

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	August 8, 2016
	Agenda Item No.	43
	Roll Call No.	<u>16-1340</u>
	Communication No.	<u>16-434</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Resolution approving final terms of an Urban Renewal Development Agreement with Janssen Lodging, LLC for the renovation of 1000 Walnut Street.

SYNOPSIS:

Janssen Lodging, LLC (Raj Patel, Chief Development Officer Hawkeye Hotels 1601 N. Roosevelt Avenue Burlington, Iowa 52601) proposes a \$37 million project to renovate the Hotel Fort Des Moines, upgrading and remodeling the rooms, increasing the room count from 260 to 275 by reprogramming current office and storage spaces into their original use as guest rooms, and re-establishing the facility as a premier full-service hotel for the Des Moines market.

The hotel was originally constructed in 1917, and is currently closed due to the need for significant capital improvements. The building is in need of complex and capital-intensive construction work to achieve a successful renovation. Numerous construction, material and design protocols must be followed, due to the building’s status on the National Historic Register. Without this investment and the proposed assistance to help offset these high redevelopment costs and the long term viability of the project, it is anticipated that the hotel would remain vacant and continue the decline in taxable valuation that began following a peak value in 2009 of \$6.8 million. The current valuation total for the building and land is \$3.6 million.

The Office of Economic Development (OED) has negotiated final terms of an Urban Renewal Development agreement with Janssen Lodging, Inc. that have been approved by the Urban Design Review Board for the project’s design and the use of project generated tax increment. Janssen Lodging, Inc. will proceed to secure both a franchise agreement with a hotel flag and conventional financing for the project with the intent to be under construction in 2017.

FISCAL IMPACT:

Amount: Economic development grant in the amount of 90% of the project’s annually generated tax increment for a period of 20 years paid out in semi-annual installments. Estimated net present value (NPV) of the assistance is \$4,118,993, between 11% and 12% of the total project cost.

Funding Source: Project generated tax increment in the Metro Center Urban Renewal Area.

Additionally, the hotel is estimated to generate \$9,887,558 in hotel/motel taxes during the next 20 years.

ADDITIONAL INFORMATION:

- Janssen Lodging, Inc. proposes to secure final financing, secure a hotel flag commitment and initiate work on the project by June 1, 2017, with projected completion by December 1, 2019.
- The renovation project will be 100% funded upfront by developer equity and conventional construction financing secured by Janssen Lodging, LLC.
- The City's project generated TIF assistance will function to provide a consistent and predictable model for servicing debt over 20 years, while keeping the high level of service and reinvestment necessary for a full service historic hotel with the status of the Hotel Fort Des Moines.
- The uncertainty of the current Historic Tax Credit environment and when another round may actually be offered in the next year has prompted structuring the project assistance through tax increment.
- In addition to these unknowns, predicting the amount of any Historic Tax Credit award with the programming changes that have occurred to the hotel over time, the modifications needed for the hotel patrons of today, and the actual remaining historic fabric that may be approvable as qualified expenses under the Historic Tax Credit program is very difficult at this stage. It is accepted through the analysis that has been undertaken that even if there is eligibility to apply for and receive any Historic Tax Credits that the receipt of such credits would likely not replace the need for the recommended tax increment assistance.
- The owner will keep the City informed of additional consideration of the Historic Tax Credits and will agree to a re-evaluation of the development agreement terms in the event of a subsequent Historic Tax Credit award that has a demonstrable impact to the project proforma that could result in a possible reduction to the requested tax increment assistance.
- In lieu of the review process conducted by the State Historic Preservation Office (SHPO), OED has worked with Community Development Department staff, the Urban Design Review Board, the owner and the design team to develop a list of expectations and requirements for the renovation that will be included in the Urban Renewal Development Agreement. These include:
 - Requirement for a return visit to the Board after a flag is identified to demonstrate how the public spaces are ultimately programmed and activated, including the streetscape, café outdoor seating, alley open space, former Chequers bar space, Walnut Street entrance and first floor entry/registration area.
 - Acknowledgement that the long-term success for the new Hotel Fort Des Moines as a premier downtown hotel occupying a void in the downtown hotel market will rely on the retention of the important historic fabric and the reestablishment of the historic space program configuration to the degree possible.
 - Recognition that the project is understood to be a rehabilitation of the building, which acknowledges a need to alter or add to an historic property to meet continuing or changing uses while retaining the property's historic character.
 - Requirement that remaining character-defining historic features be restored to the greatest extent possible, including:
 - Interior guestroom floors that have been augmented into various other program spaces, including office uses, will be returned to their original program function.
 - The 10th floor Presidential Suite will be retained.
 - The building exterior will remain intact and unaltered, other than an updated entry canopy and the potential for window upgrades, as the historical integrity of the building shell is intact. The exterior will be cleaned and tuck pointed as needed.

- The second floor will be largely returned to its original functionality and organization with the addition of guestrooms along the north side of the building, which historically were there as "stateside rooms" over the years until they were removed.
- All guest rooms and bathrooms will be completely remodeled with new drywall, painting, furniture and fixtures. No existing room amenities will be used in the project.
- The intent is for the main lobby level to be reconfigured to place the registration in its historically original location.
- The intent is to open up the second story volume to expose the historic mezzanine and to reestablish the 2-story window openings fronting 10th Street.
- Re-establish the secondary Walnut Street entrance that is currently closed.
- Consideration of the retention and restoration of the current Grand Ballroom flooring, with the recognition that multiple resurfacings have already occurred. If the flooring condition is unable to be further improved, possibilities to include the materials in another component of the project shall be considered.
- The barroom area will be re-established as a gathering area for the business and political community.
- Streetscape enhancements in accordance with adjacent projects including the Clemmons Building and the Davis Brown Tower will be proposed to be undertaken by the developer.
- Meeting and ballroom space improvements will be designed in a fashion that will allow the spaces to again be available for weddings and receptions, the primary events booked historically in the hotel.
- Finishes and dimensions of the corridors on the hotel room floors.

PREVIOUS COUNCIL ACTION(S):

Date: April 25, 2016

Roll Call Number: [16-0688](#)

Action: [Preliminary](#) terms of agreement with Janssen Lodging, Inc. for the renovation of the Hotel Fort Des Moines at 1000 Walnut Street. ([Council Communication No. 16-229](#)) Moved by Hensley to receive, file and approve the preliminary terms of agreement as set forth in Council Communication No. 16-229, and to direct the Office of Economic Development to proceed with negotiation of a formal agreement with Janssen Lodging, Inc., consistent with the terms set forth in Council Communication No. 16-229. Motion Carried 6-1. Nays: Moore.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: June 14, 2016

Resolution Number: N/A

Action: Motion by Hielkema to approve the final design with the understanding that the project will come back when a hotel operator is identified. Seconded by MacRae. Yes = 8; No = 0, Absent = 3, Abstain = 0.

Board: Urban Design Review Board

Date: June 14, 2016

Resolution Number: N/A

Action: Motion to approve the financial assistance package as presented by Dietz-Kilen. Seconded by C. Nagle. Yes = 8; No = 0, Absent = 3, Abstain = 0.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Follow up review by Urban Design Review Board following confirmation of hotel flag.
- Issuance of Certificate of Completion for the project.

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