



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-105

SYNOPSIS -

AGENDA:

MARCH 15, 1999

SUBJECT:

COURT AVENUE
ENTERTAINMENT
CENTER

City staff and representatives of the developer have completed negotiations on the proposed Development Agreement between the City and Centertainment Development, Inc. (106 West 14th Street, Kansas City, MO, Charles Fancher, President) for the Court Avenue Entertainment Center Redevelopment Project. The proposed Development Agreement is consistent with the developer's proposal accepted by the Council at its meeting of August 17, 1998. The proposed Development Agreement also meets all of the goals established by Council on September 14, 1998, which served as a guide for preparing the contract. The proposed Development Agreement has been executed by the developer.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The proposed Court Avenue Entertainment Center is located on the site bounded by Court Avenue on the north, 3rd Street on the east, the Des Moines Interstate rail line on the south, and 5th Street on the west. It does not include the property containing Spaghetti Works/Julios/Johnny's Hall of Fame, the office building at 108 - 3rd Street, and the Rock Island Depot.

SUBMITTED BY:

RICHARD A. CLARK
DEPUTY CITY
MANAGER

Centertainment Development, Inc. has completed assembling its development team with the recent addition of a co-developer to the project. The co-developer is Steiner + Associates, an equity partner in the project, (2 Easton Oval, Suite 550, Columbus, OH, Yaromir Steiner, President) which will provide a nation-wide marketing and leasing campaign to attract and sign retail tenants for the Court Avenue Entertainment Center. In addition, Steiner + Associates will coordinate design and construction work and provide general management for the retail portion of the center.

Other members of the development team include Gould Evans Goodman Associates, lead design architect; Architects Wells Woodburn O'Neil, local architect; CB Commercial/Hubbell Commercial, local leasing services; and Taylor Ball, general contractor.

The Council is requested to take action on the following items relating to the Court Avenue Entertainment Center on the March 15, 1999 agenda.

- a. Hearing on the amendments to the Capitol Center Development Area Urban Renewal Plan and Riverpoint Capitol Center Urban Renewal Plan. The development site for the project lies within the two urban renewal areas. The amendments designate property for acquisition and disposition for the Court Avenue Entertainment Center, show the area south of the development site for public parking, and provide up to \$3 million in Tax Increment Financing (TIF) funds to be used for the project (acquisition and parking lot construction), as well as a payment of \$500,000/annually for eight years to the developer in lieu of tax abatement. The TIF amounts have been prorated into each urban renewal area with most of the costs attributable to the Capitol Center Development Area.
- b. Setting the date of public hearing for April 19, 1999, on the proposed Development Agreement for the Court Avenue Entertainment Center Redevelopment Project.

Approval of these agenda items does not obligate the Council to the project. The City will only be obligated with Council approval of the Development Agreement on April 19, 1999.

FISCAL IMPACT -

Economic Benefits

The Court Avenue Entertainment Center project will provide a very favorable "return on investment" to the taxpayer.

For purposes of evaluating the project's fiscal impact, it was assumed the project would be taxed at its minimum assessed value of \$24,000,000. The project would generate an estimated \$16,575,000 in consolidated property tax revenue over 15 years. The net consolidated property tax revenue generated by the project, after debt service and TIF grants, is estimated at **\$7,935,000** over the 15-year period. In addition, the project will generate an estimated \$2,375,000 in hotel/motel tax revenue over the 15-year period.

City Expenditures

The City will be required to finance an estimated **\$3,000,000** of the \$6 million initial cost for the project for land acquisition (\$4,500,000), streetscape improvements (\$50,000), and construction of the proposed surface parking lot (\$1,450,000). The City's current debt financial projections include the \$3 million needed for this project. The remaining \$3,000,000 of the initial cost will be financed from the proceeds received upon sale of the development site to the developer in January 2000. The City's initial costs will be funded with a tax increment financing bond issue. The project will also receive a **\$4,000,000** grant that will be funded with annual tax increment cash flow over an eight-year period beginning in 2002/2003. This payment has a net present value of \$3 million based on a 6.9 percent discount rate. The project will not receive tax abatement.

