

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	November 9, 2015
	Agenda Item No.	54
	Roll Call No.	<u>15-1913 15-1914 15-1915</u>
	Communication No.	<u>15-602</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Approving a three-party development agreement with Iowa Events Center (IEC) Hotel Corporation and Polk County for financial assistance for development of a convention headquarters hotel connected to the IEC, an acknowledgement of Banker’s Trust’s loan commitment letter to DSM Convention Hotel LLC, amendments to the joint City/County urban renewal agreement, creation of the Iowa Convention & Entertainment Reinvestment District (District), a contract with the Iowa Economic Development Authority (IEDA) for collection of funds generated by the District, and demolition of skywalk bridge 4J-4K.

SYNOPSIS:

The City of Des Moines and Polk County have long envisioned an 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 IEC a few blocks north of the core. The Polk County-owned site at the northeast corner of 5th & Park Streets and south of Community Choice Credit Union Convention Center has been secured for a convention hotel and provides skywalk access to the IEC, connectivity to downtown amenities, and space for a 330-room hotel with meeting and banquet facilities. A nonprofit, IEC Hotel Corporation, has been formed by Polk County to own and operate the hotel; they have secured Hilton as the hotel flag. There is broad community support participating in the funding for this \$101M project (\$111 with required reserves), including Polk County and members of the business community.

A complex incentive package has been negotiated to meet the needs of the convention headquarters hotel while maintaining a level of City financial participation that is commensurate with City funding levels in recent hotel projects in downtown. At the August 24, 2015 meeting, Council approved a joint agreement with Polk County that allowed for a concurrent urban renewal area over the convention hotel site within the current Metro Center Urban Renewal District. The amendment to this agreement adds security to the TIF funding stream necessary to fund the hotel’s construction. DSM Convention Hotel, LLC, the entity formed by The Weitz Company to design and build the hotel, has recently received a Loan Commitment Letter from Banker’s Trust to provide construction period financing for the project.

Funding from the State’s recently-enacted Iowa Reinvestment Act (IRA) is key to implementing the convention hotel. In 2013, the IRA established a \$100M program administered by the IEDA that allows certain state hotel/motel, and sales tax revenues generated by new business to be reinvested in designated reinvestment districts for 20 years from the opening of the largest investment in the District. The IRA program prioritized funding for 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. In June 2015, the City secured \$36.4M funding from the inaugural round of IRA allocations. In the application submitted to IEDA in February 2015, the City presented a

23.5-acre District, which included a convention hotel, the Randolph Hotel renovation, the mixed-use Hy-Vee development at 420 Court, renovation of the 5th and Keo parking ramp, and associated streetscape improvements that strengthen the connection between the IEC and other places in downtown. Formation of the Iowa Events & Entertainment Reinvestment District and approving the contract with IEDA are necessary for collecting the IRA funds.

FISCAL IMPACT:

Amount:

- \$9.2M in GO TIF Bonds (Par Amount: \$9,710,000 includes \$536,000 in capitalized interest).
- \$5M in GO TIF Annual Appropriation Bonds (Par Amount: \$5,535,000 includes \$234,000 in capitalized interest).
- \$4M in Urban Renewal Revenue Bonds that are secured with a first-lien on the IRA (State funding). Local investors will purchase this debt.
- City guarantee of \$5M of the \$20M EB-5 loan due in six (6) years (issue up to \$5M in new GO TIF Bonds to pay off a portion of the EB-5 financing, if mortgage refinancing is not possible).
- Up to \$29,151,850 IRA funding to be passed through to IRA loan holders.

Funding Source: see above

ADDITIONAL INFORMATION:

The Greater Des Moines Convention and Visitors' Bureau (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 IRA provides an opportunity to introduce the State of Iowa as a project partner to bring forward this important project.

The City of Des Moines has worked collaboratively and extensively with Polk County, CVB, Downtown Community Alliance, Des Moines Redevelopment Company, and the State of Iowa on identifying funding sources for the hotel. The State encouraged use of EB-5 funding, which provides a low-cost solution to a portion of the project. A nonprofit ownership structure offers the best fit for this project. Private ownership required institutional investors seeking a high a rate of return. The nonprofit structure allowed for the least expensive form of project financing and profits from the hotel can be used to accelerate the retirement of project debt and eventually returned back to the community, as opposed to a private entity. Omaha, Austin, Coralville, and Columbus, Ohio, are a few examples of cities that have nonprofit ownership structures in place. Council appointed two (2) of the seven (7) members of the IEC Hotel Corporation Board of Directors, Allen McKinley and Grant Friesth, to the Board in May 2015.

The IEC Hotel Corporation Board has met several times over the past six (6) months. Notable actions include:

- Selection of DSM Convention Hotel, LLC (the entity formed by the Weitz Company) to design-build the hotel;

- Election of officers (Gerard D. Neugent: President, Mike Galloway: Vice President, Susan Voss: Secretary, Adam Kaduce: Treasurer);
- Approval professional services agreements for bond counsel and hotel management consulting;
- Approval of Board policies; and
- Approval of a management and operations term sheet with Hilton Worldwide, Inc.

