


COUNCIL COMMUNICATION

	Number:	18-606	Meeting:	November 19, 2018
	Agenda Item:	43	Roll Call:	18-1938
	Submitted by:	Erin Olson-Douglas, Economic Development Director		

AGENDA HEADING:

Resolution approving preliminary terms for an urban renewal development agreement with Nelson Development for the construction of a Home2 Suites hotel along University Avenue, between 26th and 27th Street across from Drake University.

SYNOPSIS:

Nelson Development (Alexander Grgurich, 505 5th Avenue, Des Moines, IA 50309) proposes to construct an 86,300-square-foot, 5-story hotel/retail building along University Avenue, between 26th and 27th Street, across from Drake University. The project is proposed to house a Home2 Suites hotel with lobby and amenities on the first floor and 124 hotel rooms on floors 2-5. The building will also include 11,000 square feet in retail/restaurant space on the ground floor facing University Avenue. The project is anticipated to cost \$27 million and would begin construction in Spring 2019.

The Office of Economic Development has negotiated preliminary terms of a development agreement with Nelson Development, which provides for project-generated tax increment to respond to a financing gap presented by the developer. Additional details are provided in the fiscal impact section below.

An Urban Renewal Plan and Tax Increment Financing (TIF) District will need to be created in this area.

FISCAL IMPACT:

Amount: The project will receive 75% of the project-generated tax increment from the building valuations (exclusive of land) for 15 years, estimated at \$3.1 million (NPV at 4.5% discount rate). The assistance is estimated at 11.54% of total project costs. Hotel/Motel tax revenue generated from the project to the City is estimated at \$5.9 million for the duration of the assistance (15 years). Land sales proceeds of approximately \$35,500 (revenue) of the vacated alley are also expected.

Years	Estimated Taxes Received without Project*	Estimated Taxes Received with Project*	Estimated Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$31,751	\$4,964,772	\$2,837,825	\$2,126,947
Sum 20 Years	\$68,256	\$10,725,893	\$4,422,313	\$6,303,580
Sum 30 Years	\$108,732	\$17,411,098	\$4,422,313	\$12,988,785

*Taxes include all property taxing authorities (not just City property taxes).

*Taxes received estimates used the following assumptions: 1% growth in even years; 2% growth in odd years.

Building and Land Valuation Assumptions at Completion of Construction:

- \$9,775,000 Hotel/retail building
- \$975,290 Land Assessment (\$8.05 per square feet)

One (1) residential lot was taxable. The balance of the property previously consisted of the publicly-owned alley and Drake University-owned property, which is non-taxable.

Funding Source: Tax increment generated by the Urban Renewal Plan/TIF District that will be created. Land sales proceeds will be deposited to the Economic Development Enterprise Fund.

ADDITIONAL INFORMATION:

- The majority of the property had previously been owned by Drake University and had served as a parking lot for the University. Nelson also purchased three (3) adjacent residential properties, two (2) of which were owned by Drake. A portion of the City-owned alley will be vacated and sold to the developer.
- The parking lot portion of the property was the subject of an RFP process by Drake University in 2016. That RFP process also included the property to the east. Nelson is proposing to start design work on a multi-family project on that property in 2020.
- The developer is participating in MidAmerican's Commercial New Construction (CNC) program and will be working with the Weidt Group to maximize energy performance. The final development agreement will include language regarding the energy efficiency of the project. The developer has agreed to exceed energy code standards by 10%. Additional information on energy efficiency will be available as the project continues through the design process, which may result in changes to how the energy efficiency language is shown in the final development agreement.
- Parking will be provided on site (117 stalls) within a surface parking lot, as well as on street (28 stalls).
- Due to the brand standard requirements from Hilton, the developer asked for an informational meeting with the Urban Design Review Board in order to get early input on the design of the building.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: October 9, 2018

Resolution Number: N/A

Action: No action taken as the review was informational only. The Board provided comments on the design to date.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board - review of design and financial information.
- Plan and Zoning Commission – site plan review, alley vacation, recommendation on new Urban Renewal Plan.
- City Council – development agreement, alley vacation/purchase agreement, creation of Urban Renewal Plan and TIF District.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the first floor of City Hall, 400 Robert D Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.