

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-213

SYNOPSIS -

AGENDA:

MAY 17, 1999

SUBJECT:

DEVELOPER-INITIATED PROPOSAL SUBMITTED BY LADCO DEVELOPMENT, INC. FOR DISPOSITION PARCEL NO. 4A/GUTHRIE AVENUE BUSINESS PARK (1800 DIXON STREET)

LADCO Development, Inc. (LADCO) previously submitted a developer-initiated proposal to redevelop Disposition Parcel No. 4A/Guthrie Avenue Business Park (south of Mattern Avenue west of Dixon Street-1800 Dixon Street). Jon D. Garnaas, President/Treasurer of LADCO located at 2951 - 86th Street in Urbandale, Iowa, is proposing to construct a 72,963 sq. ft. build-to-suit office/distribution and light assembly facility on the approximate 6.6-acre parcel. The total project cost is estimated at \$2.8 million. Battery Patrol, headquartered at 1901 East University Avenue in Des Moines, will lease the entire building. The company will retain 57 employees and anticipates that it will create 153 jobs over the next four years. It pays its employees, excluding supervisory personnel, on average a wage of at least \$11.80/hour plus benefits. On April 19, 1999, by Roll Call No. 99-1192, Council approved submission of a \$460,000 Community Economic Betterment Account (CEBA) application to the State of Iowa, of which one-half is proposed to be a forgivable loan and one half to be repaid over seven years at 0 percent interest.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The City is currently assembling the land for this redevelopment project. Economic development assistance includes selling the development parcel at a competitive rate (\$1.25/sq. ft.), participating in cost-sharing relocation of the storm sewer and providing ten-year declining tax abatement. Ellen Walkowiak with the City's Office of Economic Development is coordinating the City activities relative to this project.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

Council is requested to execute the redevelopment agreement, approve the evidence of financing and final design plans, and authorize the future execution and delivery of the deed(s) to convey the property.

FISCAL IMPACT -

Disposition Parcel No. 4A is anticipated to cost a minimum of \$292,225 for acquisition and relocation activities. The source of funding is the Guthrie Avenue Business Park Revolving Loan Fund Account (Community Development Block Grant program income from sale of land to Nesbit/Fitz-Gold, LLC).

Demolition and site clearance costs are estimated at \$46,360. The City's cost-share on abandoning a public storm sewer and rerouting a portion of it to accommodate the building is \$10,695. Demolition, site clearance and storm sewer costs will be deducted from the property purchase price. Total costs are estimated at \$349,280. Revenue from the land sale will be \$356,700. No real estate commission will be paid because no real estate broker has been retained by LADCO to secure acceptance of the redevelopment proposal. The City's net gain from the land sale is projected to be approximately \$7,420.

The true public benefit will be derived from the project's future tax revenue. LADCO has agreed to enter into a Minimum Assessment Agreement with the City at the time Disposition Parcel No. 4A is conveyed which fixes the Minimum Actual Value of the improvements at \$33/sq. ft. It is estimated that the value of the consolidated taxes paid by the redeveloper over ten years will be nearly \$600,000 after tax abatement. This is significant because almost the entire site is vacant.

RECOMMENDATION -

Staff recommends approval of the three roll calls listed below regarding redevelopment of Disposition Parcel No. 4A/ Guthrie Avenue Business Park.

Council is requested to:

- 1. Execute the Agreement to Purchase Land for Private Redevelopment with LADCO;**
- 2. Approve the redeveloper's evidence of financing and final design plans; and**
- 3. Authorize the future execution and delivery of a Special Warranty Deed or Deeds for Disposition Parcel No. 4A and allow the City Legal Department to approve the legal description(s) for staged conveyance of the property.**

BACKGROUND -

On April 5, 1999, by Roll Call No. 99-1024, the City Council accepted LADCO's redevelopment proposal for Disposition Parcel No. 4A/Guthrie Avenue Business Park, subject to receipt of competing proposals by May 17, 1999. No competing proposals have been received. The offering period authorized by Council has ended.

The redeveloper, LADCO Development, Inc., is an Iowa Subchapter "S" corporation that was organized on June 30, 1998. Jon D. Garnaas is the President/Treasurer of LADCO. Mr. Garnaas and his wife, Faith A. Garnaas, both of 2951 - 86th Street, Urbandale, Iowa, each own 50 percent of the company. LADCO is involved in the development and management of commercial and industrial properties for single-user credit tenants.

