

**Topeka Development Corporation Board of Directors Meeting Minutes
February 6, 2024**

The Topeka Development Corporation (TDC) Board of Directors met in the City Council Chambers at 5:00 p.m. with the following Board of Directors present: Karen Hiller, Sylvia Ortiz, Brett Kell, Spencer Duncan, Neil Dobler (Vice President) and Michelle Hoferer -6. Christina Valdivia-Alcala and Marcus D.L. Miller participated remotely -2. Board President Michael Padilla presided -1. Absent: David Banks -1.

Public comment for the meeting was available via Zoom or in-person. Individuals were required to contact the City Clerk's Office at 785-368-3940 or via email at cclerk@topeka.org by no later than 4:00 p.m. on February 6, 2024, after which the City Clerk's Office provided the Zoom link information and protocols prior to the meeting start time. Written public comment was also considered to the extent it was personally submitted at the meeting or to the City Clerk's Office located at 215 SE 7th Street, Room 166, Topeka, Kansas, 66603 or via email at cclerk@topeka.org on or before February 6, 2024.

PLEAGE OF ALLEGENCE was cited by meeting participants.

APPROVAL of the November 14, 2023 Minutes.

Director Duncan moved to approve the minutes. The motion seconded by Vice President Dobler carried unanimously on roll call vote. (9-0-0)

APPROVAL of 2024 Operating Budget for Hotel Topeka.

Braxton Copley, Project Manager, stated in December 2023 GF Hotels presented the draft operating budget for Hotel Topeka. He thanked Rick Pastorino, REVPAR International Principle and Paul Landry, Vice President, for providing their expertise and guiding him through the review of the budget in great detail. He reported the following:

- Hotel Topeka was a distressed asset with an occupancy of 33-34% on an annual average basis and a RevPAR (Revenue Per Available Room) of approximately \$35.
- Operating revenue budget being presented for approval reflects a 3% increase over last year with a net operating loss.
- Revenue is approximately \$4.3 million.
- Hotel Topeka staff members have been challenged to do the best they can with the distressed asset.
- Offsetting the revenue is \$4.2 million of expenses leaving a gross operating profit of approximately \$140,000.
- Deduct management fees and other expenses including insurance and taxes totaling approximately \$400,000 resulting in a net operating loss projection of \$396,000 for the year.

He spoke to the financial reality of the asset and stated the property will have to be financially supplemented until they can attract an owner/operator who was willing to take the asset on and invest significantly in the property to make it marketable. He requested approval of the budget as presented.

Director Duncan asked if the proposed budget included the Payment in lieu of Taxes (PILOT).

Braxton Copley stated a PILOT was not permissible; however, the proposed budget does include an operational service charge in an amount equal to what the real property taxes would for the hotel.

Director Duncan stated it was important for citizens to know the operational service charge was part of the reason for the net operating loss projection.

Director Ortiz questioned if there were additional budget cuts that could be made and referenced an email she received from a Hotel Topeka staff member informing her there are less expensive service contracts available.

Braxton Copley stated they have meet with Hotel management staff and it was confirmed the Hotel was operating with minimal staff across all operations.

Director Kell asked if they are working to coordinate events with the Stormont Vail Event Center.

Braxton Copley stated they have hired an experienced Hotel Marketing Manager who meets with Stormont Vail Events Center and GO Topeka staff members for the purpose of developing an events collaboration plan.

Director Hiller thanked Staff for their hard work in keeping the hotel operational and reminded citizens to keep this in mind when looking for places to hold events.

Braxton Copley stated they are doing the best that they can with a small staff; however, the additional small capital investment to make the atrium area water fountains operational and addressing life safety issues makes a huge difference in the ambiance of the hotel.

Vice President Dobler thanked Braxton Copley and hotel staff members for improving the hotel where they can.

Vice President Dobler moved to approve the 2024 Operating Budget for Hotel Topeka. The motion seconded by Director Kell carried on roll call vote. Directors Valdivia-Alcala and Ortiz voted “no.” (7-2-0)

UPDATE of REVPAR International Summary Analysis of Hotel Topeka.

