ICMA 2008 Annual Awards Program

Program Excellence Awards Nomination Form

Deadline for Nominations: March 14, 2008

Complete this form and attach to your descriptive narrative.

SECTION 1: Information About the Nominated Program

Program Excellence Award Category *(select only one)*

- ☐ **Community Health and Safety**
- ☐ **Community Partnership**
- ☐ **Community Sustainability**
- XX **Strategic Leadership and Governance**

Name of program being nominated: Lombard Hotel Convention Center

Jurisdiction where program originated: Village of Lombard, Illinois

Jurisdiction population: 43,894

Please indicate the month and year in which the program you are nominating was fully implemented. (Note: All Program Excellence Award nominations must have been fully implemented by or before January 31, 2007 to be eligible. The start date should not include the initial planning phase.)

Month: September Year: 2005

Name(s) and title(s) of individual(s) who should receive recognition for this award at the ICMA Annual Conference in Richmond, Virginia, September 2008. (Each individual listed MUST be an ICMA member to be recognized.):

Name: William T. Lichter

Title: Village Manager Jurisdiction: Village of Lombard, IL

Name: David A. Hulseberg

Title: Assistant Village Manager Jurisdiction: Village of Lombard, IL

Name:

Title: Jurisdiction:

SECTION 2: Information About the Nominator/Primary Contact

Name of person who should be contacted with questions regarding the nomination:

Jennifer Backensto

Title of nominator: Planner II Jurisdiction of nominator: Village of Lombard

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1. Problem assessment

In 1997, the Village of Lombard initiated a study to determine which industry classifications were underserved in the Village. The study found that, when compared to similar communities, the Village was lacking in its number of hotel rooms and restaurants. To help grow its hospitality and restaurant market and increase city-wide demand, the Village sought to encourage a private developer to build the hotel convention center that would create additional demand for existing hotels, encourage convention attendees to frequent local restaurants, and generate discretionary dollars to be spent at local retailers. When market conditions changed to make the project unfeasible for a private developer, the Village stepped in to fill the market need.

In 1999, the Village Board first mentioned the construction of a hotel convention center as part of its 2000 Strategic Plan. This was originally conceived as a privately-owned facility that the Village would assist through contributions from hotel/motel tax, property tax, and sales tax revenues. Five locations along the Butterfield Road corridor were considered, but this proposal was structured before September 11, 2001. The combination of an economic recession following 9/11 and hotel pricing pressures eliminated the possibility of privately financing the deal. Also, interest rates, market demand, property taxes, and infrastructure costs made it unfeasible for private development alone to initiate this type of activity. The challenge was then how to build a project of this nature.

2. Program implementation

To create the hotel convention center, the Village took advantage of an IRS ruling that allows municipalities to enter into long-term management agreements. The Village used this to create the Lombard Public Facilities Corporation (LPFC) and was able to obtain private investments totaling $183,710,000. The LPFC was established as the authority through which the debt can be issued as provided under the IRS codes, and the LPFC receives direction from the Village Board.

The cost of capital to privately finance a deal of this nature would approximate 12%, and as a private development the property would have an annual tax bill of more than $2 million. With these prohibitive costs, this deal could not occur privately. However, the Village's usage of a unique deal structure combined with its tax-exempt status reduced the cost of capital to a more manageable 7%, and as a Village-owned asset the project does not pay property taxes.

The innovation in this case was the complex financial engineering and public development tools used to turn an otherwise unfeasible private deal into a reality. The Village did not use Village funds to finance the convention center and has instead pledged sales tax, hotel motel tax, and profits generated by the facility. While the Village pays off the bonds associated with this project, the local economy benefits in the following ways: $3 million bond proceeds for water main improvements at Yorktown Center; $2 million in traffic improvement to the existing Yorktown Center ring road; $750,000 bond proceeds for construction period expenses of the LPFC with any unused funds reverting to the Village; $200,000 in 2006, increasing annually thereafter, for administrative expenses of the LPFC with any unused funds reverting to the Village; ancillary economic benefit from new retail and commercial development spurred by the hotel convention center; economic impact resulting from increased use of the existing limited service hotels and restaurants in Lombard from the demand created by the facility; creation of new jobs related to the operation of the facility; and once the bonds are retired in 30 years, the Village alone will own the building - an asset worth more than $240 million - which it could thereafter continue to operate or sell to a private hotel operator.

