

# COUNCIL COMMUNICATION

|   |               |  |            |                       |
|---|---------------|--|------------|-----------------------|
|  | Number:       | <b>20-153</b>  | Meeting:   | <b>March 23, 2020</b> |
|   | Agenda Item:  | <b>45</b>  | Roll Call: | <b>20-0554</b>        |
|   | Submitted by: | <b>Erin Olson-Douglas, Economic Development Director</b> |            |                       |

**AGENDA HEADING:**

Resolution approving preliminary terms of an Urban Renewal Development Agreement with Lawmark, LP, for a major renovation of the Financial Center building located at 207 7th Street converting floors one (1) through 13 to a full-service hotel with approximately 190 rooms.

**SYNOPSIS:**

Lawmark, LP (Mark Buleziuk, 666 Walnut Street, Suite 1540, Des Moines, IA 50309) is proposing a major renovation of the Financial Center Building located at 207 7th Street. The \$59.3 million project would convert floors one (1) through 13 of the building to a full-service, upscale hotel with approximately 190-rooms. The first floor is proposed to have an upscale restaurant, coffee shop and a market. The second and third floors will include a fitness room, meeting rooms, business center and skywalk access. The project proposes a rooftop bar, pool and lounge on the lower level roof. Floors 14-25 will continue to remain as office space. The amenities of the hotel will be available to the office tenants and will elevate the experience and value of the office space.

The Office of Economic Development has negotiated preliminary terms of an urban renewal development agreement with Lawmark, LP, which provides for a declining schedule of tax increment generated by the proposed project to serve as the core mechanism for responding to a financing gap presented by the development team. Additional details are provided in the fiscal impact section below.

**FISCAL IMPACT:**

Amount: The proposed terms provide for a declining schedule of the project generated tax increment from the taxable building valuations (exclusive of land) in years 1-15, starting at 90% in years 1-5, 85% in years 6-10, and 75% in years 11-15, capped at a maximum of \$7.5 million (net present value {NPV} at a 4.5% discount rate). The assistance is estimated at 12.7% of total project costs. The project is anticipated to contribute approximately \$9.8 million in hotel/motel taxes over the duration of the assistance.

| Year         | Estimated Taxes Received without Project* | Estimated Taxes Received with Project* | Estimated Incentive Paid | Estimated Net Taxes Received |
|--------------|---|--|--------------------------|------------------------------|
| Sum 10 Years | \$ 5,743,186                              | \$13,973,136                           | \$ 6,348,316             | \$ 7,624,821                 |
| Sum 20 Years | \$12,743,257                              | \$33,099,634                           | \$10,576,567             | \$22,523,067                 |
| Sum 30 Years | \$21,275,278                              | \$56,480,477                           | \$10,576,567             | \$45,903,910                 |

\*Taxes include all property taxing authorities (not just City property tax dollars).

\*Taxes received estimates used the following assumptions: 2.5% growth in re-assessment years, 1.5% growth in non-re-assessment years.

\*Building and land valuation assumptions at completion of construction:

\$31,715,000 commercial building assessment

\$2,140,000 land assessment

Funding Source: Tax Increment from the Metro Center Urban Renewal Area

#### **ADDITIONAL INFORMATION:**

- The 363,000-square-foot, 25-story building was originally constructed in 1972, is skywalk connected, and has historically been used primarily as commercial office space with ground level retail and commercial uses.
- The building valuations peaked in 2007 with a building valuation of \$21.5M and has been steadily declining since. The assessment on the building for 2019 was \$12.2M and is projected to decline another \$2.6M down to approximately \$9.6M with a 2020 re-assessment due to a large vacancy in the building.
- A major tenant in the building, which occupied slightly more than half of the building, vacated their space in January 2020. Without the project, additional reductions in the future building assessments are expected as a large portion of the building would be returned to shell space until future tenants could be identified.
- The Developer will comply with Mid-American Energy's Commercial New Construction Energy Efficiency Program for the hotel floors and will be at least 5% above energy code for these floors. Additional energy efficiency efforts will include:
  - Conversion to high efficiency lighting on all floors including the garage.
  - Occupancy sensor lighting controls on the hotel floors.
  - Building mechanical system upgrades.
  - Elevator equipment and motor upgrades.
  - Consideration will be given to hotel room occupancy controls to setback temperatures and shut down lighting and equipment upon key-card removal.

**PREVIOUS COUNCIL ACTION(S): NONE**

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- Urban Design Review Board
- City Council – Final Terms of an Urban Renewal Development Agreement

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