

**OFFICE OF THE CITY MANAGER  
DES MOINES, IOWA**

**CITY COUNCIL COMMUNICATION 96-400  
SEPTEMBER 16, 1996 AGENDA**

| SUBJECT:  | TYPE:                                     | SUBMITTED BY:   |
|---|---|---|
| FINANCIAL RESTRUCTURING OF<br>CITY VIEW APARTMENT PROJECT | ◆ RESOLUTION<br>ORDINANCE<br>RECEIVE/FILE | SCOTT STRICKER<br>ECONOMIC DEVELOPMENT<br>ADMINISTRATOR |

**SYNOPSIS —**

In August, 1993, the City Council approved \$780,00. in financial participation for the City View Apartment Project. This participation consisted of a grant of \$300,000 and a loan of \$480,000. The project is in default and a resolution plan is proposed.

**FISCAL IMPACT —**

The City loan and grant were funded from tax increment proceeds. No additional City funding is being requested. Loan payments will be deferred and the City is asked to give up any participation in cash flow.

**RECOMMENDATION —**

Approval of ownership changes; increased first mortgage loan and modifications of City loan agreement and related documents.

**BACKGROUND —**

On June 4, 1996, the City Manager sent a letter to Council describing the issues surrounding the proposed financial restructuring of the City View project. As reported to City Council, the City View Apartment project, which has been owned by Hillside Neighborhood Limited Partnership, has been in default for several months. Vacancies at the project have led to lower than estimated cash flow which, in turn, has caused the ownership to fall behind on mortgage obligations.

Initial capitalization for the project which included acquisition and rehabilitation of the City View Apartments was provided by these parties:

|   |                     |
|---|---------------------|
| American Mutual Life (1st Mortgage Lender)<br>(includes accrued interest) | \$ 2,500,000        |
| City of Des Moines Grant  | 300,000             |
| City of Des Moines Loan (2nd Mortgage)                                    | 480,000             |
| Equity  | 500,000             |
| IHFA Grant  | <u>150,000</u>      |
| <b>Total</b>  | <b>\$ 3,930,000</b> |

Generally the uses of funds have been as follows:

|  |                     |
|--|---------------------|
| Acquisition                              | \$ 1,544,000        |
| Building Code Repair                     | 90,000              |
| Rehab/Construction                       | 1,432,000           |
| Interest Accrued                         | 150,000             |
| Funding Reserve Accounts                 | 155,000             |
| Closing Costs                            | 6,000               |
| Fees                                     | 385,000             |
| Reimbursement of costs to DM Development | 140,000             |
| Other                                    | <u>28,000</u>       |
| <b>Total</b>                             | <b>\$ 3,930,000</b> |

The City funding was authorized by City Council on August 2, 1993.

The first mortgage lender, American Mutual Life Insurance Company, the City of Des Moines, and the owner have negotiated a resolution of the default situation. The proposed resolution entails changes in ownership, changes in the existing mortgage arrangements, and additional capitalization by the first mortgage lender and the newly designated limited partner. No additional funds are being requested from the City; however, the City is being asked to give up some of the benefits of its existing mortgage arrangement. As undesirable as that may seem, the proposed arrangement is better for the City than the possible alternative of foreclosure.

**OWNERSHIP CHANGES**---City View Apartments is presently owned by Hillside Neighborhood Limited Partnership. This limited partnership is comprised of a general partner, Hillside 2000 L.C., and a limited partner, AmerUs Bank. The general partner is comprised of Hillside Neighborhood Development Corporation and Frank Dunbar.

Under the proposed arrangement the new general partner will be AmerUs Management, Inc., and the new limited partner will be AmerUs Properties, Inc. The present general partner will pay off existing debts owed to Dunbar Development Company, Environmental Design, and two-thirds of the amount outstanding to Neumann Bros. In addition, the general partner will transfer its initial \$25,000 equity contribution and certain escrow account balances to pay down the delinquent first mortgage. The new limited partner will provide an additional \$100,000. equity contribution as a contingency for future repairs and to fund the reserve account. The ownership change must be approved by City Council.

**INCREASED FIRST MORTGAGE AMOUNT**--- American Mutual Life Insurance Company proposes to increase its maximum first mortgage amount from \$2,500,000 to \$2,900,000. Initially, the additional funds will be used to pay off the remaining one-third of the amount outstanding to Neumann Bros., to fund additional repairs as needed, and for working capital reserve. This first mortgage increase requires City approval.

**MODIFICATIONS TO CITY LOAN AGREEMENTS**---The first mortgage lender will defer its mortgage payments until January 1997. It is asking the City to defer its mortgage payments until project cash flow is sufficient, and to waive its participation in excess cash flow. American Mutual Life is in agreement that any monthly cash flow above operating expenses and first mortgage debt service will be applied to pay interest and principal on the City loan. When cash flow is sufficient, the City loan will be put on a regular amortization schedule. At this time, it is not clear when that regular amortization might begin.