

**MEMORANDUM
DEPARTMENT OF FACILITY SERVICES
COUNTY OF PLACER**

To: Honorable Board of Supervisors

Date: December 9, 2014

From: *MD* Mary Dietrich, Facility Services Director

By: Laurie Morse, Property Manager *LM*

Subject: Howard Johnson's Express Inn Acquisition

ACTION REQUESTED:

1. Authorize the Chairman to execute the Agreement of Purchase and Sale between Peasho Management, LLC and the County of Placer for the acquisition of the Howard Johnson's Express Inn, located at 3489 Lake Tahoe Blvd., South Lake Tahoe, CA, at a purchase price of \$2,350,000.
2. Adopt a Resolution authorizing the Director of Facility Services, or designee, to execute all other documents and take all actions necessary to complete the acquisition based upon the Agreement of Purchase and Sale.
3. Approve a Budget Revision shifting \$2,445,000 in appropriations from the Capital Project 4907 – Miscellaneous Projects to a new Capital Project 4960 – Howard Johnson's Express Inn Acquisition.
4. Authorize the real property to be added to the Master Fixed Asset list following the close of escrow.

BACKGROUND: On June 3, 2014, your Board authorized staff to commence negotiations on purchase and sale transactions for the purpose of acquiring Tourist Accommodation Units (TAUs) that would have the potential to make significant progress in securing needed commodities. Placer County's interest in acquiring TAUs is two-fold: 1) Meet the environmental goals of the Tahoe Regional Planning Agency's (TRPA's) 2012 Regional Plan, and 2) Meet economic needs of the Placer County Tahoe Basin Town Centers. TRPA's Regional Plan requires reduction of development outside Town Center areas in order to focus more environmentally superior pedestrian-transit oriented mixed-use development within Town Centers. In order to achieve this goal, a capstone improvement to the 2012 Regional Plan provides additional incentives for the demolition of blighted lodging stock and restoration of fragile stream environment zones (SEZs), but only when the old units are transferred to Town Centers. The incentive provides two bonus units for each unit purchased, demolished, restored and transferred, thereby delivering a total of three units for every one purchased. There are a limited number of blighted lodging properties on SEZ lands in Placer County in comparison with the City of South Lake Tahoe, and currently no lodging properties in an SEZ are on the market in Placer County.

Because Placer County's Area Plan will tier off TRPA's Regional Plan, environmental policies and goals to be achieved are quite consistent. The draft Area Plan policies include:

- Encourage redevelopment and revitalization of the County's Kings Beach and Tahoe City Town Centers (Town Centers) in a manner that improves environmental and economic conditions and creates a more sustainable and less auto-dependent development pattern;
- Encourage the development and redevelopment of tourist accommodations in the Plan Area by removing barriers to hotel development (or redevelopment) and promoting opportunities for public-private partnerships; and
- Encourage the transfer of development rights from environmentally-sensitive lots and outlying residential areas to Town Centers.

In addition to attaining environmental goals, Placer County also desires to improve economic conditions in the Tahoe basin. Tahoe City and Kings Beach have suffered in recent decades due to the lack of new or upgraded mid-range to high quality lodging product, which has had a detrimental impact both in terms of the economic and traffic impacts on the environment. Of the 11 transient lodging units currently operating in the Town Centers, most were built between 1949 and 1959, with the most recent project completed in 1960. Yet communities such as Olympic Valley and Northstar just outside the Tahoe basin have attracted significant growth and investment during the same period, especially in the last decade, and are able to appeal to a full spectrum of visitor's needs in pedestrian-oriented villages.

According to the September 2013 "Economic Significance of Travel to the North Lake Tahoe Area" report commissioned by the North Lake Tahoe Resort Association, overnight hotel/motel stays generate nearly twice the daily spend per visitor as the day visitor. So, while visitors staying in hotels, motels and bed & breakfasts make up only 28 percent of the total visitor days, they comprise 42 percent of all visitor spending. This means that overnight visitors spend more money and generate fewer environmental impacts than day visitors.

With these facts in mind, your Board approved allocation of resources to complete an economic analysis and business plan to attract and incentivize investment in the Tahoe Basin Town Centers. Initial findings presented to your Board in October demonstrated that a variety of elevated cost factors have led to investment stagnation and shrinkage of what was once a thriving tourist economy in Placer County's Tahoe Basin communities. Those factors include: a broken commodity-based development system (including cost, availability and onerous TRPA code requirements), high cost of land, high cost of providing an adequate parking supply, lack of approval process predictability, and length of time to approve projects. The requirement of lodging projects to accumulate TAUs, and associated holding costs, are highlighted as crucial challenges, and one in which public participation would provide a significant incentive.

