

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

99-506

SYNOPSIS -

AGENDA:

NOVEMBER 15, 1999

The Ruan Center Corporation, or an affiliated Ruan entity, proposes to purchase the 7th and Grand Parking Garage and, while retaining the parking, to construct a 165+ room Marriott Courtyard hotel to be located above the 7th and Grand parking garage.

SUBJECT:

PROPOSAL FOR
SALE OF 7TH AND
GRAND PARKING
RAMP PROPERTY

Recommended parameters detailing the general terms and conditions for the proposed sale of the parking garage property are provided below. Using these criteria, the City will be able to provide additional downtown parking with the construction of a new ramp and the existing parking will be retained under private ownership. In addition, a new hotel development will also be constructed which will generate property and hotel/motel tax revenues.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

Due to the bonds and federal tax rules relating to the bonds that finance the City's parking system, a decision to sell the 7th and Grand parking facility will require the City to provide replacement parking. The expansion of the 8th and Mulberry garage would be a possible replacement facility.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

FISCAL IMPACT:

The proposed sale of this property will have several fiscal impacts on the City:

1. Property Tax and Hotel/Motel Revenue. The proposed sales price of the property is \$3,700,000 as determined by an in-depth analysis by Fred Lock of Iowa Appraisal and Research. Total project cost is estimated to be approximately \$13-\$14 million. Based on data provided by the developer, about \$300,000/year in hotel/motel taxes (assuming about \$4.6 million in annual revenues) and \$420,000/year in consolidated new property taxes (assuming a taxable value of \$11 million) will be generated. (The parking fund currently pays about

\$35,000/year to the general fund as a payment in lieu of taxes for the various City services utilized by this ramp.)

2. Parking System. If this property is sold, the City is responsible for about \$1.3 million in bond-related repayment. In addition, there would be a loss of about \$347,000 in annual net revenues (the City currently receives about \$639,000 annually in revenues and has annual operating expenses of about \$292,000). However, these losses would be at least partially offset later by new revenues associated with the replacement parking. As noted above, the sale of this property will generate new property taxes and hotel/motel revenues that are currently not received on this property.

The sale of this property also obligates the City-as per its parking bond covenants and related federal tax regulations-to provide similar replacement parking. As the Council is aware, the City has been planning to expand the 8th and Mulberry Parking Garage to provide an additional 500 structured spaces. The net revenues of about \$2.4 million from the sale of the 7th and Grand property will help pay for the construction of this new ramp (estimated to cost about \$6 million) for which the property has already been acquired. This new garage will most likely meet the replacement parking obligation.

RECOMMENDATION:

Approve the roll call directing the City Manager and Corporation Counsel to:

(1) Negotiate a contract with the Ruan Center Corporation, or an affiliated Ruan entity, reflecting the general terms and conditions outlined below for the sale of the 7th and Grand property and to authorize staff to initiate related items such as vacation of air rights above public right-of-ways on the site (7th Street and alleys). The proposed contract and other related items will then be brought to the Council for its review and consideration.

(2) Provide a recommendation on how to satisfy applicable federal tax regulations and the parking bond covenants related to this parking garage property and the provision of replacement parking.

(3) Continue discussion with the City's parking consultant,

financial adviser, and bond counsel to ensure the applicable financial and legal requirements are met. This will include obtaining a market analysis by our parking consultant to affirm that the proposed replacement parking will meet the requirements of our bond covenants.

BACKGROUND:

Parking Structure

The 7th and Grand parking garage, built in 1974, has about 555 parking spaces with commercial space on its first floor. The garage is heavily used for daily parking because of its strategic location near the high-density commercial core of the downtown.

Bonds

The garage underwent extensive renovation in 1997/98 at a cost of \$1.4 million that was financed with proceeds from the tax-exempt parking revenue bonds issued in 1990.

For this reason, the sale of the garage property is subject to both federal income tax regulations and the covenants included in the 1990 bond resolution. The federal tax regulations treat the sale of the garage property as a deliberate action resulting in a change of the use of the facility and requires certain remedial action be taken by the City with the sales proceeds. These remedial actions include repayment of the portion of the bond attributable to the cost of the renovations in the 7th and Grand facility or using the sales proceeds from the property for another public use that is eligible for tax exempt financing within two years of the sale.

The 1990 bond resolution prohibits the sale of parking system assets except in those circumstances where it will be to the advantage of the parking system and that equal or higher value parking system asset is added to the parking system. Thus, the 7th and Grand sales proceeds must be used for capital improvements to the parking system.

The City can meet these bond requirements by using the sales proceeds from this ramp to pay off the outstanding amount owing for the renovations (estimated at about \$1.3 million) and use the remaining \$2.4 million to provide a portion of the funding for a new garage to be constructed with an equal or higher value for the bond holders. The proposed replacement

site, subject to a thorough feasibility analysis, is the site immediately south of the existing 8th and Mulberry Garage. This skywalk-accessible site is close to the downtown core and land acquisition is completed. It will provide about 500 new structured parking spaces.

Tenants

Commercial Tenants

The ramp currently houses six commercial tenants: Boesen the Florist, CopyCat Photocopy Shop, Quick Tan, Ray's Barbershop, and parking accessed from High Street for Union Planters Bank. Some tenants are on a month-to-month lease while others are on longer term leases that expire within the next one to four years. In addition, the Young Womens Christian Association (YWCA), under an agreement with the City that has a 120-day termination notice, is using a portion of the ground level space on the west side of 7th Street for a community service facility.

The City will provide information to these parties as the proposal develops; a copy of this Council Communication was delivered to these tenants on November 12, 1999. In addition, staff will work with the proposed developer and the tenants in trying to find other locations.

Parking Tenants

City staff will work with the City's parking system operator, Central Parking, to provide communication with the parking tenants.

General Terms for the Sale of the 7th and Grand Parking Ramp

To accomplish development of the hotel, it is proposed that the 7th and Grand Parking Ramp property be sold, subject to the following general terms:

- The existing parking (approximately 555 spaces) must continue to be used for parking with at least 35 percent (about 195 spaces) available for public daily parking. However, parking rates and operation of the ramp would be determined solely by the new owner. During construction, the owner is to minimize the number of spaces that will be impacted by the hotel construction.
- The ramp will be sold in "as-is" condition with any additional structural support modifications required to be at the new owner's expense. (Ruan has previously undertaken a structural evaluation to determine if the

hotel was feasible; the report indicated the proposed hotel was feasible with some additional structural supports.)

- A 165+ room hotel on the top of the ramp is to be constructed within three years from conveyance of the property. Tax abatement for the hotel will be considered.
- The new owner must enter into a skywalk agreement with the City.
- The sales price of the property will be \$3,700,000 as determined by Fred Lock of Iowa Appraisal and Research. Various alternatives were explored to determine the most financially advantageous method for the City to accomplish this development; a fee simple sale was found to best meet this criteria when evaluated with other options involving leases and sale of air rights.