

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	March 20, 2017
	<b>Agenda Item No.</b>	<b>31</b>
	<b>Roll Call No.</b>	<b><u>17-0486</u></b>
	<b>Communication No.</b>	<b><u>17-292</u></b>
	<b>Submitted by:</b>	<b>Erin Olson-Douglas, Economic Development Director</b>

**AGENDA HEADING:**

Resolution authorizing the City Manager to negotiate agreement based on preliminary terms with Raccoon Valley Investments for a hotel development at the northeast corner of Fleur Drive and McKinley Avenue.

**SYNOPSIS:**

Raccoon Valley Investment Company, LC (Michael Coppola, Partner, 4521 Fleur Drive, Suite C, Des Moines, IA), proposes to develop a Courtyard by Marriott hotel on a 5.9-acre vacant parcel located in an existing shopping center near the northeast corner of Fleur Drive and McKinley Avenue. The parcel does not presently have an address, but is just north of the existing Fleur Cinema at 4545 Fleur Drive and east of US Bank at 4515 Fleur Drive. The vacant lot will most likely be subdivided, as the hotel does not anticipate needing the total acreage.

The proposed 4-story, 93-room, approximately 57,000-square-foot hotel is described as a select-service property with guest rooms and suites that will serve business and leisure travelers. The hotel features a lobby with casual meeting and workspace; a business center; 24-hour guest access to exercise equipment; a bistro; a 24/7 market; and an outdoor fire pit and seating area. The project is estimated to cost \$13 million.

On August 22, 2016, City Council approved preliminary terms for a financial assistance package consistent with the Urban Renewal Plan for the Fleur Drive Commercial Urban Renewal Area to incent the property owner (Raccoon Valley Investment Company) for this hotel project as part of the phased development of the 39.5-acre Plan Area. That financial assistance package consisted of a declining percentage of project-generated tax increment based on the following: 100% in years one (1) through three (3); 75% in years four (4) through 10; 50% in years 11-15. Since then, the property owner has asked for a change in the financial assistance package as detailed below.

**FISCAL IMPACT:**

Amount: The financial assistance package will consist of 100% of project-generated tax increment for 15 years or until the expiration of the Urban Renewal Plan in 2034, whichever occurs sooner.

Funding Source: Fleur Drive Commercial Urban Renewal Plan Tax Increment Financing (TIF)

**ADDITIONAL INFORMATION:**

The request for additional incentive is based on the following factors:

- Equity requirement: KWB, LLC, the hotel developer who is partnering with Raccoon Valley Investments and securing the Marriott Courtyard flag for the project, is requiring more equity to partner since this is a singular project. Typically KWB bundles construction of new hotels into multiple projects, which helps to mitigate risk for investors.
- Risk Stabilization: Given that hotel projects can be risky in that they are dependent on variables such as occupancy rates, average daily rate, etc., it is difficult to predict a return on investment to an investor. Coupled with the fact that the property does not have direct access off Fleur, it has been difficult to find investors to raise the capital required by the hotel developer. Additional TIF will help to stabilize risk and attract the level of investment necessary to keep KWB and Marriott interested in the project.
- Unexpected Water Main Cost: Raccoon Valley Investments expected to be able to use their existing private water main to service the hotel, but Des Moines Water Works is now requiring a new main to connect to Fleur Drive.

The subject property is within the Urban Renewal Plan for the Fleur Drive Commercial Urban Renewal Area, which was created in 2004 with the intent of both alleviating blight and encouraging economic development. The Plan was recently amended to extend the life of the Plan from 2027 to 2034 to allow time for the construction of the hotel, as well as a 15-year TIF rebate. Other projects that have been approved for the use of TIF within the Plan Area include the Starbucks (2007), Hy-Vee (2009), and Panera Bread Café (2016). This project will be the fourth project to come forward within the Plan Area.

The hotel is projected to start construction in summer 2017, with the opening anticipated for 2018.

**PREVIOUS COUNCIL ACTION(S):**

Date: August 22, 2016

Roll Call Number: [16-1414](#)

Action: [Authorizing](#) the City Manager to negotiate agreement based on preliminary terms with Raccoon Valley Investment for a hotel development at the northeast corner of Fleur Drive and McKinley Avenue. ([Council Communication No. 16-484](#)) Moved by Moore to receive, file and approve the preliminary terms of agreement as set forth in Council Communication No. 16-484, and to direct the Office of Economic Development to proceed with negotiation of a formal agreement with Raccoon Valley C\Investment, consistent with the terms set forth in Council Communication No. 16-484. Motion Carried 6-1. Absent: Hensley.

**BOARD/COMMISSION ACTION(S):**

Board: Urban Design Review Board

Date: December 6, 2016

Resolution Number: N/A

Action: Approve preliminary design as presented: Yes = 6; No=0; Abstain = 0; Absent = 4.

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- Urban Design Review Board – financial review and final design review; Urban Renewal Plan Amendment.
- City Council – consideration of final terms of urban renewal development agreement; Urban Renewal Plan Amendment.

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