

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	February 23, 2015
	Agenda Item No.	IIa
	Roll Call No.	<u>15-0269</u>
	Communication No.	<u>15-094</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Approving preliminary terms of agreement with Iowa Events Center (IEC) Hotel Corporation for financial assistance for development of a convention headquarters hotel connected to the IEC and approving the final application to Iowa Economic Development Authority (IEDA) for funding from the Iowa Reinvestment Act (IRA) for the Iowa Convention & Entertainment Reinvestment District (District).

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. There is broad community support participating in the funding for this \$100M project, including Polk County and members of the business community. Staff has negotiated a complex incentive package (outlined below) to meet the needs of the convention headquarter hotel while maintaining a level of City financial participation that is commensurate with City funding levels in recent hotel projects in downtown.

Funding from the State’s recently-enacted 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 and motel, and sales and use 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 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. In the pre-application submitted in March 2014, the City submitted the 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. This District was provided a provisional funding award of \$36.4M for the District in June 2014. Updated projections indicate that the District could generate more revenues that are eligible for IRA funding; the updated request for the maximum benefit amount is \$39.4M. A final application is due by March 1, 2015.

FISCAL IMPACT:Amount:

- \$9M in GO TIF Bonds (20-year term).
- \$5M in GO TIF Annual Appropriation Bonds (10-year term likely).
- \$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 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 \$25M 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, and Des Moines Redevelopment Company (DMRC), and the State of Iowa on identifying funding sources for the hotel. The State has encouraged use of EB-5 funding, which provides a low-cost solution to a portion of the project. As the partners investigated other ways to fund the project and reduce its costs, a nonprofit ownership structure offered the best fit for this project. Private ownership required institutional investors seeking too 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. Future Council action will require appointment of (2) of the seven (7) members of the IEC Hotel Corporation Board of Directors.

The Economic Impact Analysis that is 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 proposed \$100M headquarters convention hotel project includes demolition of an existing office building, environmental remediation, construction of approximately 330 hotel rooms, approximately

17,000-square-foot ballroom/meeting space, one (1) level of underground parking, a full-service restaurant and new skywalk corridors.

Sources and uses are proposed as outlined below.

USES:

Construction and Related Costs	\$ 87,240,000
Operating Reserves	\$ 1,850,000
Debt Reserves	\$ 5,744,581
<u>Capitalized Interest & Financing Fees</u>	<u>\$ 5,819,289</u>

TOTAL Uses: \$100,653,870

SOURCES:

Secured by Non-hotel Generated Revenues	
IRA Loan	\$ 4,000,000
Parity IRA Loan	\$ 8,240,585
Subordinate IRA Loan (County Guarantee)	\$ 4,949,043

Cash Contributions	
County Cash	\$ 6,000,000
City TIF GO Bond	\$ 9,000,000
City TIF Annual Appropriation GO Bond	\$ 5,200,000
State Brownfield Grant	\$ 1,000,000
Key Money	\$ 1,750,000

Secured by Hotel Operating Revenues	
Senior Lien First Mortgage Loan	\$ 32,611,638
EB-5 Subordinate Lien Loan	\$ 20,000,000
<u>Facility Fee Loan (Guaranteed by County)</u>	<u>\$ 7,912,997</u>

TOTAL Sources: \$100,664,264

In addition to the hotel, the District includes the mixed-use Hy-Vee development at 420 Court, the Randolph Hotel redevelopment and a number of infrastructure and pedestrian improvements to help connect hotel patrons to other parts of downtown. The City-owned 5th and Watson Powell parking garage will have skywalk connectivity to the hotel and will be a major source of parking for hotel guests. The application identifies improvements 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 project will be studied further and presented for City Council review at a later date.

The application requires that the District demonstrate how it is “unique in nature.” The following items are identified in this explanation:

- Improving the tourism economy and providing a visitor amenity – With an attached hotel the IEC has greater capacity and appeal to attract more events and more visitors, thereby improving the local and State economy. Very simply, more conventions and more events translates to more visitors to the City and state and more money spent in the City and state. The economic impact

study estimates that a headquarters hotel for IEC will increase attendance by approximately one-third by year five (5) of opening the IEC Convention hotel. The value that these attendees bring and the business they spur is significant; the feasibility study cites an economic impact of this District is \$64.7M in the first year that the proposed IEC Convention hotel opens, with \$35M of this total attributed to the hotel alone.

- Bringing jobs – At year five (5) of the establishment of the District, its economic impact is projected to support 757 jobs that do not currently exist in the state’s economy. Additionally, the convention hotel project is estimated to bring 1,000 construction jobs.
- Strengthening existing infrastructure – The projects in downtown that comprise the proposed District utilize existing infrastructure – including parking structures, roadways, streets, sidewalks, skywalks and utilities – and proposes to improve this infrastructure by investing a portion of the new hotel, sales, and property tax into strengthening it.
- Improving walkability – the area around the Iowa Events Center still feels somewhat desolate. In addition to the convention hotel, proposed improvements to the public realm – signage, streetscapes and skywalk/sidewalk connections – will contribute to making the area more inviting for walking and better connect the IEC area to other amenities in downtown.
- Enhancing quality of life – Investment in the District also enhances the quality of life for local, regional and state residents. The spinoff development (residential, restaurants, retail, and services) will be used and enjoyed by visitors and those that live here.
- Leveraging other economic development activity – economic impact projected for the District investment – nearly \$2B over 20 years. This impact will create demand for new businesses and new real estate development.
- Setting examples of quality urban development – The District contains a set of high-quality urban development projects. They are projects that will endure; they will utilize high-quality construction types and materials. The projects are all on infill sites that utilize existing infrastructure. They propose ambitious, yet appropriate, levels of density for their context.
- Creating new revenues – the District is expected to generate in excess of \$90M in new taxes (hotel/motel, sales, and property taxes). While, the hotel will capture a little more than half of this amount; the state, county, and City will be able to utilize the balance (new revenues) for functions in our community.

The total request from IRA funding is approximately \$39.4M. This figure represents the combined eligible state tax generation from the IEC Hotel, Court Avenue Hy-Vee, and new retail venues at the renovated Randolph building. The IEDA Board is expected to announce the award levels in April 2015.

PREVIOUS COUNCIL ACTION(S):

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 Iowa Economic Development Authority (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): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Consideration of agreement with IEDA for funding from Iowa Reinvestment Act.
- Consideration of agreement with Polk County for distributing funding from IRA.
- City ordinance creating an Iowa Reinvestment Act District.
- Urban Design Review Board recommendation on Convention Headquarters Hotel.
- Plan and Zoning Commission review of Convention Headquarters Hotel.

- Consideration of final Urban Renewal Development Agreement with IEC Hotel Corporation.
- Appoint two (2) members to the Board of the IEC Hotel Corporation.

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