REQUEST FOR COUNCIL ACTION

To: **Honorable Mayor and Members of the City Council**

From: **Patrick Urich, City Manager**

AGENDA DATE REQUESTED: November 1, 2011

ACTION REQUESTED: APPROVE THE ATTACHED ORDINANCE APPROVING THE REDEVELOPMENT AGREEMENT BY AND AMONG THE CITY OF PEORIA AND PERE MARQUETTE HOTEL LLC, PERE MARQUETTE TIF, INC. AND EM PROPERTIES, LTD., TO REHABILITATE THE HOTEL PERE MARQUETTE INTO A FULL SERVICE MARRIOTT; CONSTRUCT A NEW COURTYARD MARRIOTT; CONSTRUCT A PARKING GARAGE WITH RETAIL AND RESTAURANT SPACE; CONSTRUCT AN ELEVATED CONNECTOR TO THE CIVIC CENTER; AND AUTHORIZE THE CITY MANAGER TO EXECUTE THE NECESSARY DOCUMENTS.

ATTACHMENTS:

1. An ordinance approving the redevelopment agreement by and among the City of Peoria , EM Properties Ltd., Pere Marquette Hotel, LLC and Pere Marquette TIF, Inc.
2. Material Changes to Downtown Hotel Redevelopment Agreement
3. Amended and Restated Redevelopment Agreement By and Among the City Of Peoria and EM Properties, Ltd. and Pere Marquette Hotel, LLC and Pere Marquette TIF, Inc. (Final Version)
4. Amended and Restated Redevelopment Agreement By and Among the City Of Peoria and EM Properties, Ltd. and Pere Marquette Hotel, LLC and Pere Marquette TIF, Inc. (Red-Line Comparison to May 2010 Agreement)

BACKGROUND: On May 25, 2010, the City Council approved an amended redevelopment agreement with EM Properties that outlined a project for the renovation and expansion the Hotel Pere Marquette. That agreement included a City contribution, in the form of a grant, not to exceed $37 million. Since that date, EM Properties has worked to secure a private loan that would complete the financing package and allow the project to commence. The national economic climate and a general reluctance of lenders to finance commercial hotel projects had hindered EM Properties' efforts, but the firm is now in a position to proceed.

The basic elements of the project remain the same as they did in May 2010:

- Complete renovation of the Hotel Pere Marquette into a full-service Marriott with 284 rooms (+/- 5% room count).
- Demolition of the buildings on the northeast portion of the 500 block of Main Street.
- Construction of a 116 room Courtyard Marriott hotel on that newly cleared site (+/- 5% room count). This is a reduction of one room from the plan in 2010.
- Demolition of the existing Pere Marquette parking deck, replaced with a 466-space parking deck (+/- 5% space count).
- Creation of an additional 15,500 square feet of retail and restaurant space on the ground floor

of the parking deck and within (but separate from) the Courtyard Marriott building (+/- 5% square footage). This space is envisioned to be separated into three restaurants and one retail space.

- Construction of an elevated, secure, climate-controlled pedestrian walkway that connects all three buildings to the Peoria Civic Center.

The City's financial obligation under the May 2010 redevelopment agreement consisted of a "Project Grant" financed with a tax-exempt, general obligation bond that would not exceed $37 million. In that redevelopment agreement, the total project cost was set at $102,561,054, with the City's participation not exceeding 36.076% of total project costs. The total contribution of the City could have fallen below the maximum due to either (1) savings in the project budget and/or (2) revenue from the State Historic Tax Credit program (50% of either or both discounted from the City's obligation).

While the project is essentially the same in scope, there has been a change in the legal entities with which the City is contracting. In addition to EM Properties, Ltd., this redevelopment agreement includes two additional parties: "Pere Marquette TIF, Inc." and "Pere Marquette Hotel, LLC". In the May 2010 agreement, EM Properties was the developer party for federal income tax purposes. As the City and Redeveloper negotiated the overall structure for a revised agreement, it became necessary to create an affiliated S corporation (Pere Marquette TIF, Inc.) to become the recipient of the Project Grant and address any federal income tax issues in connection with the structure. Further, the May 2010 agreement contemplated that an affiliated entity would own the hotel project. Pere Marquette Hotel, LLC, was created to be that owner. Currently, the Redeveloper has contracts or option contracts for the purchase of, or ground leasehold interest in, the site. Now that the affiliated entity has been identified (Pere Marquette Hotel, LLC), the City has required they also be included as a party to the revised agreement. Per the revised redevelopment agreement, Gary Matthews and EM Properties hold controlling interest in all affiliated parties.

