

Closed transportation museum could cost Grinnell millions

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MONEY

A bank has foreclosed on the museum and Grinnell could be forced to repay \$4 million to the federal government.

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Three years after it opened, the Iowa Transportation Museum has hit a dead end, losing its building to foreclosure and leaving the city of Grinnell on the hook to repay more than \$4 million in federal aid for the project.

The museum, which had operated in a renovated portion of the old Spaulding manufacturing plant in downtown Grinnell, closed in October, unable to pay its mortgage to Iowa City's MidWestOne Bank. The bank even took possession of the museum's crown jewel, a rare 1913 Spaulding automobile built at the Grinnell plant.

Now, city leaders are considering whether to cut their losses and repay the federal government or try to reopen the sputtering museum.

Supporters say the museum's downfall stemmed from an unforeseeable change in historic tax credits that left the project strapped for cash. Critics say sinking taxpayer dollars into a museum in a small town far from the state's population centers was a mistake from the start.

"I don't believe when we have potholes in the street, we should be pouring money into that sort of thing," said Grinnell resident John Clayton, a retired social studies teacher who is running for City Council. "They made major missteps, and because of that, they cost the taxpayers a major amount of money."



Apartment project followed museum

City leaders, though, argue that the transportation museum was an important catalyst for Grinnell.

Not long after the 11,000-square-foot museum opened, officials from Grinnell recruited Hubbell Realty Co. and persuaded the West Des Moines-based real estate developer to renovate the remaining portion of the two empty Spaulding manufacturing buildings.

The old brick buildings were crumbling. Massive steel beams leaned against one wall to keep it upright.

Windows were covered in plywood. Painted letters on the smokestack read "AULDING," the top few feet having fallen off years ago.

Today, Hubbell is in the middle of a \$12.5 million renovation to turn the complex into 77 apartments. The museum closure won't affect Spaulding Lofts, which are scheduled to open next summer, a Hubbell spokesman said.

Mayor Gordon Canfield, who was president of the museum's board until financial trouble put the museum at odds with the city, said the housing is badly needed in Grinnell and wouldn't have been possible without the museum jump-starting redevelopment of the site.

"We took a risk, and it didn't work out the way we planned, but we got some very good things out of it anyway, so it wasn't a waste of taxpayer money," he said. "In the short run, it's a challenge, but in the long run, Grinnell will benefit."

The town was built around Spaulding, which, according to the museum, employed about 350 people at the turn of the century. The plant made buggies until 1909, when it was retooled to manufacture cars. The Spaulding automobile brand didn't survive, but the plant would later be used to manufacture women's shoes and other products.

City Manager Russ Behrens agreed the museum helped save the Spaulding campus.

"If it wasn't for the work they did, I don't think those buildings would be here today," he said.

Where things went wrong: Tax credits fell through

The museum, which featured exhibits on Iowa's roads, rails, waterways and the people who pioneered them, attracted only a handful of visitors daily. Executive director Chuck Brooke estimates about 100 attendees came through the door per month.

A town of about 9,000, Grinnell sits about 50 miles east of Des Moines and 65 miles west of Iowa City. The museum is in the middle of town, about 3 miles off Interstate 80.

Organizers had envisioned that busloads of schoolchildren would help sustain the facility, but only a few field trips a year came, and no schools outside the Grinnell area sent students.

But attendance wasn't the problem, supporters say.

The museum built its budget around receiving \$900,000 in federal historic tax credits that never arrived. A 2012 federal appeals court ruling about a real estate project in New Jersey shook up the market for historic tax credits. A subsequent IRS memo explaining the ruling said, essentially, that investors should not stand to profit from historic tax credits without shouldering some of the risk. As a result, investors backed away from historic tax credit projects.

"That is where things really started to come apart on us, and it was just kind of a chain reaction from there," Brooke said.

The Iowa Transportation Museum wasn't alone. The ruling halted many historic renovation projects relying on federal aid.

The plan to convert the Hotel Randolph in downtown Des Moines into apartments was stalled for months as developers searched for investors following the 2012 ruling.

After the federal tax credits fell through, the city backed out.

