

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

**CITY COUNCIL COMMUNICATION 97-218
APRIL 21, 1997 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
ECONOMIC DEVELOPMENT ASSISTANCE TO DON HUSS, DBA WORD OF MOUTH INTERIOR DESIGN	◆ RESOLUTION ORDINANCE RECEIVE/FILE	JAMES GRANT COMMUNITY DEVELOPMENT DIRECTOR

SYNOPSIS —

On the April 21, 1997, Council agenda is a resolution for preliminary approval of a \$25,000 City economic development loan to Don Huss, dba Word of Mouth Interior Design. By Roll Call No. 97-1244, dated April 7, 1997, the City Council received a communication from Mr. Huss requesting City assistance to relocate from his West Des Moines location to the proposed location at 314 Sixth Avenue and referred the request to the City Manager. Word of Mouth Interior Design proposes to lease approximately 3,000 square feet located at street level within the old Equitable Building (formerly occupied by Madeline Sheppard).

Remodeling costs at the proposed Equitable Building location are estimated at \$115,000. Additionally, Mr. Huss estimates that he will be placing approximately \$300,000 of inventory into the store, for a total project cost of approximately \$415,000. Mr. Huss is in the process of working with a local financial institution to provide financing for his inventory needs. The building's landlord has agreed to provide up to \$54,000 in tenant improvements to the lease space that will be amortized through the lease payments. Mr. Huss will inject \$36,000 of equity into the project, resulting in the need for \$25,000 of City financial assistance as gap financing to complete the project.

The City economic development loan is proposed to be funded out of TIF funds from the Capitol-Center I TIF District. The loan, in the amount of \$25,000, is structured to be repaid at zero percent interest when the company's net operating profit meets or exceeds a 20 percent increase over its net operating profits for the base year of 1996. Upon meeting this threshold, annual loan payments of \$2,500 will be paid for a term of 10 years.

Mr. Huss has expressed concern as to the affect the proposed downtown location will have on the company's sales levels and operating profits, and resultant ability to repay the debt incurred to develop the new space. The proposed loan structure will defer payment until which time the company has surpassed its current level of profitability, ensuring sufficient capital to maintain the company's operations and repay the City's loan. The full loan balance will be due and payable if the company's lease on the proposed project site is canceled prior to its full ten-year term.

In Mr. Huss's communication to Council dated April 3, 1997, he identified as an issue the ability to park several vehicles in the alley adjacent to the proposed location without the issuance of traffic citations. Under existing City Code (C27-361.09 Parking in Alleys) parking in an alley is permissible for the "expeditious loading, unloading and delivery which is incident to the loading and unloading of material or merchandise or passengers. In no event shall any vehicle park in any alley for more than 40 minutes at any one time." Discussions with Mr. Huss conclude that the majority of his usage would fall within the City Code limits. Mr. Huss will make separate application under City Code 27-361.19 Special Parking Permit Issuance to allow parking for up to three hours within the alley.

Mr. Huss also expressed a need to be able to provide his clients with valet parking services. Mr. Huss has been provided with the ability for his clients to park in the loading zone area in front of his store for up to 20 minutes so that an employee can move the car to a City parking garage. The City's Traffic and Transportation Division currently has the ability to enter into parking validation arrangements with businesses in the downtown area and will be able to provide this service to Mr. Huss.

FISCAL IMPACT —

The loan is proposed to be funded out of TIF funds from the Capitol Center I TIF District. The loan, in the amount of \$25,000, is to be repaid over a term of ten years, from the time loan payments begin, at zero percent interest. Because TIF funds will not be available until 1998, it may be necessary to utilize available economic development funds in the interim.

RECOMMENDATION —

Preliminary approval of a City loan to Mr. Don Huss, dba Word of Mouth Interiors in the amount of \$25,000 and referral to the Urban Renewal Board to review and make recommendation on the necessary and appropriate use of TIF funds to fund the proposed City economic development loan. Adoption of the attached policy establishing certain eligibility requirements for downtown retail businesses for consideration of City-funded economic development assistance.

BACKGROUND —

Mr. Don Huss, who resides at 2900 SW 14th Street and is a lifelong resident of the City of Des Moines, has over 30 years experience in the interior design business. He opened Word of Mouth Interior Design six years ago and has operated out of locations at 42nd Street, Des Moines, and most recently, at 7300 Lake Drive, West Des Moines. Prior to opening Word of Mouth Interior Design, he was with the Younkers Store for Home.

The project will employ 3.5 full-time equivalent employees immediately and anticipates adding two additional employees within a year. Other employees will be hired as the business grows in this location. The employees will be paid at a level which meets or exceeds the adopted Council policy of \$9/hour including benefits.

Eligibility Requirements for City Funded Economic Development Assistance to Downtown Retail Businesses

The use of City funded economic development financial assistance for retail businesses within the Capitol-Center Development Area and Riverpoint Capitol-Center Urban Renewal Areas shall be targeted to retail businesses that satisfy certain eligibility requirements. The eligibility requirements are designed to effectively promote the goals and objectives of the downtown Urban Renewal Plans, and the destination DOWNTOWN plan, through the efficient and appropriate use of public funds.

The primary goals of this policy are to encourage "destination" retail in the downtown, encourage occupancy of vacant street level space within the skywalk district, and to encourage retail in specific areas which have been designated for retail use. Destination retail is defined as retail activity which can attract shoppers from a large geographic area or may provide a unique or special shopping opportunity otherwise not available.

The appropriation of public funds for economic development financial assistance must be in accordance with the Urban Renewal Plan and Chapter 15A, Code of Iowa, (Use of Public Funds to Aid Economic Development).

Retail businesses as defined below shall meet the following eligibility requirements to be considered for City participation involving City funded economic development financial assistance.

Definition of retail business: Business with sales subject to the Iowa retail sales tax and classified within one of the following business groups*.

- General Merchandise
- Food Dealers
- Apparel
- Home Furnishings & Appliances
- Eating & Drinking Places
- Specialty Retail Stores

* From the State of Iowa Department of Revenue and Finance

Criteria for Eligibility

1. **Job Creation:** The business must create new job(s) and income as required under Chapter 15A, Code of Iowa. Jobs retained or relocated from within the state of Iowa do not count toward the requirement for new job creation.
2. **Location:** *The business must be in first floor or basement level space with direct access to the business from street level and meet at least one of the following locational requirements.

- The proposed business location is within the Court Avenue Historic District.
- The proposed business is located within an area of the downtown in which the City Council has adopted a plan that targets the area for retail development.
- The proposed business location is within a distressed building in the skywalk district with a vacancy rate of at least 25% on the building's first floor level.

3. **Capital Investment:** The business must make improvements to the real property, (tenant improvements, etc.), at a minimum cost of \$30/sq. ft. in the proposed lease space.

4. **Lease Term:** The business must either own the space that it will occupy or enter into a lease with a minimum term of 5-years.

5. **Business Type:** The following business types and classifications are not eligible for City funded economic development financial assistance.

- Businesses that are not considered to be destination oriented
- Franchise eating and drinking establishments
- Taverns and Bars
- Liquor Stores
- Used Merchandise Stores
- Adult Bookstore
- Mail Order Stores