

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	March 10, 2014
	<b>Agenda Item No.</b>	<b>19</b>
	<b>Roll Call No.</b>	<b><u>14-0383</u></b>
	<b>Communication No.</b>	<b><u>14-109</u></b>
	<b>Submitted by:</b>	<b>Matthew A. Anderson, Assistant City Manager</b>

**AGENDA HEADING:**

Approving the proposed preliminary district plan for the Iowa Convention and Entertainment Reinvestment District and the submission of a pre-application to Iowa Economic Development Authority (IEDA) for provisional approval of the district.

**SYNOPSIS:**

In 2013, the Iowa Legislature enacted the Iowa Reinvestment District Act (the "Act") which establishes a program administered by the IEDA that allows certain state hotel and motel, and sales and use tax revenues to be reinvested in designated reinvestment districts. The IEDA Board has announced that it will fund projects that are most likely to improve the quality of life, create and enhance unique opportunities, and substantially benefit the municipality, the surrounding region, and the state as a whole. The Act and the administrative rules adopted by the IEDA require the submission of a pre-application for provisional approval of a proposed reinvestment district. The submission is to come from the City in which the district is located.

The City of Des Moines and Polk County have long envisioned an Iowa Events Center (IEC) headquarters hotel that would not only strengthen Des Moines' position as a regional convention destination, but could serve as a bridge between the activity in the downtown core and the Iowa Events Center a few blocks north of the core. While staff originally envisioned a District centered on the proposed hotel, the recent announcement of a full service Hy-Vee grocery store directly down 5<sup>th</sup> Street from the hotel site has allowed a broader vision of the District. Des Moines' proposed reinvestment district clearly articulates the culmination of this linkage with the headquarters hotel project at the north end of the district boundary and the mixed-use Hy-Vee anchored project at the south.

The City of Des Moines has worked collaboratively with Polk County, Des Moines Convention and Visitors' Bureau (CVB), Downtown Community Alliance, and Des Moines Redevelopment Company (DMRC) on the selection of a preferred developer for an Iowa Events Center headquarters hotel and the creation of a reinvestment district pursuant to the Act. After a thorough RFQ and RFP process, the above team selected Mortenson Development, Inc. (Thomas Lander, Vice President and General Manager, 700 Meadow Lane North, Minneapolis, MN 55422) as the preferred developer of a proposed 450 room hotel to be located at the NE corner of 5<sup>th</sup> Street and Park Street currently owned by DMRC.

Staff recommends approval of the District and submission of the Plan to the IEDA for potential State assistance to provide financial support for the activities within the District.

**FISCAL IMPACT: NONE**

The Act is a State of Iowa funded economic development program and there is no fiscal impact to the City associated with the approval of the District and submission of the Plan to the IEDA Board.

**ADDITIONAL INFORMATION:**

The CVB has identified that the IEC's competitive position can be greatly improved with the addition of a headquarters hotel. The hotel would allow IEC to better compete with convention centers around the Midwest in attracting regional and national conventions, trade shows, and sporting events. Polk County and the City partnered to attract a headquarters hotel in 2007, but were unsuccessful in closing a large financial gap with their combined resources. The new Act provides an opportunity to introduce the State of Iowa as a project partner to bring forward this important project.

The proposed \$130 million project would include demolition and environmental remediation, construction of approximately 450 hotel rooms, approximately 15,000 square feet of ballroom space, one level of underground parking, a full service restaurant and new skywalk corridors. Mortenson Development has developed 85 hotel projects across the U.S. and Canada. Detailed urban design, architecture, programming, financing, and operations aspects will be clarified after IEDA's preliminary project approval in June. Should the hotel move forward, it is anticipated that the City-owned 5<sup>th</sup> and Watson Powell parking garage will be a major source of parking for hotel guests. The pre-application identifies a potential improvement project at the parking garage to include the following upgrades: LED lighting, cladding, signage, stairwell repairs, skywalk mechanical, skywalk-sidewalk connectivity, and improved skywalk finishes. This potential project will be studied further and presented for City Council review at a later date.

