TO: Mayor and Council, David Hales and City Staff, SB Friedman

FROM: Jeff Giebelhausen, on behalf of Bloomington Downtown Redevelopment Partners (a "to be formed" entity)

DATE: February 16, 2016

RE: 1. Status with Prospective Hotel Owner/Operator ("Hotelier")

2. Comments on SB Friedman Report

3. Responses to Certain Public Comments/Questions

As you will recall, last fall, I appeared before the City Council at your invitation and outlined different scenarios through which the redevelopment of the Front & Center/Commerce Block could occur. These ranged from the most minimal and longest term redevelopment without a City public/private partnership, to varying levels of development including a full service hotel and conference center. I was requested through staff to come back to the City with the outline of a specific development involving this most comprehensive, impactful development – the full service hotel and conference center. At the direction of the City, the information exchange and "vetting" was conducted through SB Friedman, the consultant retained by the City.

SB Friedman presented a series of in depth questions, which we responded to as fully as possible. The vast majority of information we presented was developed by our leading hotel ownership/management prospect. This information included development cost estimates, multi-year operating cash flows, analyses of anticipated City revenues and more. It is important to understand that while we talk about the "preliminary nature of information", this information was largely developed by the hotelier, with us providing the parameters outlined below (which are by and large site and HVS hotel study driven).

In working with Farnsworth Group, we developed a plan which includes:

1. No less than 120 hotel rooms (we are at 129):
2. Approximately 12,000 sq.ft. of "Class A" Conference Center space (meaning free of interior columns, and generally capable of competing on a regional level with the best spaces in the industry);
3. Multiple Food and Beverage options, creating a "clustering affect" to move downtown into in and of itself becoming a dining destination;
4. Parking for no less than 250 – approximately 1-1.5 times what is needed for the hotel itself.

In so doing, we also built into the plan requirements for:

1. Historic preservation and adaptive re-use of both the Commerce Bank and Front and Center buildings;

2. A “sky-bridge” connector to the Conference Center and Parking;
3. A “dramatic” off-street entry, essentially at the corner of Madison and Washington streets.

1. Hotelier Status

With this plan in hand (and it continues to be enhanced but with the key elements above remaining constants), we brought a particular hotelier to town last November. This was the second significant hotelier we’ve hosted in town. Some of you have had the opportunity to meet one, or and know specifically who I am talking about. While we have our leading candidate, as I have stated numerous times there are other prospects. We will seek to finalize the owner/operator as soon as possible, but they clearly need to know what a deal with the City will involve. There is no prospect interested in putting up a parking deck, renovating historic buildings and putting in a conference center without a public/private partnership.

Why are we safe-guarding their identity? It’s basic competitive business. Once their names are released, any community, developer or broker seeking to do a hotel deal will be on the phone, trying to get them to place their prospective project in front of ours. Since hoteliers, no different than any of us, have limits on the number of projects they pursue at a time, we very well could be causing our own demise by early release of our primary (or for that matter secondary) prospect(s).

Rest assured, however, before there is ANY firm commitment of the City into a deal, the public will know WHO the hotelier is, and staff and consultants will have full opportunity to review them for financial and operational capabilities. That’s a given.

So, in summary our hotelier status boils down to this: There is real interest from more than 1 group with the capability and capacity to deliver an exceptional project, as described above. Whether a final deal can be reached with one of these groups will depend on their ability to make an acceptable return on their investment, and the level of risk they will need to incur – all in comparison to other opportunities they may be pursuing. Of course, there is no deal if it doesn’t work for the City.

As disclosed, our proposal (as developed by the hotelier), requested a base City project revenue sharing commitment of $13 million. This is less than what either HVS suggested to expect in their initial report ($16 million PLUS cost of parking for a hotel and 20,000 sq.ft. conference center), or what I suggested last fall when outlining various development parameters – approximately $15 million. However, it is still a substantial amount of money, and represents approximately 25% of the project costs.

This amount is not absolute, and is highly influenced by a number of factors – final development costs, projected operating expenses, levels of historic or new market tax credits, etc. As we firm up these numbers, we will have a better idea of what the actual number should be.

