

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

98-313

SYNOPSIS —

AGENDA:
JULY 27, 1998

SUBJECT:

TEACHOUT
BUILDING --
CAPITOL GATEWAY
EAST

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:
RICHARD CLARK
DEPUTY CITY
MANAGER

The Teachout Building located at East 5th and Locust Streets has been purchased by Kirk Blunck for the purpose of renovating the property into a first class commercial building. Blunck has formed Teachout Properties, L.L.C. as the entity to carry out development of the project.

The Teachout Building is a 6-story structure containing 12,895 square feet on floors one through six with an additional 2,700 square feet on the basement level. The total project cost for renovation of the building is estimated at \$1.3 million. The developer is proposing to finance the project with a first mortgage loan from Iowa State Bank in the amount of \$725,000, \$200,000 in personal equity, and has requested gap financing in the amount of \$300,000 from the City and Des Moines Development Corporation, (\$150,000 each). The developer is also attempting to secure a historic preservation grant through the State of Iowa in the amount of \$70,000.

The proposed renovation has created significant interest from small businesses to lease space in the building. Businesses with commitments to lease space in the building include Brian Clark and Associates, Landscape Architecture; PROJECTS, Architectural Designer Furniture; Neodata, Computer Software; and, Access Iowa, Iowa Internet Development. These businesses are expected to employ between 26 and 34 individuals.

The renovation of the Teachout Building is a significant undertaking which should serve as a catalyst for additional redevelopment of the eastern Gateway area. The project should also help set the standard for other renovation projects in the area.

FISCAL IMPACT –

The City's proposed Development Loan in the amount of \$150,000 will be funded with tax increment dollars to be allocated for the Gateway project as previously approved by Council. The City Development Loan will be disbursed to the developer after the renovation is complete concurrent with the closing on the permanent mortgage financing.

The proposed Development Loan will be at 0% interest with a term of 10-years. Repayment on the Development Loan will be deferred for three (3) years with annual payments to the City in the amount of \$15,000 in years four through nine and a \$60,000 balloon payment in year ten.

The project will utilize the 10-year declining schedule urban revitalization tax abatement. The tax abatement will result in an estimated tax savings of \$135,000 for the project. The project will generate approximately \$675,000 of new property taxes over 20-years taking into account the 10-year declining schedule tax abatement.

RECOMMENDATION –

Direct the City Manager to:

- 1. Prepare a development agreement with Teachout Properties, L.L.C. for the renovation of the Teachout Building based on the terms of agreement set forth in this communication.**
- 2. Refer this matter to the Urban Renewal Board and any other City Boards and Commissions as necessary for their review and comment at the appropriate times.**

BACKGROUND –

Terms of Agreement

Based on extensive discussions with the developer and the Des Moines Development Corporation, agreement has been reached on the following general points which comprise the key features of the proposed agreement as outlined below. These points will be defined in greater detail as part of a formal urban renewal development agreement. It is anticipated that the urban renewal development agreement will be between the City and

Teachout Properties, L.L.C.

1. The project will be eligible for tax abatement on the value added by the improvements in accordance with the 10-year declining exemption schedule.
2. The City will provide an Economic Development Loan to Teachout Properties, L.L.C. in the amount of \$150,000. The Loan will be at 0% interest with a term of 10-years. Repayment on the Loan will be deferred for three years with annual payments to the City in the amount of \$15,000 in years four through nine and a \$60,000 balloon payment in year ten. The Loan will be disbursed to the developer at the time of closing on the permanent mortgage financing. Des Moines Development Corporation will provide a Loan to the developer in the amount of \$150,000 subject to the same terms and conditions as the City Loan.
3. The City will work with the developer to provide monthly parking spaces for the tenants of the Teachout Building in the City owned surface parking lots at East 5th and Grand and East 5th and Walnut.
4. The City will provide the streetscape improvements to East 5th and East Locust adjoining the Teachout Building as part of the initiatives identified for the eastern Gateway.
5. The developer will acquire construction and permanent mortgage financing in an amount of at least \$725,000. The developer will also provide a minimum of \$200,000 of personal equity funding to the project.
6. The developer will undertake the renovation of the Teachout Building to provide general/professional office space on the second through sixth floors and office, retail or restaurant uses on the first floor and lower level of the building. The total project cost for the renovation of the Teachout Building will be at least \$1.25 million.