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|  <p style="text-align: center;">Council Communication Office of the City Manager</p> | Date: | March 8, 2018 |
| | Agenda Item No. | EX 1 |
| | Roll Call No. | <u>18-0418</u> |
| | Communication No. | <u>18-122</u> |
| | Submitted by: | Erin Olson-Douglas, Economic Development Director |

AGENDA HEADING:

Approval of agreements and actions related to the Iowa Reinvestment Act (IRA) and Iowa Events Center (IEC) Hilton Hotel including approval of an Iowa Reinvestment Act Trust Indenture Agreement, sale of City IRA bonds (notes), and execution of a guarantee of a portion of the IRA revenue borrowing by the IEC Hotel Corporation.

SYNOPSIS:

On March 21, 2016, by Roll Call No. 16-0517, City Council approved the terms of an amended development agreement for a full-service convention hotel connected to the IEC. The development agreement identified the City’s participation in these funding sources and anticipated the IRA Trust Indenture Agreement for deposit and disbursement of IRA revenues prior to hotel opening. The IRA Trust Indenture Agreement by and among Polk County, City of Des Moines, and IEC Hotel Corporation identifies the sequence of payments from the IRA funds collected by the City.

The guarantee of the senior \$8,500,000 loan of the State of Iowa’s IRA revenues (up to \$10 million with the inclusion of interest). The amount guaranteed will decrease annually as IRA funds are received and bonds are repaid.

Sale of senior \$4,000,000 City IRA bonds (notes); purchasers are local investors in the project that will be repaid from IRA proceeds.

FISCAL IMPACT:

Amount: \$4,000,000 Private Placement of IRA Bonds & \$10,000,000 Guarantee on IEC “Series D” IRA bonds

Funding Source: The funding for the payback of the bonds will come from IRA proceeds from the State of Iowa, S740 ND413790

ADDITIONAL INFORMATION:

- 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 was 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; they have secured Hilton as the hotel flag. There is broad community support participating in the funding for this \$101 million project (\$114 million with required reserves), including Polk County and members of the business community. The hotel included demolition of an existing office building and existing skywalk bridge, environmental remediation, construction of approximately 330 hotel rooms, approximately 17,000-square-foot ballroom/meeting space, one (1) level of underground parking, a small surface parking lot, a full-service restaurant and new skywalk bridge and corridors. A complex incentive package has been negotiated to meet the needs of the convention headquarters hotel while maintaining a level of City financial participation that is commensurate with City funding levels in recent hotel projects in downtown.

- The hotel is nearly complete; opening is scheduled for March 21, 2018. The hotel opening is slightly ahead of schedule and on budget. At opening, ownership will transfer from DSM Convention Hotel, LLC, the entity formed by The Weitz Company to design and build the hotel, to the IEC Hotel Corporation. At that time, construction financing will shift to permanent financing as follows:

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| Series A hotel revenue loan | \$ 40,000,000 |
| Series B hotel revenue loan | \$ 28,097,320 |
| Series C-1 and C-2 Facility Fee loan | \$ 7,325,000 |
| DSM UR Private Capital Note | \$ 4,000,000 |
| Series D IRA (City guaranty) | \$ 8,500,000 |
| Series E IRA (County guaranty) | \$ 7,805,000 |
| City TIF contribution | \$ 14,200,000 |
| Grayfield funding (State of Iowa) | \$ 900,000 |
| Key money (Hilton hotel) | <u>\$ 3,000,000</u> |
| Total | \$113,827,320 |

- Funding from the State’s recently-enacted IRA is key to implementing the convention hotel. In 2013, the IRA established a \$100 million program administered by the IEDA that allows certain state hotel/motel, and sales 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 IRA program prioritized funding for 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 June 2015, the City secured \$36.4 million funding from the inaugural round of IRA allocations. In the application submitted to IEDA in February 2015, the City presented a 23.5-acre District, which included a convention hotel, the Randolph Hotel renovation, the mixed-use Hy-Vee development at 420 Court Avenue, renovation of the 5th and Keo parking ramp, and associated streetscape improvements that strengthen the connection between the IEC and other places in downtown.
- Of the sources identified above, the Series D, E, and Private Capital Note are funded from IRA proceeds. Each quarter after hotel opening, eligible funds identified by the State Department of Revenue will be distributed to the City and then deposited with a trustee. The IRA Trust Agreement identifies the sequence of payments from the IRA funds towards the financing structure. Key points of the agreement are:

- Series D and City IRA bonds (notes) principal and interest funded first
- Reserve funds established and filled after principal and interest payments
- Repayment of any funds paid on City guarantee
- Opportunity to consider payment for IRA District public improvements after City IRA bonds (notes) debt retired
- Reimbursement for IRA District public improvements provided in final IRA payments

PREVIOUS COUNCIL ACTION(S):

Date: February 6, 2017

Roll Call Number: [17-0198](#)

Action: [First](#) Amendment to Skywalk Agreement, including limited skywalk easements, between the City, Polk County, IEC Hotel Corporation, Fifth and Park, LLC and DSM Convention Hotel, LLC (Iowa Events Center Hotel). ([Council Communication No. 17-068](#)) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: February 16, 2016

Resolution Number: N/A

Action: Motion to approve as presented with continued refinements to integration of the skywalk and development of the landscape on the north side with staff and the ad hoc committee by Hielkema. Seconded by Reynolds. Motion carried. Yes – 8, No – 0, Absent -1, Abstain – 1.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Approval of hotel proceeds distribution agreement.

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