

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

00-025

SYNOPSIS -

AGENDA:

JANUARY 24, 2000

SUBJECT:

SELECTION OF
PREFERRED
DEVELOPER FOR
7TH & GRAND
PARKING
PROPERTY

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

ERIC A. ANDERSON
CITY MANAGER

The City Council directed staff to obtain additional information to analyze the two proposals made to the City for the purchase of the 7th & Grand parking garage property. In the past week, staff has met with both parties:

- City Center Corporation (President, John Ruan III, 666 Grand Ave., Des Moines); and
- Robert J. Conley J. Investment Group (President, Robert Conley, 1050 6th Ave., Des Moines).

In addition to the meetings, both parties then provided written responses as follow up to confirm the terms and conditions of their proposals. Both proposals meet the criteria approved by the Council for the sale.

Based on additional review of the information, staff is recommending the City Center Corporation proposal based on its stronger response to the following:

Completion of due diligence items. City Center has undertaken almost all of the typical due diligence items required for this project, including the needed engineering report to determine the hotel structural requirements. The Conley proposal does not show as much progress and will require more time to complete the due diligence items. To the extent that due diligence has not been done, the progress of the project is subject to question and delay is more likely. Accordingly, staff finds the City Center proposal to be stronger in being able to proceed with the project expeditiously.

Conditions on Purchase Price Payment.
--Good Faith Deposit: The City Center proposal states it is willing to make a non-refundable \$50,000 good faith deposit after execution of the

sales contract for the property rather than at the time of being selected the developer. The Conley proposal states it will make the good faith deposit on or by February 1, 2000.

--Down Payment: The Conley proposal states it will make the \$1.3 million downpayment at the time of the sales contract is executed with the proviso the downpayment is held in escrow until the property is conveyed rather than providing it on an immediately-available basis. The City Center proposal will make the downpayment at the required time with no escrow requirement.

Staff finds both proposals do not meet the desired conditions. The good faith deposit condition is based on typical procedures when selecting a developer for a downtown project. The \$1.3 million downpayment condition is based on a defeasance payment connected with the Council-approved bond refinance of the City's parking system. The difference on the timing for the \$50,000 good faith deposit is probably the more easily remedied issue; accordingly, subject to City Center providing a good faith deposit on or by February 1, 2000, staff believes the City Center proposal to be preferable on this issue.

A more rapid completion schedule for the hotel.

The City Center states its hotel will open within 12-18 months after property conveyance; the Conley proposal has hotel operations beginning about 3 years after property conveyance. The City Center proposal shows completion 1-2 years earlier than the Conley proposal; staff finds the City Center proposal will provide more property tax and hotel/motel tax revenues than the Conley proposal.

The completed sales contract should be ready for Council execution by late March-early April.

FISCAL IMPACT -

Purchase Price: Both parties indicated the proposed minimum sales price of \$3.7 million, as determined by an independent appraisal, was acceptable. As required by the bond covenants for the parking system, the sales proceeds are to be deposited into the parking system.

Bond Refinance Considerations: There are several timing issues related to the anticipated refinancing of the City's parking system. The bond issuance schedule requires the City to be prepared to enter into a sales contract for this property by mid-April. Both entities have agreed to execute a sales contract by mid-April which accommodates the bond refinancing:

The second timing issue- the downpayment of about \$1.3 million (the estimated bond defeasance amount) at the time of the contract execution in April and then paying the remainder of the purchase price upon conveyance of the property - has been agreed to by City Center. As noted previously, the Conley proposal stated this payment was to be placed in escrow until the property was conveyed. The City Center proposal is more desirable for the City.

In addition, the City Center proposal indicates a willingness to consider permitting the City to retain parking revenues from the date of contract execution to June 30, 2000, the end of the fiscal year which will enhance the refinance bond issue.

u: The evaluation criteria specified that property sales proceeds, hotel/motel and property tax revenues should be evaluated.

Neither development requires tax abatement. Both were willing to consider a minimum property tax assessment. In summary, the estimates of revenue are:

Revenue Item Conley Proposal City Center Proposal

Property Sales Price \$3,700,000 \$3,700,000

10 Yr. Total TIF Property Tax Revenue

Garage portion \$1,961,216 \$1,961,216 Hotel \$3,152,693
\$3,864,014

10 Yr. Total Hotel/Motel Tax Proceeds \$2,560,095 \$3,113,004

The City Center proposal shows higher revenues for the City in

the property tax and hotel/motel tax revenues due to an earlier completion date for the improvements and higher projected gross revenue from the hotel.

RECOMMENDATION -

I am recommending the City Center Corporation proposal be accepted by the Council. It better meets the requirements the Council previously adopted (detailed in the Background section of this communication). The City Center proposal is stronger; it has undertaken and completed many of the due diligence items which allow this project to proceed with greater certainty. The Conley proposal does not show completion of due diligence items which represents a greater degree of uncertainty in having its project proceed.

With the schedule of the proposed bond refinance of the parking system, it is more prudent to proceed with the project that has a greater degree of certainty of success.

It is also recommended that City Center be required to post a \$50,000 non-refundable good faith deposit (which is applicable to the purchase price) on or by February 1, 2000 or a date as directed by the City Council.

BACKGROUND -

The City Council, at its January 3, 2000 meeting, directed the City Manager (or designee) to evaluate the proposals to purchase from the City Center Corporation and the Robert J. Conley J. Investment Group based on how each proposal met and/or exceeded the criteria specified below.

- The existing parking (approximately 555 spaces) must continue to be used for parking with at least 35% (about 195 spaces) available for public daily parking. Parking rates and operation of the ramp would be determined solely by the new owner. During construction, the owner will minimize the number of spaces impacted by the hotel construction.
- The ramp will be sold in "as-is" condition with any additional structural support modifications

at the new owner's expense.

- A 165+ room hotel on the top of the ramp is to be constructed within three years from conveyance of the property.
- The new owner must enter into a City skywalk agreement.
- The sales price of the property will be at least \$3,700,000.
- Development team members
- Experience in developing and operating similar facilities
- Ability to secure an operating agreement with hotel franchiser
- Capacity to obtain necessary financing
- Revenue returns to the City from sales proceeds, property and hotel/motel taxes.
- General project schedule
- Contingencies that may delay or cause withdrawal from the project.
- Synergies created for the downtown by this project.

With regard to the synergy issue, both proposals contribute to the downtown by serving a market niche with the provision of high quality lodging with appropriate amenities including meeting facilities and dining areas. Each has proposed a ground level lobby with additional commercial uses. Both proposals connect to a national reservation system which provides greater exposure for downtown Des Moines.

The City Center proposal provides an in-depth response in this item, including how the Courtyard facility will have a close management and service relationship with the existing Marriott Hotel which provides a broad range of internal synergies that

will strengthen the Marriott and allow the Courtyard to provide wider-range of amenities and services than are typically available.

The Conley proposal does not provide a discussion of this issue other than the statement that its proposal will "...compliment the existing businesses and downtown core hotels."

A summary of the responses and the individual responses from each developer are attached to this communication.

Attachments