Braxton Copley, Project Manager, stated the City's Asset Manager REVPAR International will provide a summary of its analysis of Hotel Topeka along with its recommendation and next steps in the process to solicit an owner/operator to take over ownership and operation of the hotel.

Rick Pastorino, REVPAR International Principle, provided an overview of the following:

- What has been accomplished to date to include a Market Study, Branding Analysis, Financial and Return On Investment Analysis, and 2024 Hotel Budget Review.
- SWOT (Strengths, Weaknesses, Opportunities and Threats) of Hotel Topeka, Market Methodology and Strategy Process.
- The importance of renovating Hotel Topeka and the effect it will have on all area hotels.
- Future Projections for a 224-Unit Independent Hotel Topeka (*Attachment A*).
- Future Projections for a 224-Unit Double Tree by Holton Hotel (*Attachment B*).
- The importance of considering branding affiliations (*Attachment C*) with the preference to do so with Hilton DoubleTree Hotel because the cost of the product improvement plan was lower at \$12 million (excluding renovation of the Manor Conference Center) as well as access to 160 million loyalty members and national credibility. He noted if the Manor Conference Center was not renovated it will limit the ability of Hotel Topeka to achieve the stabilized results being projected, and it was assumed the Conference Center will be renovated alongside the hotel. It was anticipated there would be new ownership by the end of 2024; renovations in 2025 with anticipated fiscal improvement in 2026 due to the association with Hilton; and 14.4% Return on Investment by 2031.
- There is roughly an incremental asset value difference of \$8 million for an independent hotel versus a branded hotel.
- Return on Investment Summary (*Attachment D*) for a 224-Unit Hotel Topeka Hilton DoubleTree Hotel.
- Next steps include an RFP Process, Identify Qualified/Funded Developer, Further Evaluate Operator, and assist the City with the selection and negotiation of a new Owner/Operator.

Director Banks entered the room.

Braxton Copley asked the Board if Staff was moving in the right direction. He stated the next step would be to first have REVPAR reach out to potential owner/operators and then if that does not prove successful, engage a broker or issue an RFP and negotiate the terms with the assistance of REVPAR.

Director Kell spoke in support of branding affiliations and securing loyalty members. He spoke to the importance of having a website that was easy to navigate and asked Staff if they have considered promoting long-term stays with State legislators.

Braxton Copley stated Hotel staff members are working to entice long-term stays with State legislators and lobbyist to generate revenue for the property.

Director Duncan asked what the process and timeline would be if REVPAR reached out to potential owner/operators before they issued an RFP.

Rick Pastorino stated they would need 45-60 days to identify owners and operators interested in the property and have a full understanding of the asset, negotiate terms, and present an offer to the City for approval.

Director Duncan stated he believes the Board would be willing to develop potential incentive packages.

Vice President Dobler stated he was encouraged by the report and spoke to the importance of developing an acceptable incentive packet. He spoke in support of moving forward with a two-step approach by first allowing REVPAR to reach out to potential owner/operators before a formal RFP was issued. He asked what it would cost to build a new similar size hotel.

Rick Pastorino reported the first-step will allow them to understand what the market is seeking as well as the expectations of all parties involved. He noted it would cost significantly more to build a new hotel.

Director Hiller expressed her appreciation of the report. She stated the Manor Conference Center remains critical to the success of Hotel Topeka. She asked for an update regarding conversations with Shawnee County on the status of the renovation of the Conference Center.

Amanda Stanley, City Attorney, reported they continue to have ongoing conversations with the Shawnee County Counselor. She stated she believes there was an understanding that something needs to be done with the Manor Conference Center; however, no funds or timeline have been identified.

Director Hiller spoke to the importance of confirming the details with Shawnee County so REVPAR has a clear understanding of the options available.

President Padilla asked if they should forward interested owner/operators to REVPAR for consideration.

Braxton Copley requested all potential owner/operator leads be sent to him to be distributed to REVPAR.

