

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

98-311

SYNOPSIS —

AGENDA:

JULY 27, 1998

SUBJECT:

COMMERCIAL
DEVELOPMENT
PROJECT IN
VICINITY OF
UNIVERSITY AND
SIXTH AVENUES

Efforts have been underway for several years to develop a grocery store at Sixth and University. The Mid City Vision Committee (MCVC), the Enterprise Community Steering Committee, and others have strongly advocated the grocery store project. Despite these efforts, a viable grocery store operator for the project has not yet been identified.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The need for a full-service, good quality grocery store to serve the Enterprise Community— and neighboring areas— is clear. The recent closing of Smitty’ s (East 14th and University) and the Ingersoll Hy-Vee have left the central city neighborhoods largely without a full-service grocery store.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

A public/private, community-based effort is required to identify a viable grocery store operator and to facilitate development of the site and building. More specifically, a three-pronged effort is recommended:

- Creation of a Blue Ribbon Grocery Store Task Force comprised of representatives from the community, private sector, and public sector to provide additional insight, comment, direction, and support to foster the redevelopment project.
- Voluntary acquisition of parcels along with the necessary relocation and demolition for a grocery store site and the associated commercial development.
- Submission of applications to U.S. Department of Housing and Urban Development (HUD) for funding under its Economic Development Initiative (EDI) in the amount of \$1,500,000 and Section 108 Guaranteed Loan Program in the amount of \$2,000,000.

The proposed actions have been reviewed with and are recommended for approval to City Council by the

Neighborhood Revitalization Board, the Enterprise Community Steering Committee, and the MCVC. The Board of Directors for the Riverbend Neighborhood Association has expressed opposition to the early acquisition of property without an approved project. Terrance Vorbrich with the City's Office Economic Development is the lead staff person on the project.

FISCAL IMPACT –

\$1.18 million has been identified for use in acquisition and relocation activities within the designated redevelopment site, as follows: \$680,000 is allocated to this project under the Enterprise Community Initiative and \$500,000 from the Riverpoint Capitol Center Development Area Tax Increment Financing (TIF) District. (The \$500,000 of TIF funds was previously approved by Council and is available in the current year budget.) No funds under either the Section 108 Loan or the EDI grant program would be drawn until such time as a grocery store is committed to the project, and the project is approved by City Council.

RECOMMENDATION –

Approval.

BACKGROUND –

Need for Essential Commercial Services

The MCVC conducted a survey of residents of the Model Cities Neighborhood Area in 1992 in order to determine the need and support for a grocery store in the area. The group distributed 3,000 surveys of which 706 were completed and returned, representing 2,282 people in households in the area. Of the surveys returned, 95 percent indicated support for a new grocery store development. A large number of those surveyed did not have automobiles and had to find some other means of transportation to get to a grocery store. The survey results reiterated the fact that this area lacks basic, essential commercial services that are conveniently located. Based on these results, the MCVC began to solicit support and assistance from the City and the private business sector of the city to investigate the feasibility of developing a grocery store somewhere in the area. The MCVC stated that the survey results, as well as a vote of their Board members, indicated that

the preferred site was the northwest corner of Sixth Avenue and University Avenue. The City agreed to hire a marketing consultant specializing in the grocery store industry to prepare a market analysis for several sites in the Model Cities area.

Market Analysis

The Market Analysis and Retail Support Division of SUPERVALU, located in Minneapolis, Minnesota, was hired and directed to evaluate four sites: University and Sixth Avenues; College and Sixth Avenues; M. L. King, Jr. Parkway and Carpenter; University Avenue and Keosauqua Way. Based on location, size, configuration, and traffic volume, the consultant concluded that the northwest corner of University and Sixth Avenues was the best location for such a development.

Proposed Site

The proposed redevelopment site at the northwest corner of University and Sixth Avenues is approximately 4.6 acres or 199,125 square feet. It is comprised of 29 tax parcels, which include four owner-occupied parcels, nine parcels with approximately 32 renter-occupied units (three of these parcels with 15 rental units are believed to be vacant), four commercial use parcels, and 11 vacant land parcels. The total assessed valuation of land and structures for all 29 parcels is \$698,300.

Estimated Value-added Improvement

The original market analysis projected the development of a 35,000 square foot grocery store with up to 17,250 square feet of adjacent retail space. Working with local developers to identify construction costs, City staff estimate that the amount of value-added improvements resulting from this redevelopment project is likely to be between \$2.7 and \$3.0 million.

Estimated Costs to Prepare the Proposed Site for Redevelopment

City Engineering staff have prepared rough estimates of the costs to assemble and prepare the proposed site for redevelopment at about \$2.3 million. A breakdown of these cost estimates is as follows:

- acquisition of land and relocation activities is estimated at about \$1.92 million;
- demolition and moving existing structures is estimated at

about \$260,000; and

- soft costs, i.e., appraisals, staff costs, etc., are estimated at about \$131,000.

Identified Sources of Funds

\$1.18 million has been identified in funds that it is recommended be made available for acquisition and relocation activities associated with the proposed redevelopment project, as follows: \$680,000 is allocated to this project under the Enterprise Community Initiative and \$500,000 has been allocated from the Riverpoint Capitol Center Development Area Tax Increment Financing District.