Grinnell had pledged \$1 million for the project — \$100,000 a year for a decade. But about two years ago, when it became clear the museum wasn't going to be financially viable, the Grinnell City Council decided to suspend the payments, said Behrens, the city manager.

The city contributed \$271,000 before pulling the plug.

The museum project was expected to cost \$4.4 million. When MidwestOne foreclosed on the mortgage early this year, the museum owed \$1.3 million.

By the time the museum closed, it was losing about \$10,000 a month.

But Brooke said things were improving. The museum was hosting more weddings and events to help pay the bills.

"It was probably a long shot when the idea was conceived, but it had a lot of potential," he said. "Interest was starting to build, but when you have this debt hanging out there ... that was obviously a stumbling block for us."

Clayton, the Grinnell resident, said museum organizers and their attorneys should have planned for the risk that comes with federal tax credits.

"This happened because of mismanagement, not because of some federal ruling," he said.

Behrens said the city's "obvious mistake" was not requiring the Iowa Transportation Museum to get the city's approval to take out a mortgage. That debt put the project at risk, and left the city to "pick up the pieces," he said in an email.

Why Grinnell is on hook for \$4 million: Federal strings

The federal government allocated just more than \$5 million to the museum through a series of transportation grants and earmarks.

Strings attached to the funding required the museum to remain open for 20 years, said Craig Markley, director of the Iowa Department of Transportation's office of systems planning.

Grinnell acted as a grantee or a pass-through agency for the tax credits, meaning the city is responsible for repaying the money if the museum remains closed.

The total owed is about \$4 million, after deductions are factored in based on the amount of time the museum was open and the money already repaid for the sale of a portion of the property to Hubbell, Markley said.

The City Council is still considering its options, Behrens said.

One route would be to move on and repay the federal government. Behrens said he would hope to pay the debt over 10 years, using hotel/motel tax revenue and, if needed, a portion of local option sales tax revenue.

The city would not raise taxes for it, he said. But the hotel/motel tax revenue could otherwise be used for tourism-related projects such as bike trails, sporting events and regional marketing efforts.

Another option is to buy the property from the bank and reopen the museum — or at least some portion of it. Several ideas have been discussed, including partnering with Grinnell College to operate the facility or moving some city offices into the space.

It's unclear how much that would cost. MidwestOne rejected the city's offer to buy the property for \$600,000 earlier this year.

Behrens said the Iowa DOT, which is working with federal officials, has been patient with Grinnell on the repayment plan, but the city needs to work quickly toward a solution.

"I think the DOT's patience would wear out with us before another year," he said.

Museum focus too broad?

Critics of the closed Iowa Transportation Museum in Grinnell say the museum's focus was too broad to garner the full support of the community.

John Clayton, a Grinnell resident and City Council candidate, said the museum should have honored the industrial history of the central Iowa town, which is home to companies like gun distributor Brownells and window manufacturer Jeld Wen, rather than focusing on statewide transportation history.

Grinnell Mayor Gordon Canfield said the museum didn't secure the big local donors it needed to survive.

"We were never able to spark the interest of Iowans in a big way," said Canfield, who previously served on the museum's board. "Museums largely rely on very large gifts and endowments, and the museum was just never able to attract enough of those donors and backers."

Cynthia Sweet, executive director of the Iowa Museum Association, said museums don't need to be in large population centers to succeed. But those in small towns generally do best when they focus on the history of their local community, she said.

"I do hope they can work out a way to remain open," she said of the transportation museum. "I think they were telling a really interesting story."

Heroes program continues

Supporters of the recently closed Iowa Transportation Museum in Grinnell hope to keep some of their efforts alive by maintaining the Iowa Transportation Heroes program.

For the past seven years, the program has honored 77 people who have contributed to transportation in the state by heroic acts, pioneering transportation technology or setting an important example. Previous honorees include the woman who helped develop the state's first rural transit service and the pilots who managed to crash-land an airliner in Sioux City in 1989 after an engine exploded, saving 184 of the 296 people aboard.

Museum executive director Chuck Brooke said the heroes program will continue, with the next induction scheduled for May 20.

Brooke has moved into a small office in Grinnell. He said the museum still exists as an organization and is looking for ways to reopen.