On February 24, 2014, the City Council selected a joint venture team of Knapp Properties and Hy-Vee to develop a 2.3 acre City-owned parking lot located at Court Avenue and 5<sup>th</sup> Street. The project would include a 35,000 square foot full service grocery store, a minimum of 60 market rate apartments and a public parking garage. We feel that these two (2) anchor projects, along with the redevelopment of the Randolph Hotel and future redevelopment potential of the 5<sup>th</sup> and Walnut parking garage site clearly meets the State of Iowa's intent of assisting transformative projects that will uniquely create economic development opportunities and increase commerce.

The total State request in the pre-application is approximately \$34 million. This figure represents the combined eligible State tax generation from the Iowa Events Center Hotel, Court Avenue Hy-Vee, and new retail venues at the renovated Randolph building. After the IEDA Board announces the award levels (no later than June 30, 2014), City staff will work with Polk County and Mortenson to identify alternate funding sources to fill any remaining financing gap. City staff will also work with the Knapp/Hy-Vee team to finalize their project financing.

The City's financial participation has not yet been determined and will require City Council review at a later date. The current improvements on the proposed hotel site are only assessed at \$400 and the Hy-Vee site is currently non-taxable. Therefore, it is anticipated that project-generated tax increment will be sufficient to assist with the City's contribution to either project.

**Iowa Reinvestment Act Parameters:**

- Up to 25 contiguous acres (streets or other rights-of-way can be used to connect parcels);

- District is made up of eligible “Projects”: vertical improvement constructed or substantially improved within the District;
- Any development to generate tax revenues or utilize tax revenues from the program, must be a “Project” within the District;
- Projects can include new retail establishments, hotels and other economic / community projects;
- Funds don’t need to be reinvested in the tax generating projects, can be used for other community development and quality of life projects;
- At least one project must have a capital investment that reaches a minimum of \$10 million; and
- Maximum benefit capped at 35% of total capital investment in the District.

#### District Requirements:

- Provide a “Project Plan” for each project
  - Description, budget, timeline, financing
  - Hotel/motel and sales tax projections (should substantiate the funding request)
  - Feasibility study based on financial statements and clearly articulated assumptions
  - Address economic impact and unique nature
- Detailed analysis of economic impact of the District including:
  - Analysis of financial benefit of the District to the economy of the state and municipality
  - One (1) or more market areas in which the district can reasonably expect to have substantial impact
  - Assess the fiscal and financial impact of the district on business or other economic development projects in the market area
  - Address “net impact” regionally and statewide
  - Conducted by an independent economist
- Justify and demonstrate that the District meets the definition of “unique nature”
  - Substantially distinguish the projects from other developments in the state
  - Permanently transform the community
  - Contribute substantially to state’s economy or quality of life more than other similar projects in the state

The accompanying District Plan (on file with the City Clerk’s Office) addresses all of the above requirements and presents projects that will have a significant impact on the local and state economies.

#### Process:

- Pre-Application due March 15, 2014
- Application scoring by scoring committee
  - Committee appointed by IEDA director; mix of Board members and staff
- Decision on district approval and determination of amount of maximum funding by IEDA Board
- Provisional approval announced by June 30
  - Provisional approval is designed for practical feedback but is not binding; designed to allow for changes in projects and districts

- Final application due by March 2015
  - Re-evaluated and rescored
  - Maximum benefit amount awarded
- Following final approval
  - District created by City Ordinance
  - Enter into basic performance agreement with IEDA

**PREVIOUS COUNCIL ACTION(S):**

Date: February 24, 2014

Roll Call Number: [14-0329](#)

Action: [Selection](#) of Knapp Properties/Hy-Vee as the preferred developer to purchase and redevelop 420 Court Avenue. ([Council Communication No. 14-080](#)) Moved by Coleman to acknowledge that this is the first step of the process, refer to the City Manager to develop a communication strategy and to submit it to Council for their review that will keep the Mayor and Council apprised of the negotiations and development plan, and to adopt the recommendations contained in Council Communication No. 14-080. Motion Carried 5-1-1. Nays: Moore. Absent: Cownie.

**BOARD/COMMISSION ACTION(S): NONE****ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- Staff recommendation of preliminary terms of agreement.
- City ordinance creating an Iowa Reinvestment Act District.
- Urban Design Review Board review and recommendations of project design and financing.
- Development agreement between the City and Mortenson Development for the headquarters hotel.
- Development agreement between the City and Knapp Properties/Hy-Vee for redevelopment of the 420 Court Avenue.
- Agreement between the City and IEDA.

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