Designation of a Blue Ribbon Task Force

A Blue Ribbon Task Force would assist in moving this project forward. The Task Force would be comprised of representatives from the Enterprise Community, Area Neighborhood Association Boards, Neighborhood Revitalization Board, Des Moines Development Corporation, the local Business Community, City of Des Moines City Council, Polk County Supervisors, and local State Representatives. The Task Force will be asked to provide additional insight, comment, and direction to assist the redevelopment project on issues such as: project size and scope, grocery store identification and recruitment, evaluation of potential developers, accessing appropriate project funding, early acquisition of properties, and proposed project ownership.

Acquisition of Parcels for Redevelopment

The City Council has approved by Roll Call No. 97-4066, dated December 22, 1997, the Fifth Amendment to the Urban Renewal Plan for the Riverpoint - Capitol Center Development Area Urban Renewal Project, that designated the northwest corner of Sixth and University Avenues for a large-scale commercial development and identified parcels for acquisition to further the plan. On the July 27, 1998, Council agenda is a roll call to approve the proposed action steps that further the urban renewal plan and will assist in fostering a large scale commercial development in accordance with the plan.

It is proposed that the City move forward in acquisition and relocation activities within the targeted site, as identified funding will allow. It is proposed that all property owners in the development area be provided written notice of the City's intent to make early acquisitions. The notice will clearly state

that the City has limited funding available for early acquisition of properties and when funds are expended, purchases will cease. Property owners interested in selling would be directed to contact the City's Right-of-Way staff. Voluntary acquisitions would focus initially on the block between Sixth and Seventh, north of University.

There is an inherent risk in making early acquisitions, prior to the commitment of a grocery store. Emphasis needs to be placed on the fact that for this project to be successful, it is imperative to locate a good quality, full-service grocery store to anchor the large-scale commercial development project. It will be the charge of the Task Force, supported by City staff, to identify and recruit such a grocery store for the project. If we are unable to recruit a grocery store to this project, it will be up to the Task Force working with community residents and businesses to identify and make recommendations on alternative commercial development that would be appropriate for the area.

Economic Development Initiatives and Section 108 Loan Guarantee Applications

An application for EDI grant funds may only be submitted in conjunction with a request for new Section 108 Loan assistance. HUD has established the EDI application submission deadline as July 30, 1998. This is a competitive application and if it is approved, the City has 60 days within which to submit a new Section 108 Loan application to assist the same project. No funds under either the Section 108 Loan or the EDI program will be drawn until such time as a grocery store is committed to the project, and the project is approved by City Council.

The Section 108 Loan would be used to finance construction costs of the proposed commercial development project and would be secured by a real estate mortgage on the commercial project with the primary source of loan repayment being the rents paid by the project's commercial tenants. It is not the intent to use future Community Development Block Grant (CDBG) allocations to repay the Section 108 Loan. While the main source of repayment will come from the project's commercial rents, HUD will require that the City pledge future years' CDBG allocations as a backup repayment source. The Section 108 program, however, does not require CDBG funds to be escrowed for loan repayment so the City can continue to spend its existing allocation for other CDBG purposes, unless

needed at some point for the Section 108 Loan repayment.

The EDI program is intended to complement and enhance the Section 108 Loan Guarantee program by providing grant funds that strengthen the economic feasibility of the project financed with Section 108 funds. The EDI funds would be used to lower the risk of using future years' CDBG allocations for the repayment of the Section 108 Loan by funding a debt service reserve, assist in land acquisition, relocation and site preparation, fund any needed infrastructure repair or improvements, and payment of interest on the Section 108 Loan during the project' s construction, commercial lease-up and early operations.

Council Member Tom Vlassis, community residents, and City staff have visited similar grocery store developments in Kansas City, Missouri, and Minneapolis, Minnesota, and met with neighborhood groups and business leaders there, to determine the best way to put together a financial structure for this project. Other similar developments that have been investigated were put together as joint public/private sector ventures. Several of these projects utilized HUD' s Section 108 Loan Guarantee and EDI programs to assist with land acquisition, project construction, and related costs.

Uses and Sources of Capital for the Proposed Project

Following is a Uses and Sources Summary of the estimated capital requirements to acquire land and build the proposed structures for a 35,000 square foot grocery store and 17,500 square feet of other retail. The Uses and Sources does not include the amounts of investment to be made by a grocery store or other smaller retail tenants in furniture, fixtures, equipment, and inventory. It is estimated that the grocery store will invest between \$2 and \$2.5 million in equipment, fixtures, and inventory.

Estimated Redevelopment Project Capital Requirements	Cost	Identified Funding Sources	Amount
Land acquisition and related costs	\$2,311,000		
Infrastructure improvements	300,000		

Site prep	267,000	Enterprise Community	\$ 685,000
Construction	2,433,000	TIF Funds	500,000
Debt Service Reserve	270,000	Section 108 Loan	2,000,000
Interest & Lease Up Expense	350,000	EDI Grant	1,500,000
Contingency fund	80,000	To Be Identified	1,326,000
Total estimated capital requirements	\$6,011,000	Total Funding Sources	\$6,011,000