TIF Policy Compliance

The tax increment financing proposed for the project is consistent with the recently adopted Council TIF policy, which generally requires the project to meet at least two of the specified applicable standards. The project meets the following standards:

- Results in a significant increase in the taxable value (from the current \$2.9 million to a guaranteed minimum assessment of \$24 million).
- Creates and/or retains permanent jobs (with over 400 new jobs created). We cannot predict wage levels and it is possible that wage rates will be below \$9.50/hour because of the preponderance of retail jobs. However, the positive return on investment outlined above (see fiscal impact) would justify an exception to this policy.
- Assists in the development of facilities that will sustain and/or stimulate economic activity. (This project is a major anchor for the Court Avenue restaurant/entertainment district and will be a catalyst for related residential development. The additional new parking will also benefit the Court Avenue area.)

The Development Agreement requires a minimum assessment agreement. Financial projections prepared by the Finance Department demonstrate that the proposed TIF funds required for this project will not exceed the expenditure guidelines as

established by the Council TIF policy.

As required by the TIF policy, the redevelopment use of the proposed development site is in conformance with the urban renewal plans for this downtown area, as well as the recently approved Court Avenue Neighborhood Design Plan.

Parking

In order to provide public parking in the new surface parking lot proposed south of the development site, the City must determine the most cost effective method to acquire the property. Current plans identified federal funding for acquisition of the Nesbit and Gilcrest/Jewett sites for the Martin Luther King, Jr. Parkway (MLK) project with the excess right-of-way from these sites to be used for the surface parking lot. It is our understanding that the federal government would require reimbursement for its portion of the fair market value of the properties used for public parking. The proposed Development Agreement provides the City until May 18, 1999, subsequent to anticipated Council action on May 17, 1999, to determine a strategy to address this issue.

RECOMMENDATION -

Approval of the Urban Renewal Plan Amendments and setting the date of public hearing on the proposed Development Agreement for the Court Avenue Entertainment Center.

BACKGROUND -

In August 1998, the City Council concurred with the Urban Renewal Board and selected Centertainment as the developer for the Court Avenue Entertainment Center project. Since that time, staff and the developer have been negotiating the Development Agreement. The proposed Development Agreement is consistent with the City's Request for Proposals (RFP), approved by the City Council in June 1998.

Centertainment indicated in its development proposal to the City that it would select a co-developer, such as Steiner + Associates (Columbus, Ohio), for the retail portion of the center. Centertainment has now entered into a co-developer agreement with Steiner + Associates.

Steiner is a nationally-known firm located in Columbus, Ohio. The company has several large-scale projects in Florida and several projects under construction in Ohio and Kentucky. They specialize in entertainment retail businesses for large-scale town-center developments. Staff believes, based on information provided by the developer and from the trip taken last Wednesday by Mayor Daniels, Council Member Coleman, and Deputy City Manager Richard Clark, that this company has the experience and contacts to market the Court Avenue Entertainment Center project successfully.

Key Contract Provisions

The key provisions of the proposed Development Agreement are outlined below.

Sales Price

The developer, Centertainment Development Inc., will pay \$3 million to purchase the property that will be conveyed by Special Warranty Deed. The City will hold a \$250,000 good faith deposit from the date the contract is executed until the date the Certificate of Completion is issued. The property will be sold to the developer in "as is" condition. The developer has the responsibility for completing an environmental plan prior to the purchase of the land by the City. The City will not have liability for environmental cleanup on the property if it is needed.

