, whichever came first.
- Fees paid in monthly installments after the above date and over the course of five years.

Such an agreement would help the project financially, particularly during the initial months of operation as we build and establish Sebastopol as an over-night stay destination.

SUMMARY AND NEXT STEPS:

To summarize, our proposed fee reduction and deferral program for City consideration includes:

- Reducing the water/sewer fees for our project to reflect our reduced rate of water consumption compared to the typical hotel (\$109,369 reduced by 35% = \$71,090.).
- Reducing our Building Plan Check fee of \$80,020 by 50% to further incentivize solar panel installation and achievement of zero net energy status (\$80,020 reduced by 50% = \$40,010).
- The elimination of the project's transportation impact fee (\$57,673.29) given the planned transportation benefits to be constructed by our team.
- Enacting a fee deferral program similar to that of the Barlow that would include:
 - The deferral of development fees until one year after opening or three consecutive months with over 75% occupancy, whichever came first.
 - Fees paid in monthly installments after the above date and over the course of five years.

Approving this collection of fee reductions and deferrals will help ensure our project moves forward with all planned community and environmental benefits intact. We hope to break ground in early 2019 and as such request this letter and its contents be discussed at the upcoming August 7th City Council Meeting.

Sincerely,

Paolo Petrone

Paolo Petrone (CEO, Piazza Hospitality)