The Board reviewed a schematic design presentation of the hotel prepared by DLR Group and RDG at their September 9, 2015 meeting. Current projected costs exceed the budget by \$2M to 3M. Design review is ongoing with Hilton. Cost reductions are being pursued while still complying with Hilton space and design standards and our community's expectations for high quality architecture and building construction.

The proposed \$101M hotel project (\$111M with required reserves) includes demolition of an existing office building and existing skywalk bridge, environmental remediation, construction of approximately 330 hotel rooms, approximately 17,000-square-foot ballroom/meeting space, one (1) level of underground parking, a small surface parking lot, a full-service restaurant and new skywalk corridors. The City will construct a replacement skywalk bridge across Park Street.

Sources and uses are proposed as follows. These will be adjusted as financing and design continue.

Update for City of Des Moines	
Uses of Funds	
During Construction of project	
	<u>Current</u>
Construction	67,018,384
Architectural	4,630,411
FF&E/IT	14,381,670
Bank fees	754,892
Interest during construction	4,158,667
Insurance	115,351
EB-5 fees	230,300
Surety bonds	260,000
Contingency	3,727,780
Land & Demo	6,000,000
County financing fees	400,000
Total	101,677,455
At completion of project, Financing of Acquisition	
	<u>Current</u>
Purchase price	101,677,455
Bond reserves	4,827,804
Est. Professional fees	2,488,236
Operating & Working Capital	2,000,000
Total	110,993,495
Sources of Funds	
During Construction of project	
	<u>Current</u>
Loan Series A	33,000,000
Loan Series B	10,729,393
Loan Series C	14,200,000
Loan Series D	16,785,917
EB-5	20,000,000
County front design costs	962,145
County cash Site Acq & Demo	6,000,000
Total	101,677,454
At completion of project, Financing of Acquisition	
	<u>Current</u>
Senior Lien Hotel Revenue Lease	33,000,000
Eb-5	20,000,000
Senior Lien IRA Lease	13,239,411
Senior Lien IRA City (Biz Community) bond	4,000,000
Subordinate IRA lease:	2,245,998
Facility Fee Lease	9,081,836
City TIF contribution	14,200,000
Grayfield grant	900,000
Key money	3,000,000
County cash Site Acq & Demo	6,000,000
County contribution - reserves	5,327,804
Total	110,995,049

Recent updates to the funding sources include:

- \$36.4M award to the City from IEDA from the IRA funding program (of the \$39.4M projected earnings);
- Increased utilization of the IRA funding for the hotel (from \$25M to \$29.15M);
- Award of a \$1M Grayfield Grant from the IEDA;
- Increased key money commitment from Hilton (from \$1.75M to \$3M); and
- Polk County’s contribution to the reserve funds required at acquisition.

The Economic Impact Analysis that was a part of the final application for IRA funding points to significant community benefits with implementing a headquarters convention hotel. The analysis projects a \$35M economic impact in the first year alone and \$1.2B in the first 20 years that the hotel is in operation. The addition of a hotel is expected to bring an additional 3M visitors to Iowa and create 1,000 temporary construction jobs and 360 permanent jobs. Projections also indicate that room nights taken by the convention hotel are more than replaced by new demand driven by increased business at the IEC. In other words, by capturing lost event business for IEC, the headquarters convention hotel generates more demand for room nights than the new hotel can accommodate, which leads to increased demand at existing hotels.

The schedule for the hotel is as follows:

Abatement at existing office building	October – December 2015
Design Development & Construction Document preparation	October 2015 – March 2016
Finalize development agreement (IEC Hotel Corporation-City of Des Moines-Polk County)	November 9-10, 2015
Final design review by City's Urban Design Review Board	November 2015 – Jan 2016
Demolition of existing office building and skywalk bridge	December 2015 – Feb 2016
Secure Guaranteed Maximum Pricing (GMP)	January 2016
Hilton design review	January 2016
Construction	March 2016 – Dec 2017
Installation of furnishing, fixtures, and equipment	Dec 2017 – March 2018
Hotel opening	March 2018

PREVIOUS COUNCIL ACTION(S):

Date: August 24, 2015

Roll Call Number: [15-1464](#)

Action: [Joint](#) Agreement authorizing Polk County to proceed with the Iowa Events Center Urban Renewal Area. ([Council Communication No. 15-475](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: May 18, 2015

Roll Call Number: [15-0803](#)

Action: [Appointing](#) Grant Friesth to the IEC Hotel Board of Directors. Moved by Coleman to adopt. Appointment to expire December 31, 2016. Refer to nonprofit to ensure that not just paid consultants, but local marketplace experts are advised for the design and to create the revenue projection and report back to Council how this will be accomplished. Motion Carried 7-0.

Date: May 4, 2015

Roll Call Number: [15-0734](#)

Action: [Appointing](#) Allen McKinley to the IEC Hotel Board of Directors. Moved by Gatto to adopt. Motion Carried 7-0.

