

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-156

SYNOPSIS -

AGENDA:

APRIL 17, 2000

SUBJECT:

LOCUST STREET
MALL
RENOVATIONS

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

On the April 17, 2000, Council agenda is a roll call approving the final development agreement between the City and HMG Realty Advisors, Inc. for a City development loan to assist in structural repairs, renovations, and improvements to the Locust Street Mall located at 700 Locust Street. On December 6, 1999, by Roll Call No. 99-3714, City Council gave preliminary approval of the terms of agreement and directed the City Manager to prepare a final development agreement.

The Locust Street Mall is a six-story structure containing three levels of retail, office, and storage space totaling 56,088 square feet and five levels of parking providing 736 parking stalls.

Over the past few years the building has fallen into disrepair and has experienced increasing vacancies, reaching up to 72% of its retail and office space vacant. **The assessed valuation of the building (not land) has declined by 50% over the last ten years, resulting in a loss of \$2 million in taxable value.**

The Developer requested City assistance in stabilizing the decline of the building. The building will require up to \$2.0 million in building structural repairs, renovations to common areas, and improvements to vacant retail and office space to bring the space up to market standards and enable it to obtain a higher occupancy. Terry Vorbrich, with the City's Office Economic Development, is the City's staff contact.

FISCAL IMPACT -

The City assistance will not exceed \$500,000. The City assistance will be the combination of tax savings resulting from tax abatement on value-added improvements and payments from TIF revenues with the total not to exceed \$100,000 each year. The City development loan will be at 0% interest with payment deferred for ten years. Portions of the City assistance will be either repaid or forgiven based on the increase in the

property's tax assessment during the years 2001 through 2010. If the project is successful and the project's property tax assessment increases to where it meets or exceeds an average tax assessment of \$6.4 million over the ten years the development agreement is in place, then the development loan will be 100% forgivable. If the development loan is 100% forgivable, it is estimated that the project would provide net new taxes (new tax increment less total City assistance) of \$350,000 over the term of the development agreement.

RECOMMENDATION -

Approve the final development agreement between the City and HMG Realty Advisors, Inc. and direct the City Manager to carry out the various procedural actions outlined in the development agreement

BACKGROUND -

Terms of Agreement

The Developer is HMG Realty Advisors, Inc., Thomas G. Holtz, President, and maintains its corporate office One Pacific Place, Suite 450, 1125 South 103rd Street, Omaha, NE 68124. The company acquires management control of real estate, which is over-leveraged and/or under-managed. The company is associated with McCarthy Group, Inc., which is a broker/dealer and investment bank that provides advisory services to clients, and assists clients in the development and implementation of capital plans. In short, McCarthy Group is a capital fund that buys, sells, finances and values companies for its own portfolio and its clients' portfolios.

The following points comprise the key features of the Development Agreement between the City and HMG Realty Advisors, Inc:

1. The Developer will undertake the repair, renovation, and improvement of the Locust Street Mall Building. The project costs for the repair and renovation and improvements to the common areas of the Locust Street Mall Building will be at least \$1.0 million with additional improvements to the vacant rentable space of at least \$1.0 million as tenants are secured.
2. The Developer will restrict any application for tax

abatement on the project's value-added improvements to the three-year 100% Urban Revitalization Tax Exemption schedule.

3. The City will provide an economic development loan to HMG Realty Advisors, Inc. the value of which is not to exceed \$500,000. The City development loan will be disbursed to the developer in five annual installments not to exceed \$100,000 each. Each annual installment will be comprised of the value of the project's tax savings received under the urban revitalization tax exemption schedule plus an amount funded from TIF revenues. (E.g., If the value of the tax savings from tax abatement were \$40,000, then \$60,000 will be funded from TIF revenues.)
4. The loan will be at 0% interest and require no payments until maturity in the year 2010. If the Developer were successful in stabilizing the building as reflected by increased building assessment valuations, then a portion of the loan would be forgivable. The portions of the loan that will be repaid or forgiven will be based on the project's average tax assessment for the years 2001 through 2010. The following proposed repayment schedule has been agreed to:

Current 1999 Assessment: \$4,403,000		
Average Assessment	Loan Repayment	Forgivable Loan
Less than \$5.6 million	\$500,000	\$0
\$5.6 million to \$5.8 million	\$400,000	\$100,000
\$5.8 million to \$6.1 million	\$275,000	\$225,000
\$6.1 million to \$6.4 million	\$150,000	\$350,000
\$6.4 million and over	\$0	\$500,000

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 produce an acceptable rate of return to the City.

Board and Commission Recommendations

The Urban Renewal Board, at its April 4, 2000 meeting, reviewed the economic development assistance for the Locust Street Mall Project and recommended that the economic development assistance be approved by the City Council.