Director Duncan stated they recognize the Manor Conference Center was important to Shawnee County and significant funding has been allocated to this facility. He also recognized the Conference Center was an important part of the hotel and it was his expectation that Shawnee County was ready to help and make sure they can work together on the project.

President Padilla thanked Rick Pastorino for providing his expertise on the subject matter and spoke in support of the two-step approach as outlined by Vice President Dobler.

Director Hiller inquired on the recommendation that a purchaser of the property may be interested in building a second hotel on the overall property site to optimize the capacity to handle large events.

Braxton Copley stated no recommendation has been made to build a second hotel and the vast majority of the site was located in the flood zone. He noted there were several area hotels that could help accommodate the need for a mass number of rooms for large events.

APPROVAL of a request for Hotel Topeka operational funding in the amount of \$500,000 contingent upon Governing Body approval of the transfer of the funds to the Topeka Development Corporation.

Richard U. Nienstedt, Interim City Manager, stated this was the next critical step in making the hotel functional so it can be placed on the market and purchased by a developer.

Braxton Copley, Project Manager, stated approval of an additional \$500,000 tranche of operational funds from the General Fund (Hotel Non-Departmental Expense) to operate and maintain Hotel Topeka. A request for additional operation funds in the amount of \$277,355 was received on January 26, 2024. If authorized by the Governing Body at the February 6, 2024 Governing Body meeting, a portion of the additional \$500,000 tranche would be used to pay the requested funds. He reminded the Board under the terms of the management agreement they are required to maintain a minimum of \$150,000 in operational funding and as the owner, they are responsible for funding any shortfalls – and this request would be considered a projected shortfall based on revenue and expenses.

Vice President Dobler inquired on the balance of the City of Topeka General Fund Reserves.

Rachelle Mathews, Assistant Treasurer, reported the City ended the 2022 Fiscal Year with \$27 million in the General Fund. 2023 results are still being finalized because they are waiting on the final sales tax payment from the Kansas Department of Revenue. She stated they are projecting an additional revenue surplus for 2023 in the approximate range of \$5 - \$8 million

Vice President Dobler asked if the \$500,000 would be allocated from reserve funds.

Councilmember Miller left the meeting.

Assistant Treasurer Mathews reported the City of Topeka Reserve Policy would not allow the use of General Fund Reserves for operational items; however, they are working to draft a plan based on the Hotel Condition Assessment and input from Braxton Copley's team to allow the use of General Fund Reserves to pay for capital expenses. The \$500,000 would be paid from the General Fund – not the Reserve Fund.

Director Duncan asked if the use of General Fund Reserves was mandated by City policy or a City ordinance.

City Attorney Stanley stated it was mandated by City resolution; however, it could be amended. She asked Assistant Treasurer Mathews to explain the risks associated with waiving the rule.

Assistant Treasurer Mathews stated if the policy was amended it would carry some additional risks with financial analysis for using Reserves to fund operations by serving as a red flag to investors, bond rating agencies and others who invest in City assets.

Braxton Copley clarified there are sufficient 2024 operating funds to pay for the request without using 2023 reserve funds.

Vice President Dobler moved to approve a request for Hotel Topeka operational funding in the amount of \$500,000 contingent upon Governing Body approval of the transfer of the funds to the Topeka Development Corporation. The motion seconded by President Padilla carried on roll call vote. Councilmembers Valdivia-Alcala, Ortiz and Banks voted “no.” (6-3-0)

NO FURTHER BUSINESS appearing the meeting adjourned at 5:59 p.m.



Future Projections for 224-Unit Independent Hotel Topeka

Year	Occupancy	Average Daily Rate ⁽¹⁾	RevPAR ⁽¹⁾	Market Occupancy	Total Revenue	EBITDA ⁽²⁾ After Reserve	
						\$ Amount	%
GF Budget 2024	34%	\$99	\$33	61%	\$4,325,000	(\$396,000)	(9.2%)
2025	34%	\$104	\$35	62%	\$4,595,000	(\$331,000)	(7.2%)
2026	46%	\$125	\$58	64%	\$9,649,000	\$238,000	0.5%
2027	53%	\$136	\$72	65%	\$11,406,000	\$1,223,000	9.7%
2028	57%	\$147	\$84	66%	\$12,660,000	\$1,749,000	12.8%
2029	57%	\$152	\$87	67%	\$13,068,000	\$1,697,000	13.0%
2030	57%	\$156	\$89	67%	\$13,433,000	\$1,724,000	12.8%
2031	57%	\$161	\$92	67%	\$13,851,000	\$1,790,000	12.9%
CAGR ⁽³⁾	4.4%	5.2%	9.8%	--	7.5%	49.7%	

Notes: ⁽¹⁾ Average daily rate and RevPAR have been rounded to the nearest dollar.
⁽²⁾ EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, & Amortization.
⁽³⁾ Compound Annual Growth Rate for occupancy based on occupied room nights.



Future Projections for 224-Unit DoubleTree By Hilton Hotel

Year	Occupancy	Average Daily Rate ⁽¹⁾	RevPAR ⁽¹⁾	Market Occupancy	Total Revenue	EBITDA ⁽²⁾ After Reserve	
						\$ Amount	%
GF Budget 2024	34%	\$99	\$33	61%	\$4,325,000	(\$396,000)	(9.2%)
2025	34%	\$104	\$35	62%	\$4,595,000	(\$331,000)	(7.2%)
2026	51%	\$130	\$66	64%	\$10,554,000	(\$84,000)	(2.8%)
2027	62%	\$141	\$87	65%	\$13,010,000	\$1,411,000	9.8%
2028	65%	\$153	\$99	66%	\$14,792,000	\$2,248,000	14.2%
2029	65%	\$158	\$103	67%	\$15,258,000	\$2,182,000	14.3%
2030	65%	\$162	\$105	67%	\$15,676,000	\$2,216,000	14.1%
2031	65%	\$167	\$108	67%	\$16,154,000	\$2,288,000	14.2%
CAGR ^{(3) (2)}	5.0%	5.1%	10.4%	--	8.9%	--	--

Notes: ⁽¹⁾ Average daily rate and RevPAR have been rounded to the nearest dollar.
⁽²⁾ EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, & Amortization.
⁽³⁾ Compound Annual Growth Rate for occupancy based on occupied room nights.



Branded Versus Independent

Full renovation to Guestrooms, Public Space, Maner CC, and Exterior Required
(Under Either Scenario)

DoubleTree By Hilton

- PIP = ~\$12 million (or higher)
- Affiliation with Hilton -160 million loyalty members.
- Strength of Brand – Access to Central Reservation System
- Lends Hotel National Credibility
- Excludes cost to renovate Maner CC

Independent Hotel

- PIP = ~\$10 million
- Unaffiliated with National Brand
- Excludes cost to renovate Maner CC

Product Improvement Costs (PIP) Costs are in addition to acquisition costs and building improvements outlined in facility assessment



Return on Investment Summary

Return on Investment Summary 224-unit Hotel Topeka, Topeka, KS Assumes DoubleTree Hotel		
	Assumes City Owns and Holds As of January 1, 2024	Assumes New Owner/Operator as of January 1, 2025
Hold Period	10 Years	
RE Taxes	No Abatement	10-Year Abatement Only
Investment Costs	1. Original Purchase Price = \$7.5 million 2. Carrying Costs/Subsidy for City = ~\$500K 3. Hilton PIP = \$12 million 4. Property Condition Costs/Deferred Maintenance = \$5 million 5. <u>Other Costs (Construction Financing + Interest + Contingency) = \$1.2 million</u> 6. Total = \$26,200,363	
Return On Investment Metrics		
Net Present Value (Discounted Cash Flow)	Total = (\$10,300,000) PAR = (\$46,000)	Total = (\$2,600,000) PAR = (\$12,000)
Internal Rate of Return	9.9%	20.8%