



Council Communication

Office of the City Manager

Date

November 20, 2006

Agenda Item No. 34

Roll Call No. 06-

Communication No. 06-726

Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Resolution approving a Loan Agreement with Polk County, an Urban Renewal Development Agreement with Nelson Development 14, L.L.C. (Jake Christensen, 1045 76th Street, Suite 2000, West Des Moines, IA 50266), and a Conceptual Development Plan for the renovation of 215 Watson Powell Jr. Way as an entertainment center.

SYNOPSIS:

Nelson Development 14, LLC has purchased the former General Growth Building located at 215 Watson Powell Jr. Way and desires to rehabilitate the long-vacant office building for inPlay (inPlay Franchise Services, LLC, Mike Stessman, Managing Partner, 2775 86th Street, Urbandale, IA 50322). inPlay is a full-service family entertainment venue offering a gaming center with over 100 popular virtual reality, interactive, sports, action, and classic games. The facility will also feature banquet and conference accommodations, a full-service restaurant and sports bar, indoor football passing and basketball hoops, and a 3-story indoor rock-climbing wall.

inPlay will complement other downtown entertainment venues such as the Principal Riverwalk, Science Center of Iowa, Principal Park and the Iowa Events Center. The goal of locating such a facility downtown will be to extend a visitor's stay before or after enjoying one of the many other entertainment options in the area. The location at 215 Watson Powell will also begin to bridge the physical gap between the Iowa Events Center and the core of downtown.

FISCAL IMPACT:

Amount: \$1,875,000

Funding Source: Polk County pledges to make a \$1,875,000, 0% interest loan to the City of Des Moines. The first installment of \$1,000,000 shall be advanced immediately. The second and third installments (\$437,500 each) will be advanced on February 1, 2008 and February 1, 2009. The City will then advance grant installments to Nelson Development 14, LLC following a parallel installment schedule. The City will repay the County's loan in 10 equal annual installments of \$187,500 commencing January 10, 2010. The City will utilize new tax increment revenue generated by the project to repay the loan. This tax increment will be guaranteed by a minimum assessment agreement of \$6,000,000 with Nelson Development 14, LLC. The Finance Department is asked to establish a new account code for this project.

ADDITIONAL INFORMATION:

inPlay will serve three distinct segments of the downtown entertainment market:

- Gaming – The family-oriented gaming area will offer party rooms with areas for younger children's parties. This area will be separated from a teen and adult section with more challenging games. A 3-story rock-climbing wall will cut through the middle of the building. This function will nicely complement the Science Center and Iowa Cubs to help keep families downtown for a full day of entertainment.
- Restaurant and Sports Bar – Stadium Grill and Bar (Mark Rogers, President, 5906 Ashworth Road, West Des Moines, IA 50266) will be located on the second level. The main entrance at 3rd and Park will be clearly visible from the Iowa Events Center. This use will pair well with concerts and sporting events at Wells Fargo Area.
- Banquet Facilities – A 6,000 s.f. banquet facility with full banquet kitchen will be added to the east end of the building. Weddings and corporate events will target a middle-market that will complement other higher-end venues in the market.

Des Moines will become inPlay's flagship operation. In addition to existing facilities in Peoria and Omaha, inPlay has begun franchising the concept throughout the Midwest, including facilities already planned for Fox Land, Illinois and Little Rock, Arkansas. All franchise management staff will come to Des Moines for up to two months of training at the downtown location.

inPlay's business model can support a rental rate of approximately \$11.50 per square foot. Typically, this rate could be accomplished on the downtown fringe in a large flex space. However, inPlay desires close proximity to the Iowa Events Center to leverage both venues' entertainment draws. Nelson Development has purchased the building for \$2.5 million. Total project costs, including remodeling the top floor for office space and adding a large banquet facility for inPlay, are approximately \$10.8 million. Approximately \$8.3 million is related to building acquisition and improvements and \$2.5 million is for inPlay's furniture, fixtures and equipment.

In order to move forward with inPlay as a tenant, Nelson Development requires a rental rate of approximately \$15-\$16 per square foot to earn a 10% return. The difference between Nelson's required rental rate and what inPlay's business model can sustain creates a financial gap of approximately \$2 million during inPlay's 15-year lease.

Assistance Package Summary:

- Polk County will provide a \$1.875 million loan to the City of Des Moines. The loan will be advanced in three annual installments: \$1 million, \$437,500, and \$437,500. The City will then advance these amounts to Nelson Development. These grant installments to Nelson Development will allow them to lower inPlay's rental rate.
- The County's loan will be non-interest bearing.
- The City will repay the County's full loan amount in 10 annual installments of \$187,500.
- Recognizing that there is some upside in inPlay's operations at this prime location, Nelson development has structured a percentage rent lease with inPlay. When the percentage rent received by Nelson reaches \$180,000, the County, City, and Nelson, will split every dollar above that amount equally. This allows all parties to participate in inPlay's success.

- The property's improvements are currently only assessed at \$5,000. The minimum assessment agreement will increase the property's taxable value by approximate \$4.76 million. This new tax increment will generate annual TIF levy of approximately \$192,500 in year 1 and climbs quickly assuming 2% annual inflation.
- Using an 8% discount rate, the net present value of the City's assistance package is approximately 11.65% of the total project cost.

PREVIOUS COUNCIL ACTION(S):

Date: September 11, 2006

Roll Call Number: 06-1831

Action: Communication from City Manager regarding preliminary terms of agreement with Polk County and Nelson Development 14, LLC for redevelopment of 215 Watson Powell Jr. Way to facilitate the opening of inPlay family entertainment center. SPONSOR: Mayor Cownie. (Council Communication No. 06-590). Moved by Coleman to receive, file and approve preliminary terms of agreement set forth in the Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with Polk County and Nelson Development 14, LLC consistent with the terms set forth in the Council Communication. Motion Carried 6-0.

BOARD/COMMISSION ACTION(S):

Date: October 3, 2006

Roll Call Number: N/A

Action: Urban Design Review Board approval by a consensus of the members present of the financial assistance and project design.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE