

IEC HOTEL CORPORATION
BOARD OF DIRECTORS MEETING
MINUTES OF August 28, 2015 MEETING

The Board of Directors of the IEC Hotel Corporation met on Friday, August 28, 2015 at the Community Choice Convention Center, Board Room 3. The meeting was called to order at 7:30 AM by President, Gerard D. Neugent. Also present were:

Allen McKinley, Susan Voss, Cynthia Eisenhauer, Gerard D. Neugent, Grant Friesth, Mike Galloway.

Adam Kaduce was absent.

Also in attendance were: Mark Wandro and Roger Kuhle, Polk County; Jim McCulloh, Weitz; Tim Oswald, Piper Jaffray; Matt Anderson and Erin Olson Douglas, City of Des Moines; Jay Byers, Greater Des Moines Partnership; Wayne Reames, Belin McCormick Attorneys at Law; Kent Darr, The Business Record.

Allen McKinley moved approval of the July 28, 2015 minutes. It was seconded by Cynthia Eisenhauer and approved.

Discussion of IRS Form 1023 (booklet)

Wayne Reames from Belin McCormick Attorneys at Law stated that they have the governing documents for the IEC Hotel Corporation completed and the next step is the development agreement between the City, County and IEC Hotel Corporation. Wayne has prepared the IRS filing and is planning to send it in early September after the next Board meeting. Wayne informed the Board that Form 1023 does not need formal Board approval and it has been approved by bond counsel.

Discussion of Record Retention Policy, Whistle Blower Policy, and Conflict of Interest Policy (handouts)

Wayne stated that the conflict of interest policy is based on the IRS model and the others were created by Wayne.

The whistleblower and record retention policies are fairly standard but can be changed at any time without having to resubmit. Gerard D. Neugent confirmed that the Board will take action on these items at the next meeting.

Cynthia Eisenhauer inquired if the record retention policy is based on something used by other Iowa entities, such as the County or City and Wayne responded that he did look into these policies but they were not relevant to the needs of the IEC Hotel Corporation. Gerard D. Neugent asked if the County will be the record retainer and Mark Wandro replied affirmatively.

Mike Galloway reminded the Board that he declared a conflict of interest at the first meeting and the Ahlers agreement was approved in his absence. He asked if this is in compliance with the conflict of interest policy. Wayne replied that the Board is in compliance and he is disclosing Mike Galloway's stated conflict in the IRS form on page 12.

Susan Voss asked if the years mentioned in the documents are based on the County or litigation cutoffs. Wayne stated that all nonprofits of any size have a record retention policy and the numbers in this policy are standard to the industry. He also stated that many of the records generated by the IEC Hotel Corporation will also have copies on file at the County and that these policies are a minimum requirement. Grant Friesth questioned if these policies apply to the owner of the hotel and not the manager, Wayne confirmed that this is the case. Cynthia Eisenhauer asked for clarification that the records retention policy stated that financial records be retained for 2-3 years or if they should be retained longer for tax purposes. Wayne replied that nothing needs to be retained for the IRS but it would be prudent to have records available to support actions taken.

Discussion of the History of Financing and Hotel Financing Options (handouts)

Tim Oswald led a discussion regarding the details of the history of the hotel financing and what the existing financing options are.

Discussion on Hilton Term Sheet

Next Tim presented Hilton's term sheet. It proposes a 330 room Hilton, a 15 year agreement, fees of 4% of revenues (1% subordinate to debt service). The intent is to enter a management agreement that is qualified under IRS rules, under QMA, and the fee will be frozen in the document as a number, not a percent, based on their proforma (\$840,000 based on current proforma). Hilton shows an owner priority of \$5M debt service per year. Hilton provides \$3M cash up front and will provide pre-operating services for \$3.1M paid by DSM. The employees work for Hilton, the IEC Hotel Corporation has the right to terminate if Hilton fails to perform (2 year performance), Hilton has the right to pay the difference to avoid termination, and they have to perform at 100% of competitive set (downtown Marriott, Renaissance, Hyatt, Embassy Suites, West DM Sheraton). They will not open another Hilton within a five mile radius and have to get consent from the IEC Hotel Corporation Board before opening a Hilton in West Des Moines or Ankeny.

Susan Voss inquired as to the importance of restricting where additional Hiltons are built. Tim replied that an argument can be made for both sides, that having an owner operated Hilton in the market might take customers from the Convention Hilton but that there may be value in having their other brands available when hotels are full. The bottom line is that the IEC Hotel Corporation Board should be part of the discussion.

Tim emphasized that what he presented is a term sheet, not a binding contract. It is the basis from which Kutak will enter discussion for a management agreement that is expected to be completed this winter. Tim assured the Board that Kutak has reviewed and approved the term sheet and that the resolution authorizes Gerard D. Neugent to sign the term sheet and instructs Kutak to enter contract negotiations with Hilton.

Cynthia Eisenhauer asked how, as board members without technical experience in term sheets, they are assured that these figures are reasonable or comparable to other deals. Mark Wandro replied that we have hired experts such as Elis Katz, Kutak, and Piper Jaffray who have a large amount of experience with other transactions and markets.

Wayne pointed out that the management agreement requires a management fee of a fixed dollar amount and that while most people would prefer a percent of revenue as the management fee, the IRS has problems with issuing public bonds and letting private companies participate in the profits.

Susan Voss pointed out that there are several hotel projects happening in downtown Des Moines and inquired as to how the convention hotel room rates might compare. Gerard D. Neugent responded that a year ago occupancy in Des Moines was 72% with room rate of \$98, now it is 78% occupancy at \$108 room rate. There are a lot of products coming on line but room rates have been overdue for growth. These statistics are based on 11,000 rooms for the metro.

Gerard D. Neugent asked for additional questions on the term sheet and stated that the Board does not typically take action on items presented the same day but need to make an exception in order to get it to Iowa Economic Development Authority on time.

Mike Galloway moved the resolution titled *Hilton Term Sheet*, it was seconded by Allen McKinley and approved.

Mark Wandro reported that he has requested a quote for liability insurance for directors and officers from Jester. He also noted that before the full Board was assembled, agreements were signed with Piper Jaffray and Belin and Mark will provide copies of these documents to the Board members before the next meeting.

The next meeting is scheduled for Wednesday, September 9 at 1:00 in Board Room 3 at the IEC Convention Center. Elis Katz will be here and Jim McCulloh will present renderings and cost estimates.

Susan Voss made a motion to adjourn, it was seconded by Allen McKinley. The meeting was adjourned at 9:25 am.