Minimum Standards for Improvements

The developer must specifically construct:

- 90-room hotel with at least 65,000 square feet (sq. ft.) of gross floor are
- A minimum of 230,000 sq. ft. of gross leasable area (excluding the hotel improvements).
- A theater operation with at least 20 separate movie screens.
- A minimum of 162,000 net leasable sq. ft. for retail, restaurant, and other non-movie/non-hotel uses.
- Streetscape improvements on the Court Avenue and 5th Street rights-of-way

with the developer responsible for the on-going maintenance of the improvements.

- The developer will construct Vine Street, a block-long street located between SW 3rd and SW 4th Streets, that will then be dedicated to the City.
- A railroad overpass for pedestrians must be built with the developer responsible for obtaining the necessary approvals from the railroad. If the overpass is not built or completed by September 30, 2008, the City will not pay the final \$500,000 in TIF assistance.

Evidence of Financing and Tenant Commitments

The developer will have until June 24, 1999, to obtain financing and tenant commitments. The City will require tenant commitments for the entire movie operation, the land lease for the hotel, and for 50 percent of the remaining net leasable space with a tenant mix comprised of life-style retail, entertainment oriented retail, full service restaurant, and other food and beverage establishments.

City Acquisition of Property

After satisfactory financing, tenant commitments, and an environmental plan from the developer have been accepted, the City will begin land acquisition. If the developer is unable to provide these commitments by June 24, 1999, and submits evidence to the City that it has made diligent best efforts to obtain these commitments, the City Council, may, at its discretion, extend the period of time for the evidence of the commitments.

Developer-Damages Payment

The developer must provide a \$1.75 million letter of credit or cash at the time the request to begin property acquisition is made; if the developer terminates the project after the City begins property acquisition and before the Certificate of Completion is issued, the \$1.75

million must be paid to the City as liquidated damages, as must the \$250,000 good faith deposit. The City must complete its land acquisition by the later of these two dates: within seven months from the date of the request or January 31, 2001.

Minimum Assessed Valuation

The developer must enter into a minimum assessment agreement that sets the minimum property tax value at \$24 million for a period of 15 years, starting from the date the Certificate of Completion is issued by the City. (The hotel property will have a minimum assessment of \$7 million and the entertainment center's assessment will be for a minimum of \$17 million.)

Tax Increment Financing Assistance

In lieu of tax abatement, the City will provide a TIF grant in an amount of \$4 million, which will be paid over a period of eight years at the rate of \$500,000 per year. The payments begin the year after the Certificate of Completion is issued by the City. In addition, the TIF payment is subject to satisfaction of certain terms including proof that the property taxes have been paid. The City must also provide a grant in the amount of \$50,000 payable after issuance of the Certificate of Completion for streetscape improvements.

Parking

Parking for the Court Avenue Entertainment Center will be primarily provided by the new surface lot that is to be constructed by the City directly south of the entertainment site and the existing parking garage system. The specific terms of the parking arrangement are outlined below.

1. City Parking Garages: The City will provide parking free of charge to the users of the 3rd and Court and 5th and Walnut Garages after 4:00 p.m. Monday through Friday and weekends. It is understood that the garages are

open to the public on a first come-first serve basis and may also be used periodically by patrons of certain special events.

- a. **Replacement Parking:** The City, in its sole discretion, may provide replacement parking for the garages in the area bounded by Grand Avenue on the north, 8th Street on the west, MLK on the south, and 2nd Street on the east. Replacement parking will be on a 1-to-1 ratio based on 620 spaces in the 5th and Walnut Garage and 580 spaces in the 3rd and Court Garage (total of 1,200 spaces).
- b. **Term:** The term of this parking arrangement is for 25 years. In years 16-25, the City may terminate the arrangement with respect to the spaces provided in the 5th and Walnut Garage in the event the garage reaches the end of its useful life. However, this condition will not apply if the City has provided replacement parking for the 5th and Walnut Garage. In the event the City provides replacement parking at a new facility, the term of the arrangement will be extended as follows:
 - i. If the replacement parking is provided in years 1-15, then the term will be extended an additional 25 years from that date.
 - ii. If the replacement parking is provided in years 16-25, then the term will be extended from the original 25-year term to a 40-year term.
- c. **Cost:** In years 1-15 of the term, the annual cost of the parking to the developer will be equal to the actual marginal operating and maintenance costs for the garages during the hours of free parking.