More importantly, though, the financial commitment of the City is significantly different:

- The total project budget is $92,844,922. An itemized budget is listed in Schedule 4 of the redevelopment agreement. This reduction is largely based on EM Properties' agreement to delay the payment of any "developer fees." In the previous agreement, $9,180,000 in development expenses were included in the budget and consequently funded in part by the City grant. In this agreement, any development fees will be paid from the profits of the hotel operation itself and only after all debt service payments.
- The Project Grant has been reduced to a maximum of $29 million. The City will issue a taxable, general obligation bond in order to create the project grant funds. City funds will be drawn on a 50-50 basis with the funds from the private loan (in the agreement, the "Senior Debt") for all costs. The City is choosing to issue taxable bonds because the developer has agreed to not contest his property tax valuations as long as his firm is owner.
- In addition, the City will provide the developer with a 25-year $7 million loan (the "Project Loan") at 7% interest from the City's Post Employment Benefits Reserve. The terms of the agreement are:
    - For the first two years after the Financing Closing Date, there will be no principal payments, nor any interest accrued.
    - If after two years (measured from the Financing Closing Date) the project is complete, the developer will begin paying principal and interest at 7%.
    - If after two years the project is not yet complete, the developer will make payments on

the principal for that year only.

  - After three years, regardless of completion, the developer will make annual principal and interest payments.

- The loan is junior to the Senior Debt. If the hotels are sold, the City will be repaid in full from sale proceeds.
- Any savings between the date of this agreement and the Financing Closing Date will be used to fund a project contingency.
- Any savings between the Financing Closing Date and the Project Completion Date will be used to equally fund separate debts service reserves for the Senior Debt and the City's Project Loan. Should the hotels be sold, any amounts in <u>both</u> reserves will be paid to the City for use at its discretion.
- Both parties agree to use their best efforts to cause the Financing Closing Date to occur before December 31, 2011. If the Financing Closing Date does not occur by January 31, 2012, the agreement will automatically terminate.

A table outlining the material changes between the current proposal and the approved agreement from May 2010 is attached.

As before, the City's bonds will be repaid with proceeds that stem from the project itself:

- Property tax increment available through the Hospitality Improvement Zone TIF District.
- One percent taxes levied on hotel rooms and project food and retail sales available through the Business Development District.
- Hotel, Restaurant and Amusement taxes collected above the 2008 base level (adjusted annually for inflation).
- If necessary, municipal sales taxes (on food and retail sales) collected above the 2008 base level (adjusted for inflation).

In addition, the City can use a portion of the interest generated by the Project Loan in order to service the bond debt. Of the 7% interest payment, at least 2% (in addition to all principal payments) will be deposited back into the Post Employment Benefit Reserve. The remainder could be used to pay debt service or for other purposes as determined by the City Council.

FINANCIAL IMPACT: The City of Peoria would issue a general obligation bond that yielded not more than $29,000,000 to be contributed to the project on a percentage basis. The City would be responsible for paying these bonds over the next 23 years (may include three years of capitalized interest during the construction phase). Additionally, the City would loan the developer $7,000,000 over 25 years at 7% interest (after the initial 2-3 year interest period outlined above) from its Post Employment Benefits Reserve. The Reserve is currently invested in investment vehicles that receive less than 1% return each year, making this investment considerably more lucrative.

Staff has run a number of performance scenarios to demonstrate that municipal revenue generated by the project alone should be sufficient to cover the debt service on the bonds. Staff is prepared to discuss these projections at the City Council meeting.

NEIGHBORHOOD CONCERNS: Not applicable.

IMPACT IF APPROVED: The City of Peoria would proceed with issuing bonds if the Pere entities meet their remaining contractual obligations. The Pere Marquette will be renovated, the Courtyard and parking deck will be built, and the Civic Center will be physically connected to over 400 high-quality rooms.

IMPACT IF DENIED: Bonds will not be issued and the project will not proceed. This hotel project represents a significant and needed investment in downtown Peoria. Without a public-private partnership, the Pere Marquette is not likely to receive the renovation it needs to remain competitive. The Peoria Civic Center has publicly stated that a connection to more and better hotel rooms is a key ingredient in maximizing the City's investment in that facility. The failure of downtown Peoria's hotel market is more than a matter of individual business loss – it will impact City revenue streams for years to come. Additionally, litigation is probable if denied.

ALTERNATIVES: None.

EEO CERTIFICATION NUMBER: Not applicable.

WHICH CRITICAL SUCCESS FACTOR(S) FROM THE COMPREHENSIVE PLAN DOES THIS RECOMMENDATION IMPLEMENT?

1. Grow employers and jobs.

REQUIRED SIGNATURES

Department Director ______________________________
City Manager

Finance Director ______________________________
(Certification of Availability of Funds)

Corporation Counsel ______________________________

City Manager ______________________________