Date: April 6, 2015

Roll Call Number: [15-0629](#)

Action: [On](#) Urban Renewal Agreement for sale of Land for Private Development, with 420 Court Avenue, LLC, for the sale and redevelopment of Disposition Parcel 99C at 420 Court Avenue, in the Metro Center Urban Renewal Area (Hy-Vee project). ([Council Communication No. 15-178](#)) Moved by Gatto to adopt. Motion Carried 6-1.

Date: February 23, 2015

Roll Call Number: [15-0269](#)

Action: [Approving](#) preliminary terms of agreement with IEC Hotel Corporation for financial assistance for development of a headquarters hotel connected to the Iowa Events Center and approving the final application to Iowa Economic Development Authority for funding from the Iowa Reinvestment Act for the Iowa Convention & Entertainment Reinvestment District. ([Council Communication No. 15-094](#)) Moved by Coleman to adopt, and to refer to the City Manager regarding: 1. Skill set necessary for members of the nonprofit board of IEC Hotel Corporation. 2. How the City's interests are protected, and if refinancing takes place, how taxpayer's are protected. 3. Strategy for the City to have a reserve or "nest egg", funded by available hotel/motel taxes for use in the event the City is required to fund a shortfall in the reinvestment district revenues. Motion Carried 7-0.

Date: February 23, 2015

Roll Call Number: [15-0289](#)

Action: [On](#) competitive bid process for sale and redevelopment of Disposition Parcel No. 99C at 420 Court Avenue in the Metro Center Urban Renewal Project Area and receipt of redevelopment proposal from 420 Court Avenue, LLC (Court Avenue Hy-Vee), (4-6-15). ([Council Communication No. 15-075](#)) Moved by Coleman to adopt. Motion Carried 7-0.

Date: January 12, 2015

Roll Call Number: [15-0075](#)

Action: [Preliminary](#) terms of agreement and authorize City Manager to proceed with the necessary documents for a developer-initiated redevelopment proposal with 420 Court Avenue, LLC (a joint limited liability company formed by William C. Knapp, LC and Hy-Vee, Inc.) for the purchase and redevelopment of Disposition Parcel No. 99C/ Metro Center Urban Renewal Area located at 420 Court Avenue. ([Council Communication No. 15-019](#)) Moved by Hensley to receive, file and approve the preliminary terms of agreement set forth in Council Communication No. 15-019 to direct the City Manager's Office to proceed with negotiation of a formal agreement with 420 Court Avenue, LLC to be incorporated into a developer-initiated proposal, consistent with the terms set forth in the Council Communication No. 15-019. Motion Carried 7-0.

Date: March 10, 2014

Roll Call Number: [14-0383](#)

Action: [Proposed](#) Preliminary District Plan for the Iowa Convention and Entertainment Reinvestment District and the submission of a pre-application to the IEDA. ([Council Communication No. 14-109](#)) Moved by Coleman to adopt. Motion Carried 7-0.

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.

Date: August 26, 2013

Roll Call Number: [13-1366](#)

Action: [Urban](#) Renewal Development Agreement with Randolph Apartments Limited Partnership for the redevelopment of the Hotel Randolph, Earl & Le Bosquet and Youngerman Block Buildings located at the northwest corner of 4th Street and Court Avenue. ([Council Communication No. 13-447](#)) Moved by Hensley to adopt. Motion Carried 6-1. Absent: Meyer.

BOARD/COMMISSION ACTION(S):

Date: November 3, 2015

Board: Urban Design Review Board

Action: Recommended that the level of financial assistance funded from tax increment revenues proposed for the IEC convention hotel are reasonable and appropriate.

Date: September 22, 2015

Board: Urban Design Review Board

Action: Approved preliminary design noting Board comments as follows:

The Board was complementary of the design team's work on the project. UDRB's comments included requests for additional study of proposed materials (concern that there may be too much precast proposed), better integration of the skywalk bridge, corridors, and sidewalk entry, further consideration of the access, entry and character of the meeting/banquet space, additional attention on the design of all elevations of the project (they are all visible to the public), ensuring safe access to parking for service employees, creating a quality streetscape along Park Street to the Events Center, and consideration of adding a B-Cycle station.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Consideration of trust agreement with IEC Hotel Corporation and Polk County for distributing IRA funding.
- 17th Amendment to Metro Center Urban Renewal Plan to adjust debt amounts required to net the financial commitment.
- Assignment of the development agreement to DSM Convention Hotel, LLC for the hotel construction period.
- Bond proceedings relating to financial commitment.
- Consideration of skywalk agreement with IEC Hotel Corporation, Polk County, and/or DSM Convention Hotel, LLC including actions necessary to reconstruct Park Street skywalk bridge (bridge 4J-4K).
- Urban Design Review Board final design review and Council approval of Conceptual Development Plan for the IEC Hilton hotel.
- Plan and Zoning Commission review any right-of-way encroachments of IEC Hilton hotel.
- City guaranty of a portion of the EB-5 funding.
- Disposition Proceeds Agreement with Polk County to outline sharing of any excess proceeds upon sale of hotel.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the first floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.