With the professional brokerage services of Hester Real Estate Tahoe Properties (Hester), staff subsequently investigated several hotel properties in South Lake Tahoe resulting in identification of a 59-unit hotel property that was listed for sale. This 59-unit hotel, known as Howard Johnson's Express Inn is located at 3489 Lake Tahoe Blvd., South Lake Tahoe, in El Dorado County, comprising 20,340± square feet on a 1.16± acre parcel identified as APN 027-020-10-100 (see Exhibit A - Property). Since this Property is located within an SEZ, it is an opportunity for the County to secure 177 TAUs through the TRPA Regional Plan's 3:1 bonus incentive program. Staff is optimistic that approval from the TRPA and the City of South Lake Tahoe (SLT) can be obtained which would allow these TAUs to be transferred and made available for Placer County development projects once the hotel improvements are demolished and the Property is restored to open space condition. Preliminary discussions with the California Tahoe Conservancy (CTC), who has implemented several such SEZ property acquisition and

restoration projects, indicate its willingness to partner with the County by subsequently acquiring the Property from the County and performing the restoration project.

Staff delivered a Non-Binding Letter of Intent (LOI) to the Property's owner, Peasho Management, LLC (Seller) on July 28, 2014 and received the Seller's counter proposal on August 8, 2014. After several rounds of counter proposals, a final LOI was accepted by both parties. Since that time staff has successfully negotiated an Agreement of Purchase and Sale (Agreement) with the Seller which incorporates the terms contained in the LOI. This includes a key provision that provides for an 180-day Investigation Period during which the County can perform essential due diligence regarding project contingencies prior to proceeding with the acquisition (see Investigation Period below). During this Investigation Period, Economic Development and CEO staff will finalize the Tahoe Town Center Economic Development Incentives Strategy (Strategy) and create a business plan for review by your Board that will prioritize and provide a framework for selected Strategy recommendations. It is anticipated that the Strategy will identify the need for Placer County to allocate General Fund resources to seed incentive tools, such as TAUs. Detailed business plan recommendations are also likely to include identification of other existing and future funding sources, holding cost analysis, governance, creation of a commodity and incentive banking and distribution system, including criteria, and repayment methodologies for developers who access such commodities and incentives.

AGREEMENT TERMS. The Agreement being recommended for your Board's approval today includes the following key provisions:

Purchase Price and Initial Deposit: The proposed Agreement establishes the Purchase Price for Howard Johnson's Express Inn as \$2.35 million which excludes personal property (furniture and equipment). Within 10 days of a fully executed Agreement, the County must remit a \$40,000 Initial Deposit.

Investigation Period: The Agreement provides a 180-day investigation period during which the County can perform essential due diligence regarding the project contingencies prior to proceeding with the acquisition. Within the first 60 days from the Agreement's Effective Date, the County must investigate the Property's title, zoning, and physical condition. Staff must also review business and operating records during these first 60 days to ascertain the viability of operating the hotel as a strategy to offset TAU acquisition/holding costs. The County has the entire 180-day period to: evaluate the financial feasibility of the proposed acquisition (e.g., acquisition costs, holding costs, net income, agency costs, financing costs); receive key approvals from the TRPA and SLT to allow the 3:1 bonus and transfer of the TAUs to Placer County; reach an agreement with the CTC to convey the Property for subsequent restoration; appropriate purchase funds; approve of the Property's environmental condition; and obtain an appraisal to support the Purchase Price. Once the County has accepted all contingencies, a \$40,000 Additional Deposit must be deposited into Escrow.

Deposits: Both the Initial Deposit and the Additional Deposit are fully refundable should the County cancel the Agreement. Alternatively, the deposits will apply to the Purchase Price upon Close of Escrow.

Personal Property: Staff was successful in negotiating the County's right to use Seller's personal property, at no cost, for up to 3 years should your Board decide to operate the hotel.

After Close of Escrow or after the County's discontinuation of operation (following Close of Escrow), the Seller must remove personal property within 5 days.

Close of Escrow: The Agreement provides for a 30-day escrow period and during such time the Seller must ensure that the Property's physical, business and operational condition is significantly in the same condition as it was when the County cleared contingencies. The Agreement allows the Seller to extend the closing to September 8, 2015, by giving written notice to County within five days after the end of the Investigation Period. This one-time option for Seller to extend closing shall be allowed, if and only if, County has the approval, in writing, from all parties necessary, including TRPA, SLT and the CTC.

