



Council Communication No. 97-342

SYNOPSIS —

On the June 23, 1997, Council agenda is a resolution approving as to form loan documents for a City loan in the amount of \$25,000 to Don Huss dba Word of Mouth Interior Design. By Roll Call No. 97-1436, dated April 21, 1997, the City Council gave preliminary approval to the loan request in the amount of \$25,000, subject to the company obtaining all financing commitments and the Urban Renewal Board’ s review and recommendation on the necessary and appropriate use of Tax Increment Funds (TIF) to fund the proposed City loan.

Don Huss dba Word of Mouth Interior Design proposes to lease approximately 3,000 square feet of street level retail space located at 314 Sixth Avenue (within the old Equitable Building and formerly occupied by Madeline Shepard). Total project costs are estimated at \$415,000, with remodeling costs estimated at \$115,000. The building’ s landlord has agreed to provide up to \$54,000 in tenant improvements to the lease space of which \$6,000 will be amortized through the lease payments. Mr. Huss will inject \$186,000 in cash and inventory and has obtained conventional financing for an additional \$150,000 in inventory.

The project will employ 3.5 full-time equivalent employees immediately and will increase employment to five full-time positions within two years. Other employees will be hired as the business grows in this location. All created positions will be paid at a level which meets or exceeds the adopted Council policy of \$9/hour including benefits. This project is also in compliance with the City Council’ s recently adopted policy establishing certain eligibility requirements for downtown retail businesses under consideration for City-funded economic development assistance.

FISCAL IMPACT —

The \$25,000, loan is to be funded out of TIF funds from the Capitol-Center I TIF District. The loan will be initially funded from the UDAG Repayments Account and subsequently reimbursed from Capitol-Center I TIF District revenues as they become available. The loan is 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 profit for the base year of 1996. Upon meeting this threshold, annual loan payments of \$2,500 will be paid to the City’ s Economic Development Financial Incentive Programs with the loan balance due and payable upon the expiration, termination or cancellation of the company’ s lease on the retail space. No City funds will be advanced until all other funds are committed to the project.

RECOMMENDATION —

Approval of loan documents for a City loan in the amount of \$25,000 to Mr. Don Huss dba Word of Mouth Interiors.

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 Interiors 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 Interiors, he was with the Younkers Store for Homes.

Mr. Huss has expressed concern as to the effect 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 such 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 upon the expiration, termination or cancellation of the company' s lease on the project site.

Urban Renewal Board Action

The Urban Renewal Board, at its April 29, 1997, meeting, voted (3-0) to recommend to City Council for its approval a proposed loan to Don Huss dba Word of Mouth Interior Design of \$25,000 at zero percent with a ten-year repayment term using the Capitol-Center I Urban Renewal Area TIF revenues as the funding source.