

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-419

SYNOPSIS -

AGENDA:

SEPTEMBER 27, 1999

SUBJECT:

HOHBERGER
BUILDING-CAPITOL
GATEWAY EAST

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

On the September 27, 1999 Council agenda is a roll call approving a development agreement between the City and Teachout Properties, L.L.C. (Kirk Blunck, owner) for the renovation of the Hohberger Building located at 504 East Locust Street/Capitol Gateway East. On April 26, 1999, by Roll Call No. 99-1279, Council received and adopted the recommendations for the general terms of this development agreement as set forth in City Council Communication No. 99-187.

The Hohberger Building is a three-story structure containing 24,100 square feet of leasable space on three floors with an additional 7,660 square feet on the basement level to accommodate tenant storage. The total project costs for renovation of the building are estimated at \$1.66 million. The developer has secured: first mortgage financing in the amount of \$960,000 from Iowa State Bank; will invest \$250,000 equity in the form of cash and professional design, construction, and project management fees; and has requested City gap financing in the amount of \$400,000. The City gap financing will be funded one-half by the City from the Tax Increment Financing (TIF) funded Gateway Account and one-half by Des Moines Development Corporation (DMDC). The loan will be repaid to the City over ten years. The developer will also apply for a \$50,000 grant from the State of Iowa Historical Preservation fund.

The renovation of the Hohberger Building is another significant undertaking as a catalyst for additional redevelopment of the eastern Gateway area. Terry Vorbrich with the City's Office of Economic Development is the staff contact.

FISCAL IMPACT -

The City's one-half share of the development loan for \$200,000 will be funded from the TIF funded Gateway Account. The remaining \$200,000 will be funded by DMDC.

The developer anticipates using the ten-year declining schedule urban revitalization tax abatement. The tax abatement will result in estimated tax savings of \$218,000 for the project. The project will generate an estimated increase in net new property taxes (after tax abatement) of \$180,000 over ten-years.

RECOMMENDATION -

Approve the development agreement and City Loan to Teachout Properties, L.L.C. for the renovation of the Hohberger Building located at 504 East Locust Street/Capitol Gateway East.

BACKGROUND -

Key Terms of Development Agreement

Based on negotiations among City staff, the developer, and DMDC, an understanding has been reached on the following key terms of a development agreement, as follows:

1. The developer will undertake the renovation of the Hohberger Building to provide general/professional office space. The total project cost for the renovation of the Hohberger Building will be at least \$1.66 million.
2. The developer will acquire construction and permanent mortgage financing in an amount of at least \$960,000. The developer will also provide a minimum of \$250,000 in equity, which will consist of cash and professional design, construction, and project management services provided to the project.
3. The City and DMDC will provide an Economic Development Loan to Teachout Properties, L.L.C. for \$400,000 at zero percent interest for a term of ten years. Principal payments will be deferred during the building renovation and leasing phases with annual principal payments in the amount of \$40,000, beginning 12 months after the building is 80 percent leased, but no later than December 1, 2003. The loan will be secured by a second mortgage on the

real estate, which will be subordinate to the first mortgage of the participating bank in the amount of \$960,000.

4. The Loan will be disbursed to an Escrow Agent (anticipated to be the participating bank): (a) after the City receives funds from DMDC in the amount of \$200,000; (b) upon the execution by developer and proper recording of all collateral documents required by the City; and (c) upon the execution by developer and proper recording of the first mortgage loan of the participating bank. The Escrow Agent will disburse the City development loan on a pro rata basis with the first mortgage funds for costs associated with the building renovations.

5. The City is planning to provide streetscape improvements along East Locust adjoining the Hohberger Building as part of the initiatives identified for the eastern Gateway. If portions of these project costs are assessed or if there are maintenance activities that would be the responsibility of the property owner, the owner of the Hohberger Building would be a willing participant.

6. The project will be eligible for tax abatement on the value added by the improvements in accordance with the ten-year declining exemption schedule.

The proposed project has been evaluated in accordance with the City's adopted standards for the use of TIF funds. The project meets the following required policy standards:

- the project is in accordance with the approved district plan;
- it will result in a significant increase in the taxable value of property within the district;
- it will create and retain permanent job opportunities in the district; and
- the amount of the TIF assistance will be the least amount necessary for the project to proceed and produces an acceptable rate of return to the City.

At this point in time, it is not possible to ascertain the exact number of jobs that the project will create and retain or the wages that will be paid. However, the project is eligible under the TIF policy exceptions, as it will provide a positive impact

on the district through:

- renovation of a blighted building that has been empty and deteriorating for a number of years; and
- influence as a positive catalyst in setting of standards for other renovation projects in the eastern Gateway area.

The developer has negotiated a preliminary commitment to lease space in the Hohberger Building from The Iowan Magazine, which is a subsidiary of the Cedar Rapids Gazette Co. The developer also has interest, but no preliminary commitments, from other small businesses interested in leasing office space in the building. It is anticipated that the tenants of the building would employ between 20 and 35 individuals.

The City and DMDC previously participated in a similar financing arrangement with the developer for the renovation of the Teachout Building, located next to the Hohberger Building. The Teachout Building renovation has created significant interest from small businesses to lease space in the Eastern Gateway project area.

Urban Renewal Board Action

The Urban Renewal Board, at its September 14, 1999 meeting, reviewed the proposed economic development assistance package for the Hohberger Building project and recommended it for approval to the City Council (see attached).

Attachment