Out-of-pocket expenses associated with the project totaled $306,318. These expenses were reimbursed to the Village at the time of the bond closings. The hotel convention center bonds had no impact on the Village's bonding capacity. Over the 30-year bond repayment period, Lombard will forgo $76.9 million in tax revenue but obtain $429 million in distributions for a net gain of

$351.7 million by the time all debts are paid off in 2034. The net gain will be substantially higher if the facility appreciates in value over the 30-year period. A "financial shock scenario" was created to see what would happen in the event of another economic recession. This worst-case scenario assumed a drastic 12.5% reduction in room rates and a 13% reduction in occupancy. Even with a 31% reduction in net operating income, the hotel convention center will still generate sufficient funds to pay the debt service on all three outstanding bond issues while maintaining reserve fund levels. With convention delegates spending an average of $290 per day, the hotel convention center will have an additional economic value to the Village of $47.6 million to $63.5 million in annual discretionary spending, not including the multiplying factors from those monies being recycled within the local economy for wages and resources.

The LPFC needed to continually understand the hospitality industry and its market. Numerous agreements needed to be addressed as the project progressed, and the need to be flexible and understand other parties' concerns was paramount. The Village entered into agreements with Mid America Hotel Partners LLC to serve as the asset manager and developer of the project. Walsh Construction Company was hired as the design builder. Westin Management Company North, a subsidiary of Starwood Hotels and Resorts, will serve as the hotel manager. Also, as a non-home rule community, the Village initiated and lobbied for an amendment to state law to allow the Village to facilitate this project. Although deal fatigue nearly ended the project, perseverance won out.

3. Tangible results

Lombard's hotel convention center, officially known as the Westin Lombard Yorktown Center, is the premier meeting facility in DuPage County. Opened to the public in August 2007, the project is a 440,000-square foot, 18-story building with related site improvements on a 6.69-acre site just east of Yorktown Center mall. The facility consists of 500 hotel rooms and suites, a parking garage with 635 spaces, 230 surface parking spaces, and other amenities commensurate with a full-service, convention-oriented five-star hotel. There are a total of 55,000 square feet of meeting space, including the 18,915 square foot Grand Ballroom – the largest ballroom in the western suburbs. Rounding out the project are Harry Caray's Italian Steakhouse and Holy Mackerel, a new fresh seafood concept from Harry Caray's Restaurant Group. Together, the restaurants offer a combined 24,000 square feet of upscale dining in a sophisticated yet casual atmosphere.

The program has proved to be extremely successful, with a current return on cost of 6.75% that is projected to rise to 10%. The Westin has higher room rates and higher occupancy than its competitors in the market and Harry Caray's and Holy Mackerel are bringing in a combined $1.2 million per month in food and beverage sales. Although past financial statements are not yet available, the 2008 Master Operating Budget anticipates hotel revenue of $29.8 million in 2008, which is 8.2% higher than originally projected in 2005.

The convention center has generated spending in the nearby retail and restaurant establishments, leading to greater economic performance in Lombard as a whole. After plans for the convention center were approved, Yorktown Center announced its plans for The Shops on Butterfield, a 225,000-square foot lifestyle center that opened in 2007. Yorktown, a two million-plus square foot regional shopping destination, currently accounts for 23 percent ($2.5 million) of the Village's regular sales tax income. It is estimated that Yorktown's sales tax contribution will increase by up to 50 percent once The Shops on Butterfield is fully occupied. This high-visibility development is, in turn, is leading to substantial new investment and redevelopment activity in the area.

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Lombard's entrepreneurial spirit has resulted in not only a successful, prestigious project, but also an innovative, forward-thinking economic tool that can serve as an example to other communities. The project allowed the Village to go beyond its traditional role as a partner and facilitator to enter the business community for the first time as a participant. Other municipalities can learn from Lombard's experience and consider that, when the private sector is unable to act, they themselves can become entrepreneurs themselves to meet the demands of their communities.

4. Lessons learned

In effecting the statutory change needed to allow the Village to construct a convention center, the Village learned that it is essential to enlist the support of local legislators early in the process and seek letters of support from local points of influence (such as the DuPage County Convention and Visitors Bureau). Also, municipalities should not be afraid to lobby on issues that are important to the community. As far as that is concerned, using a lobbyist is sometimes the best way to go.

With 25 agreements negotiated and written, the project involved many parties that were focused in the same direction, but sometimes had divergent interests and points of view. Staff learned to select good consultants and rely on their expertise, but also rely on staff's own instincts and experience. Municipal leaders should anticipate problems, but stay focused and be patient throughout the process. Keeping elected officials updated on project status is critical.

There were numerous challenges involved in maintaining enthusiasm for a project that stretched over a five-year period, due to both the complexity of the project and changes in the Village Board. Staff learned that there's no such thing as too much information, and it's important to give the bad news along with the good. It's essential to have patience and remember that while staff is immersed in the issues, the elected officials are not. They should be consulted frequently, with no assumptions made. Most importantly, the community must also be kept informed because community support and Village Board support are often tied together.