Additional Provisions: Several standard agreement terms are also addressed in the Agreement. These include timing for Close of Escrow, responsibilities for payment of escrow and title costs, Seller's delivery of documents related to the Property, County's right of entry to perform its due diligence, Seller's warranties and representations, broker representation and confidentiality provisions.

To enter into the Agreement with the Seller and proceed with the necessary due diligence as outlined above, your Board must approve the Agreement and adopt the attached Resolution authorizing the Director of Facility Services to execute all documentation and take all other actions necessary to process and complete this transaction. The Agreement has been reviewed and approved by County Counsel. This transaction is allowed pursuant to Government Code Section 25350 that provides for the acquisition of real property interests. This action has been publicly noticed pursuant to this Code.

ENVIRONMENTAL CLEARANCE: The actions requested of your Board are exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to Section 15301 Existing Facilities because there is no activity taken by the County that would result in an expansion of the existing use. Additionally, should your Board's action to approve the Agreement result in a transfer of the Property to the County, this action is exempt from CEQA pursuant to Section 15325(a) which provides for transfers of ownership of interests in land in order to allow restoration of natural conditions, including plant or animal habitat.

FISCAL IMPACT: The total cost for acquisition is estimated at \$2,445,000, including the purchase price, escrow, title, legal, professional services and project management expenses. Approval of the Budget Revision will provide sufficient funding for this project.

ATTACHMENTS: EXHIBIT A – PROPERTY
RESOLUTION
BUDGET REVISION

AVAILABLE FOR REVIEW AT THE CLERK OF THE BOARD'S OFFICE: AGREEMENT OF PURCHASE AND SALE

CC: COUNTY EXECUTIVE OFFICE
AUDITOR – CONTROLLER

MD/LM/SV

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Before the Board of Supervisors County of Placer, State of California

In the matter of: A Resolution authorizing the Director of Facility Services, or designee, to take all actions necessary to acquire Howard Johnson's Express Inn, located at 3489 Lake Tahoe Blvd., South Lake Tahoe, CA, identified as El Dorado County APN 027-020-10-100.

Resolution No: _____

RESOLUTION was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held _____, 2014 by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Chair, Board of Supervisors

Attest: Clerk of said Board

WHEREAS, Peasho Management, LLC (Seller) currently owns the Howard Johnson's Express Inn, a 1.16 acre, 20,340 square foot, 59-unit hotel located at 3489 Lake Tahoe Blvd, South Lake Tahoe, CA, identified as El Dorado County APN 027-020-10-100 (Property), which contains 59 Tourist Accommodation Units (TAUs); and,

