

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	November 7, 2011
	Agenda Item No.	54
	Roll Call No.	<u>11-1920</u>
	Communication No.	<u>11-696</u>
	Submitted by:	Terrance N. Vorbrich, Acting Economic Development Administrator

AGENDA HEADING:

Approving Preliminary Terms of Agreement with Waterfront Lodging, L.L.C. for construction of a 129 room hotel, a 245 space parking structure and a second 120 room hotel, all to be located at 2nd and Water Streets.

SYNOPSIS:

Hawkeye Hotels (Ravi Patel, Executive Vice President, 1701 Mt. Pleasant Street Suite 1, Burlington, Iowa 52601) originally proposed construction of a Hampton Inn & Suites hotel at 2nd and Water Streets in late 2010. The planned hotel, to be located in close proximity to Principal Park and the Science Center of Iowa, would feature 129 guest rooms and multiple amenities on site, with an estimated project cost of \$14.4 million. Following additional review and input from staff, the Urban Design Review Board and City Council, the developer has responded to the City’s goals for additional urban density development in this key infill site along the Des Moines riverfront, proposing construction of the original hotel, a 245 space parking structure estimated at \$4.8 million, and a second hotel estimated at similar cost to the Hampton Inn & Suites, to be constructed within 5 years. Total project costs for all three elements of the project are estimated at \$32.3 million.

Staff has negotiated preliminary terms of an urban renewal development agreement to provide for project generated tax increment to function as the core mechanism for financial assistance. Hawkeye Hotels will forego tax abatement as may be available and enter into minimum assessment agreements for each of the three elements of the project; minimum assessment agreements on each hotel of approx. \$6.42 million, and a minimum assessment agreement on the parking structure of approx. \$1.62 million. Details of the proposed financial assistance and other points of the agreement are outlined below.

FISCAL IMPACT:

Amount: Economic Development Grant not to exceed 75% of tax increment generated by each hotel for 15 years; \$1.1 million one-time grant to assist in construction of parking structure, to be repaid from project generated increment on the first hotel and the parking garage. The three project elements are projected to generate over the next 23 years an estimated net new gross tax revenues of \$6.1million. Additionally, it is estimated that the project will generate around \$6.2 million in hotel/motel tax from new lodging stays. The 23-year property tax projection for these parcels in their present state is approximately \$1.5 million. If the parcels were converted to 100% surface parking the property tax projection would be \$1.3 million.

Funding Source: \$1.1 million grant funded from internal borrowing of one-time funding to be received by the City either through the UPS settlement or Gaming Revenues. In either case, the use of the funds will be repaid through the excess tax increment tax revenues generated by the project; Economic Development Grant funded from project generated new tax increment in the Metro Center Urban Renewal Tax Increment District.

ADDITIONAL INFORMATION:

Hawkeye Hotels will construct a 129 room Hampton Inn and Suites hotel with a 245 space parking structure as the first phase of site development. The City will provide a one-time payment of \$1.1 million to assist with the parking structure, and pledge to assist with identifying lease tenants for the parking structure in years 1-5, before construction is initiated on the second hotel. The City will not incur any financial responsibility for the lease spaces. An annual economic development grant payment of 75% of the tax increment generated by the hotel project, estimated to be \$182,241 per year, will be provided for 15 years. In the event that construction has not been initiated on the second hotel by year 6, the grant payments on the first hotel will cease, until the \$1.1 million in parking garage assistance is paid back. The second hotel, initiated within five years, will receive an annual economic development grant payment of 75% of the tax increment generated by the project for 15 years.

Development of the site will include a minimum of 2500 additional square feet of commercial space, to be located along the Water Street frontage. Both hotels will be quality urban products that integrate well with the existing neighborhood and provide opportunities for engagement with pedestrians and the broader environment.

Hawkeye Hotels will also provide the City with a first right of refusal to purchase the site currently planned for the second hotel, in the event that the second hotel is not constructed within five years. This would also include an opportunity for lease spaces in the parking structure to be used by future development. While it is anticipated and will be welcomed that the second hotel is constructed by Hawkeye Hotels as planned, the significance of this riverfront site to the downtown landscape is desired to be safeguarded, in the event that development does not proceed as currently envisioned.

PREVIOUS COUNCIL ACTION(S):

Date: October 10, 2011

Roll Call Number: 11-1727

Action: **From** Lillis, O'Malley, Olson, Manning, Pose and Van Dike LLP, 317 6th Avenue, Ste. 300, regarding Waterfront Lodging, Inc. proposal. **Moved by Hensley to receive and file comments and support the project with conditions related to design of the site, density, parking and building design. Refer to the City Manager for review and recommendation. Motion Carried 7-0.**

Date: September 26, 2011

Roll Call Number: [11-1663](#)

Action: **From** Attorneys for Waterfront Lodging and Riverfront Associates, L.P. to give a short presentation regarding the development proposed for property in the vicinity of SW Water Street, Vine

Street, SW 2nd Street and Market Street. **Moved by Hensley to receive, file and refer to City Manager for review and recommendation recognizing the time constraints on the project. Motion Carried 7-0.**

Date: June 27, 2011

Roll Call Number: [11-1142](#)

Action: [On](#) vacation and conveyance of remaining public alley right-of-way in the block bound by Vine, Water, Market and SW 2nd Streets to Waterfront Lodging, Inc. for \$39,856, subject to conditions. ([Council Communication No. 11-412](#)) **Moved by Hensley to adopt. Motion Carried 7-0.**

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

The Urban Design Review Board will review the proposed buildings and parking structure designs and the proposed financial assistance package and forward recommendations to City Council. The Plan and Zoning Commission will review the proposed site plan and forward recommendations to City Council. A final development agreement and conceptual development plans will be presented to City Council for approval.

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