The proposed development will allow LADCO to facilitate a significant expansion of Battery Patrol on the east side of Des Moines, which will lease the entire facility. Battery Patrol, headquartered at 1901 East University Avenue in Des Moines, has been in operation for 18 years. It assembles approximately 1,700 different kinds of batteries and distributes a total of about 5,000 types of batteries nationwide. The company has 30,000 commercial accounts throughout the U.S., 34 franchise stores in the Midwest and five regional retail stores. Its clientele include both businesses and consumers. The proposed development will more than double Battery Patrol's current lease space and will allow for the company's continued expansion because the site is able to accommodate construction of an additional 37,500 sq. ft.

This project represents LADCO's first development project in the Guthrie Avenue Business Park, first redevelopment in a previous heavy industrial area and one of the few that the developer has conducted in Des Moines. It is hoped that this project will provide an example that will encourage suburban developers to conduct redevelopment projects in the City.

On April 19, 1999, by Roll Call No. 99-1100, Council established the fair market value and authorized acquisition of property to assemble Disposition Parcel No. 4A. The City is in the process of negotiating purchase of the land. With this acquisition, about one-half acre of excess land will be available

for future conveyance.

Disposition Parcel No. 4A is proposed to be deeded to LADCO in "as-is" condition. There is a house, single-car garage, fencing, trees, abandoned vehicles, tires, and miscellaneous debris on the property. The redeveloper will be responsible for demolition and site clearance activities. Approximately \$57,055 will be deducted from the purchase price for demolition, site clearance activities, abandonment of a 15-inch storm sewer located in Dixon Court, and participation in rerouting a portion of the storm sewer east to Dixon Street. This arrangement meets the developer's aggressive time frame, is cost-effective, and eliminates the need and expense of contract administration.

The redeveloper has 60 days from the date of conveyance to identify any surface and subsurface conditions that will substantially inhibit redevelopment of the property and to work with the City on the most cost-effective remedy. The redeveloper and the City must mutually consent to the solution; if consensus cannot be reached, either party may terminate the Agreement.

Urban Renewal Agreement

The redeveloper has provided the information required to proceed with execution of the Urban Renewal Agreement and conveyance of the property.

Evidence of Financing

The Urban Renewal Agreement requires that the redeveloper provide sufficient evidence of financing to purchase the disposition parcel and construct the proposed improvements. The estimated cost of land acquisition is \$356,700 and site preparation/building construction is \$2.5 million for a total project cost of \$2.8 million.

LADCO has submitted evidence of financing in the form of a letter of commitment dated May 7, 1999, from Mercantile Bank in West Des Moines, Iowa, which will provide the lesser of 80 percent of the project cost or appraised value (not to exceed \$2.479 million). The redeveloper has also provided a letter dated May 6, 1999, that affirms its commitment to provide the balance of funds needed to complete the project, estimated at \$560,000.

Final Design Plans

The redeveloper has submitted final design plans for approval

by the City, including a lighting and signage plan. The design plans comply with the minimum development requirements.

Urban Renewal Board Action

On May 11, 1999, the Urban Renewal Board unanimously recommended that the City Council accept the evidence of financing submitted by LADCO Development, Inc. as sufficient for construction of the proposed improvements on Disposition Parcel No. 4A/Guthrie Avenue Business Park and accept the final design plans submitted by LADCO Development, Inc. for Disposition Parcel No. 4A/Guthrie Avenue Business Park.

Special Warranty Deed

The Urban Renewal Agreement requires that evidence of financing and final design plans be submitted and approved prior to conveyance of the disposition parcel by special warranty deed. The redeveloper has met all requirements and is requesting conveyance of the property.

Future Actions

The City is in the process of acquiring the land for Disposition Parcel No. 4A. Council will be requested to accept the Offers to Purchase in late May/early June 1999. Staged conveyance of the property to the redeveloper may be necessary. A majority of the property is anticipated to be conveyed to the redeveloper in June 1999. Two lots located in the southeast portion of the redevelopment parcel are expected to be conveyed as soon as the homeowners have been relocated. This is estimated to occur in Fall 1999.

In order to minimize construction delays, the City may be requested to enter into a future License Agreement to allow the redeveloper to conduct site clearance activities and footing and foundation work at the redeveloper's cost prior to actual land conveyance.

A Minimum Assessment Agreement will be entered into by the redeveloper with the City at the time a majority of Disposition Parcel No. 4A is conveyed. This Agreement will establish the Minimum Actual Value of the improvements at \$33/sq. ft.

The City also intends to secure a driveway easement from DECO Tool, which has recently constructed a 7,150 sq. ft. office/distribution facility west of the redevelopment parcel. This easement, to be located across DECO's southern driveway,

will be assigned to the developer to facilitate the flow of truck traffic between Dixon and East 17th Streets.

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