2. About the SB Friedman Report

I want to re-state publicly what I have said privately many times over the last 3 months, before I had any idea how the SB Friedman report would turn out. During this process, the team at SB Friedman has been exceptional to work with. Their comments and suggestions have been insightful, their accessibility for us to clarify and ask questions outstanding, and, while we may not agree on every conclusion, I believe at this point based on the level of information available they are generally very accurate with their analysis.

Specifically, we agree with SB Friedman on critical Report elements, including:

1. That there is "no deal" until the ownership group and operator are publicly identified, vetted and "sign on the line";
2. That some information is preliminary, and will undoubtedly change – but please keep in mind the vast majority of our information came from the hotelier themselves;
3. That the project can be "pioneering" for downtown;
4. That there appears to be sufficient future "project revenues" to make a deal possible.

We aren't agreeing – or disagreeing – with SB Friedman's suggestion of the project needing public revenue sharing of between $8.2-$11.1 million – versus our $13 million request. What we do know is the final amount needs to be an amount the makes the project work for all parties – the City and the hotelier, given the scope of the project, the risks and the unknowns.

The final amount, we anticipate, will be heavily dependent upon factors such as:

1. Final Projected ADR (the average daily room rate, blended across the year) – our hotelier has run their analysis at $129/night, while SB Friedman uses a range as high as $150 (also in the HVS report). While we would love to accomplish the higher rate, we are simply not comfortable underwriting a deal based on those much more aggressive rates.

2. The forecasted future Assessed Valuation of the properties, and what types of real estate taxes that generates (which drives what amount might be available for revenue sharing, plus what the operating costs are for the project). Our hotelier has forecasted higher property taxes than SB Friedman, which reduces operating income, which creates the need for more revenue sharing. SB Friedman forecasts lower property taxes (which would be great for the hotel's operating costs), which would necessitate less revenue sharing.

3. On the development budget, we continue to learn more about the buildings, historic renovation costs, infrastructure needs and parking deck layout. While to some degree this will result in "numbers shuffling" between expense rows and we suspect from multiple sources our overall budget is close to accurate, more information will result in firmer numbers. However, gathering more information comes at significant cost, a cost we are not willing to bare without getting a

general understanding how the majority of the Council feels about the probable structure of a public/private partnership.

In conclusion, we concur with the SB Friedman Report's suggestion on how we can continue to proceed forward, and welcome the opportunity to do so in a timely manner from all parties.

3. <u>Review of and Responses to Some Citizen Comments</u>

It is certainly not our place to be critical of public comments. We respect that everyone has a right to their opinion, but we hold firmly to the belief that in so doing individuals do not have a right to develop their own "truths". We will not address disparaging or comments written without a true sense of wanting a response. With this in mind, we would like to address the following questions:

Q 1: Why won't we disclose the hotel flag or hotelier now?

A: The hotel flag is not a certainty until the hotelier applies for and reserves it. This requires finalization of the hotelier, which, first, requires an understanding of the economic deal. We know which flags are available, which ones are acceptable, and feel that there is a sufficient supply of flags to ensure we have a hotel which fits well into the "select service" category. This is certainly considered a "full service" hotel as well. This is the level which was outlined in the HVS study. While some people refer to this as "upscale" also, the reality is what it means is it is definitely above budget or extended stay, has full service amenities such as food/dining, room service, fitness, business center, etc, but is not at a "resort" level.

Disclosing the hotelier is no different than not disclosing a tenant in an office building or retail project too soon – its basic competition. The second we disclose them they become a target for every other pending or hoped for project. They will be disclosed, and properly reviewed and vetted, before there is any official commitment on the part of the City.

Q2: How was the land acquisition price determined and why is it so much higher than the assessed valuation?

A: That is the price which was negotiated. It represents what the Seller is willing to take for all 3 properties. While in every deal the Seller wants more and the Buyer wants to pay less (and that is the case in this deal), the reality is that is the price. It is much more than the assessed valuation, but the Seller has obviously worked very hard to have the assessed valuation as low as possible. Why they were reduced this much, we do not know and, therefore, cannot comment on. But, it really has no basis in estimating market value in this situation.

