



**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

**98-140**

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

**AGENDA:**  
APRIL 20, 1998

**SYNOPSIS –**

**SUBJECT:**  
APPROVAL OF  
SETTLEMENT  
AGREEMENT  
FORCITY VIEW  
(TOWN SQUARE)  
APARTMENT  
PROJECT

In August 1993, the City Council approved \$780,000 in Tax Increment Financing (TIF) funding for the City View Apartment Project (now known as Town Square). This original funding was in the form of a \$300,000 grant and \$480,000 loan to be repaid over a ten-year term at an interest rate of 8 percent. The City is collateralized by a second mortgage. In September 1996, the City Council approved a modification of its loan terms, agreeing to accept loan repayments only as cashflow allowed. This modification was agreed to because the project was technically in default with the first mortgage lender, AmerUs Bank. In conjunction with the City change in loan terms, AmerUs took over ownership of the project in lieu of foreclosure and provided additional mortgage and equity investment in the project.

**TYPE:**  
***RESOLUTION***  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**  
RICHARD CLARK  
DEPUTY CITY  
MANAGER

AmerUs has identified \$600,000 of additional remodeling expenditures necessary for the project. Michael Ryan with the Office of Economic Development has been working with the project owners to determine whether additional City participation is warranted.

The project has lost approximately \$800,000 over the past two years. The City has received no payments on our loan. Given these losses, the project has a market value of perhaps \$3,000,000, compared to a total mortgage indebtedness (including the City loan) of approximately \$3,400,000. In addition, due to errors allegedly made by the previous property management company in not properly qualifying low- and moderate-income tenants, the project will not qualify for the tax credits that had been one of the primary incentives for equity investors. With the City second mortgage in place, refinancing to raise the remodeling funds is precluded. There is no justification for additional City funding. AmerUs could foreclose the City' s mortgage interest, but would rather have the City agree to release its mortgage. To this end, they have offered to settle the City mortgage obligations with a lump sum

payment of \$205,000. The settlement agreement and related documents have been prepared for City Council review and approval. This action will release the financial obligation of the project to the City. However, covenants concerning the provision of affordable units, conformance with Urban Renewal Plan uses, non-discrimination, and taxes and assessments will remain in effect until January 1, 2012.

#### **FISCAL IMPACT –**

The proposed settlement amount would be deposited in the Economic Development Enterprise Fund.

#### **RECOMMENDATION –**

**Approval of the roll call adopting the settlement agreement and authorizing execution of related documents.**

#### **BACKGROUND –**

The context for this settlement request is two-fold. Due to previous management problems and vacancies, the project revenues have not been sufficient to pay down the City's mortgage. It is not predictable when the City could expect consistent repayment on its mortgage.

While AmerUs and its present management company have been and are working diligently to correct these problems and steady improvement is being made, AmerUs has identified an additional \$600,000 of rehab expenses needed to stabilize the project, and increase occupancy and revenues. It does not seem justifiable for the City to further invest in the project, and to that extent we are an impediment to the private owner wanting to take the necessary steps to improve the project. With no predictable repayment of the City loan, it is prudent to salvage some of our original investment. Based on the present cashflow and estimated market value, \$205,000 seems a reasonable settlement offer.

---

[ [Council Members](#) | [Leave a Message](#) | [Meeting Agendas/Info](#) | [Recent Ordinances](#) ]  
[ [Board/Commision List](#) | [Meeting Schedule](#) | [Request to Speak](#) | [Election/Voter Reg](#) ]