In years 16-25, and any extensions to the term beyond year 25, the annual cost of the parking will be based on the average prevailing City Parking System rate for the hours free parking is provided under the arrangement, times the number of spaces provided (1,200).

- d. **Casualty Loss:** In the event of a casualty loss or

system failure to the original and/or replacement parking facilities, that results in a temporary interruption in the availability of parking, the City will offer the use of either the 8th and Mulberry or 4th and Grand Garages for interim parking under the existing payment terms of the arrangement.

If the City determines that it is economically infeasible to replace or repair a facility due to casualty loss, system failure, or reaching the end of its useful life, it will offer the use of either the 8th and Mulberry or 4th and Grand Garages as replacement parking under the existing terms and conditions of the arrangement with respect to the facility it is replacing. The offer to provide parking at the 8th and Mulberry and 4th and Grand Garages as described above is limited to the original 25-year term. The City's offer to provide replacement parking is at the election of the developer. If the developer does not accept the offer, the City's obligations to provide interim parking during repairs or permanent replacement parking for the facility terminate. The City's ability to provide the parking at the 8th and Mulberry and 4th and Grand Garages is subject to any Bond Covenants that may be in affect relating to free parking.

- e. **Developer Termination:** The developer may terminate the parking arrangement at anytime subject to appropriate notice. The City and developer may mutually agree to renegotiate this arrangement at anytime.

2. New Surface Lot: The City will provide a validation system for the proposed public surface lot south of the property to enable patrons of the entertainment center to receive free parking. It is understood that the south surface parking lot is open to the public on a first come-first serve basis and may also be used periodically by patrons of certain special events.

- a. **Replacement Parking:** The City, in its sole

discretion, may provide replacement parking for the south surface lot in the area bounded by Grand Avenue on the north, 8th Street on the west, MLK on the south, and 2nd Street on the east. Replacement parking will be on a 1-to-1 ratio based on a maximum of 600 spaces.

- b. **Term:** The term of this arrangement is for 40 years.
- c. **Cost:** The validation program for patrons of the entertainment center will be at an annual base cost of \$110,000 to the developer. The base cost is subject to cumulative annual adjustments based on the previous year annual percentage increase in the CPI-U.
- d. **Developer Termination:** The developer may terminate the arrangement at anytime subject to appropriate notice. The City and developer may mutually agree to renegotiate this arrangement at anytime.

Urban Renewal Board Recommendation

The Urban Renewal Board reviewed the proposed terms of the Development Agreement for the Court Avenue Entertainment Center Redevelopment Project at a special meeting on March 9, 1999. The Board members present unanimously recommended approval.

Future Council Actions

Following is a summary of the anticipated future Council actions related to the Court Avenue Entertainment Center project:

- March 22, 1999 - Set April 19, 1999 as the date of hearing for the vacation of streets and alleys within the proposed development and for the rezoning of the proposed development site from C3-A to a conditional C3 zoning district classification.
- April 19, 1999 - Approval of proposed alley and street vacations and conveyances. Approval of rezoning the development site from C3-A to conditional C3. Approval of the Development Agreement between the City and Entertainment Development, Inc. for the Court Avenue Entertainment Center Redevelopment Project. Authorize the City Manager to make Offers to Purchase for the properties comprising the development

site, *subject* to satisfaction by the developer of the terms of the Development Agreement by June 24, 1999.

- May 17, 1999 - Approval of the financing plan for the unencumbered acquisition of the property designated for the surface public parking lot south of the proposed Court Avenue Entertainment Center development site.
- October 1, 1999 - Deadline for submission by the developer of the final construction plans for the development. City Council review and approval of the plans will occur within 45 days of the developer's submission.