Many properties sell for much more than the assessed valuation or are worth a lot more than their assessed valuation. That being said, we are not buying land but existing buildings – in essence building "shells" – approximately 120,000 sq.ft. of re-useable building shells in the EXACT location we need. What value are these historic building shells worth? Each person has his or her own opinion. We do not believe, however, that less than $30 psf for the building shells plus the Elks property is out of line. This is the only site of its size sitting between the Historic Museum and the Coliseum, on Madison Street. It simply can't be compared directly to other properties. This is the best we feel we can do on price and would hope potential negative feelings toward a seller by some would not impact the prospects of an amazing project and historic transformation.

Q3: Can the Elks Building be saved also?

A: Given the multi-level construction to occur on this site, it is not practical – or even possible – to save the Elks building. However, our historic preservation consultants have suggested we look at ways to incorporate all or some of the façade elements into the new structure on that corner. This is a recent suggestion, and will be thoroughly reviewed.

We are very pleased with the interest level from folks on the historic preservation components of the project. While we have retained one of the State's leading authorities to advise us, we are also very appreciative of the countless suggestions from many of the leading experts, other property owners and key stakeholders right here in downtown.

Q4: What taxes are currently generated by the Commerce Bank building, Front & Center and Elks buildings?

A: Currently, just over $30,000 a year is generated in property taxes (shared by all taxing districts). There is no sales tax and very minimal utility taxes generated.

Q5: What would the new taxes be from the hotel, restaurants, conference center - the whole proposed development?

A: The future tax revenue sources include sales tax, hotel/motel tax, utility taxes and real estate taxes. The developer and hotelier estimated these taxes might generate over $1.8 million annually and the City's advisor – SB Friedman – estimates them to be just over $1 million. The major difference is what the real estate gets assessed at in the future. Regardless, the likely final number will be somewhere in between – say $1.3-$1.5 million a year. A lot more than the $30,000 total now.

Q6: Why does the Development need City money?

A: It does and it doesn't. The development **does not need, and has not requested, any current City money.** The development has requested assistance in paying for "extraordinary" project costs – with the funds for paying these "extraordinary" project costs coming from **some** of the new taxes generated by the project. **The ONLY tax revenue going into the project is a portion of the tax revenue coming from the project.**

Q7: What are these "extraordinary" costs that make revenue sharing necessary?

A: "Extraordinary Costs" primarily include:

1. **"Structured Parking**". It costs about $20,000 per parking space in a deck. The project needs at least 250 spaces – that cost alone is $5 million. There is no way this project – or any project in our area – can cover the cost of a parking deck without some revenue sharing from the revenues the project creates. That's why most parking decks are owned by public bodies. We are not requesting the City build the deck – we are prepared to do this, with some revenue sharing to offset the extraordinary expense.

2. **Higher costs attributed to the historic preservation and adaptive re-use of the Commerce (former People's) Bank and Front and Center Buildings** - simply put, it is more expensive to historically preserve and renovate these buildings than to demolish and build new. There is also greater uncertainty, which results in more risk, consultant's time, etc. For example, we will have to incorporate more expensive windows, ornate trim restoration, specific types of doors and other items. The revenue sharing is necessary to make historic preservation and adaptive re-use possible.

3. **Conference Center**. The City will have NO liability or exposure to operating costs for the conference center, but conference centers are just not economically feasible without revenue sharing. It's a big, expensive space, but is critical to the overall potential for the hotel and the rest of downtown. The conference space is essential to growing the market of prospective users.

Q8: What responsibility or risk does the City have with the operation of the hotel or conference center? How is this like or different than the BCPA and Coliseum?

A: This is nothing like the BCPA or Coliseum. The City has no risk with or responsibility for the operation of the project. The hotel, conference center and parking will be 100% privately owned and operated. Their success or failure will be from their efforts. Comparisons to projects the City owns, such as the BCPA or Coliseum are pointless and make no sense. This distraction needs to be discarded.

