

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-145

SYNOPSIS -

AGENDA:

APRIL 17, 2000

SUBJECT:

501 EAST LOCUST-
CAPITOL GATEWAY
EAST

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

On the April 17, 2000, Council agenda is a communication recommending the approval of the Terms of Agreement between the City and Preservation Properties, 1L.C. for the renovation of the property located at 501 East Locust Street/Capitol Gateway East. Bernie Van Til (400 Locust, Suite 425, Des Moines, IA), through Preservation Properties, 1L.C. (hereinafter referred to as Developer), is proposing to purchase the building located at 501 East Locust Street for the purpose of renovating the property into a mixed-use development with commercial and residential space. This building is located across the street from the Teachout and Hohberger Buildings, projects that also received City Tax Increment Financing (TIF) funds.

501 East Locust is a three-story structure containing 19,200 square feet of leasable space. The total project cost for renovation of the building is estimated at about \$2,955,135. The Developer is proposing to finance the project as follows:

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

Bond Proceeds	\$1,481,513
City HOME Funds:	59,996
State HOME Funds	44,967
City TIF Funds	415,000
EZ Tax Credits	193,241
Polk County Housing Trust	175,000
Federal Home Loan Bank	25,000

Equity	<u>589,433</u>
Total	\$2,984,150

The actual amount of the development loan may be lower if the Developer is able to secure funds from additional sources.

The first floor of the building will be utilized as commercial space and the upper two floors will be redeveloped into 20 rental units. Although no lease commitments have been signed for the commercial space, demand for lease space has been strengthened in the Eastern Gateway with the rehabilitation of the Teachout and Hohberger buildings. These two structures are directly across the street from 501 East Locust.

The renovation of 501 East Locust is another significant undertaking as a catalyst for additional redevelopment of the eastern Gateway area. The project will assist in setting standards for other renovation projects in the area.

FISCAL IMPACT -

The City's development loan is proposed in an amount not to exceed \$415,000 and will be funded from available TIF funds. The actual amount of the development loan may be lower if the Developer is able to secure funds from additional sources that were not initially projected. The Developer also anticipates using the ten-year 100% tax abatement available for residential development.

RECOMMENDATION -

Approve the development agreement with Preservation Properties, 1L.C. for the renovation of 501 East Locust attached to the roll call as Exhibit A.

BACKGROUND -

Terms of Agreement

Based upon discussions with the Developer, an understanding has been reached on the following general points which

comprise the key features of the agreement as outlined below. These points are defined in detail in the formal development agreement between the City and Preservation Properties, 1L.C.

1. The project will be eligible for tax abatement on the value added by the improvements in accordance with the ten-year 100% abatement schedule for residential development.
2. The City will provide a development loan to Preservation Properties, 1L.C. in an amount not to exceed \$415,000. The actual amount of the development loan may be lower if the Developer is able to secure additional funds from sources not initially identified in the pro forma. Of this loan, \$115,000 will be in the form of a 1% interest loan to be repaid over 15 years. The remaining \$300,000 will be in the form of a forgivable loan. This loan will be forgiven upon receipt of the final payment of the 1% interest loan. In the event that the project generates profits in excess of those required by the equity investor, the City will receive additional payment as defined below.
3. The City is planning to provide streetscape improvements along East Locust adjoining the 501 East Locust as part of the initiatives identified for the Eastern Gateway. If a portion of these project costs are assessed, or if there are maintenance activities that would be the responsibility of the property owner, it is anticipated that the owner of 501 East Locust would be a willing participant.
4. The Developer will obtain a construction mortgage for the full construction amount and permanent mortgage for the portion of the project not funded with TIF funds.
5. The Developer will undertake the renovation of 501 East Locust to provide 20 rental units on the 2nd and 3rd floors and commercial space on the 1st floor.
6. The City's TIF funds will be injected into the project pro rata with the other construction financing. No TIF funds will be released until all funds identified in the proforma are secured and contracts signed.
7. In the event that the rate of return exceeds 3%, the Developer shall return to the City an amount equal to 30% of the excess revenue. (This provision is subject to revision upon identification of and negotiation with the equity investor.)

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 residential 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.

In addition to providing needed residential and commercial space in the Eastern Gateway, the project will have the following impact:

- renovation of a blighted building; and
- impact as a positive catalyst in setting of standards for other renovation projects in the eastern Gateway area.