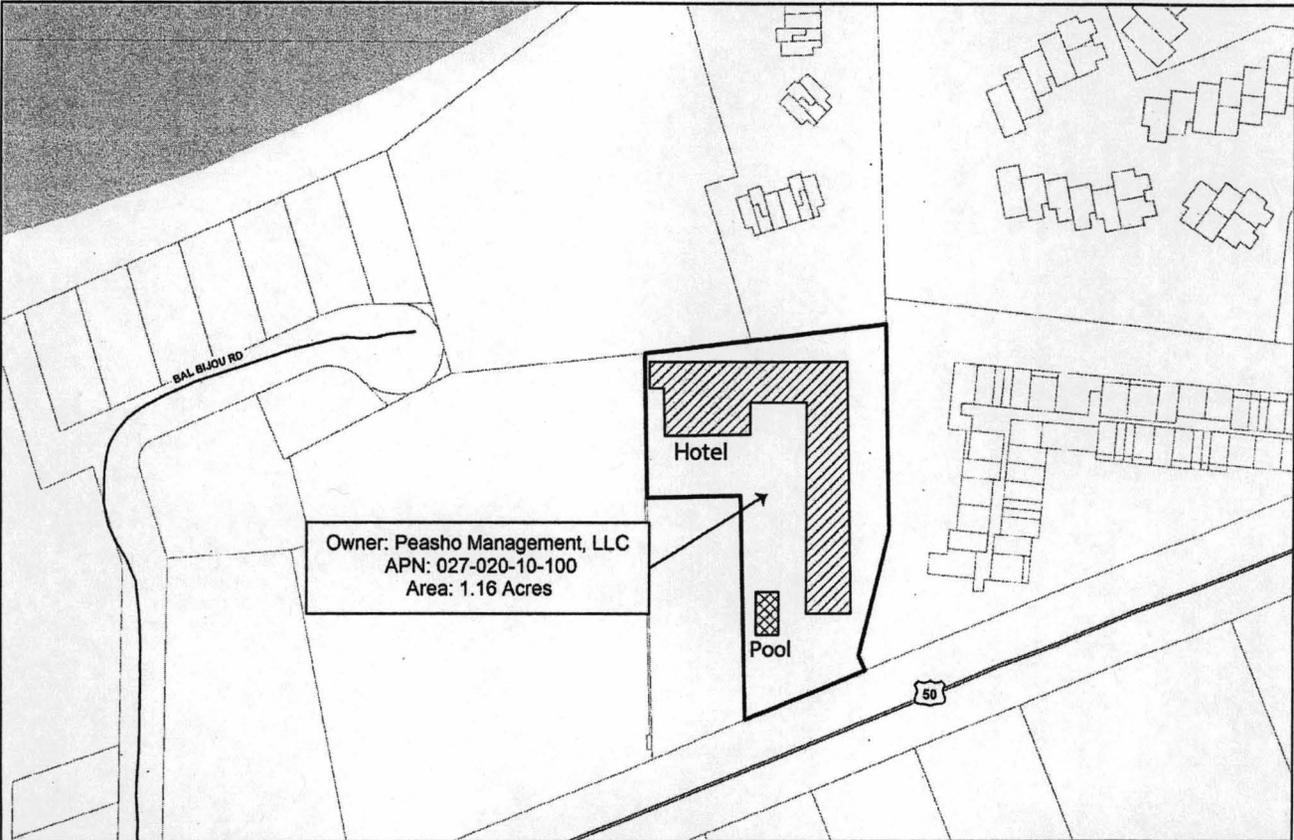
WHEREAS, the County desires to secure commodities necessary to incentivize economic development in the Tahoe Basin's Kings Beach and Tahoe City town centers; and,

WHEREAS, Seller desires to convey the Property to the County of Placer (County) for a purchase price of \$2.35 million, excluding personal property; and,

WHEREAS, because this property is located in a Stream Environment Zone, the acquisition of this property could realize a 3:1 TAU bonus incentive following receipt of approval by the Tahoe Regional Planning Agency, resulting in a total of 177 TAUs, and, with approval of the City of South Lake Tahoe, these TAUs could be transferred and available for Placer County development projects.

NOW THEREFORE, BE IT RESOLVED, that the Board of Supervisors does hereby authorize Chairman of the Board to execute the Purchase and Sale Agreement with the Seller and further authorizes the Director of Facility Services, or designee, to execute on behalf of the County of Placer all documentation and to take all other actions necessary to complete this property transaction; and does hereby consent to the acceptance and recordation of the deed for said Property, subject to approval by County Counsel.

EXHIBIT A – PROPERTY



PLACER COUNTY

PAS DOCUMENT NO.

Facility Service to do journal to transfer cash

BUDGET REVISION

POST DATE:

DEPT NO.	DOC TYPE	Total \$ Amount	TOTAL LINES
12	BR	9,780,000.00	4

Cash Transfer Required

Reserve Cancellation Required

Establish Reserve Required

12/3 Auditor-Controller

County Executive

Board of Supervisors

ESTIMATED REVENUE ADJUSTMENT											APPROPRIATION ADJUSTMENT										
DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ 3	PROJ.	PROJ. DTL	AMOUNT	DEPT NO.	T/C	Rev	Fund	Sub Fund	OCA	PCA	OBJ 3	PROJ.	PROJ. DTL	AMOUNT
											12	014		140		991078	04960	4151			2,445,000.00
											12	034		140		991078	04960	4151	704960	010000	2,445,000.00
											12	015		140		991078	04907	4151			2,445,000.00
											12	035		140		991078	04907	4151	704907	010000	2,445,000.00
TOTAL											TOTAL										
0.00											9,780,000.00										

REASON FOR REVISION: TO SHIFT APPROPRIATIONS FROM MISC PROJECTS 04907 TO A NEW CAPITAL PROJECT 04960-HOWARD JOHNSON'S EXPRESS INN ACQUISITION.

Prepared by Valerie Bayne Ext 6803
 Department Head Valerie Bayne
 Board of Supervisors _____

Date: 12/9/14
 Page: _____

Budget Revision # _____ FOR INDIVIDUAL DEPT USE