Q9: What are the ideas behind the "four bars and restaurants" that were mentioned?

A: The overall project is over 150,000 sq.ft., not including the parking deck. Within it, we are envisioning 4 distinct food/beverage venues, each designed to complement – not directly compete with – the existing bars and dining options downtown. The goal is to make all of downtown a regional dining destination, which drives business to all types of retail in the downtown area and the greater community. The Coliseum becomes more attractive as an events venue, as does the BCPA and the new Conference Center. We envision a:

1. **Hotel Restaurant** – located on street level towards the rear of the Front & Center building, this restaurant will be the more traditional full service hotel restaurant, serving breakfast, lunch, dinner and room service. The restaurant will be operated by the hotel itself.

2. **"Upscale", "Finer Side" of Dining** – we envision the lobby of the Commerce Bank building becoming a grand, upscale "finer dining" restaurant. While we talk of a steakhouse, no firm plans are set. We are currently discussing this site with potential tenants. It could be a local operator/independent or a chain/franchise (there are pros/cons to each approach), and we encourage interested parties to contact us! This will be a leased space.

3. **Seafood/Oyster Bar** – as you walk into the Front and Center building from its Front Street entrance, you will be welcomed into a rustic, dynamic, trendy cocktail bar featuring an eclectic menu including Oysters, fresh shrimp and more. Modeled after similar offerings in other markets, this offering will "fit the bill" for lunch, a drink after work or a full dinner. We are currently discussing the project with prospective operators and ownership structures. This will be a leased space.

4. **Sports and Brews** – you can't be located across from the Coliseum without establishing THE place for before and after event brews in a casual and fun atmosphere. Whether we brew on site is yet to be determined, but the prospects we are talking with are committed to a full range of "engaging", interactive offerings that will complement downtown's other dining and drinking destinations. Interested prospects are encouraged to contact us. This will be a leased space.

Q10: Some people feel downtown has no future. Why do you believe in downtown so much?

A: We read about the "decaying infrastructure", the crime, the lack of any market, the failings of the BCPA and Coliseum and more. We hear the same negativism time and time again.

If these things are true, then what is the City going to do about it? Count Downtown out, and let it become a ghost land over the years and decades ahead? Or take strong – but responsible – action to reverse any negatives and continue the transformation of downtown that has propelled so many other communities? Cities can't turn their backs on essential parts of the community and expect the private sector to come along and independently make things happen. Not when issues such as the desire for historic restorations and the need for structured parking are critical driving points.

We do believe in Bloomington, and we do believe in downtown. We know there are a lot of ill feelings over decisions of the past – most particularly the Coliseum. But there is simply no comparison between the Coliseum, BCPA and our project – other than 1 - the projects are all vital to the success of other businesses and residential growth downtown and are each meaningful contributors to the quality of life not just downtown but throughout the community. Quality of life is not important to some, but we personally believe quality of life is one of the primary responsibilities of elected officials.

So, how is the proposed partnership with the City different than the BCPA or Coliseum?

1. The City will not own the hotel
2. The City will not own the Conference Center
3. The City will not own the parking deck
4. The City will not operate any of the above
5. The City will not be responsible for operating losses or capital improvements of any of the above.
6. The City will start receiving net new revenue from day 1 – it's mathematical. If it's built, the City makes money. Yes, some of this money must go back into the project, and we have to figure out just how to do that that works for all parties. But it's SOME of the money. And yes, the City benefits in multiple other ways also.

In closing, this process has carried on for years, and the discussion of a downtown hotel even longer. At some point, rising interest rates, additional hotel capacity in the market, the unavailability of the "right land" for development, or lack of any private sector interest may make the prospects of a downtown hotel and conference center a moot point.

Fortunately, today we do have great interest rates, there is a market need for hotel rooms, the best land is available, and there is private sector interest. The final question is whether the City and private sector can reach a mutually acceptable and rewarding partnership to propel the project – and all of its domino affects – ahead.