

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-584

SYNOPSIS -

AGENDA:

DECEMBER 18, 2000

SUBJECT:

APPROVAL TO
WORK WITH
INVESTOR GROUP
FOR GROCERY
STORE
DEVELOPMENT AT
SIXTH AND
UNIVERSITY

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

At the City Council meeting of October 23, 2000, Council referred to the City Manager a proposal for a grocery store and commercial redevelopment to be located in the vicinity of Sixth and University Avenues. On June 26, 2000, a proposal was received from 1000 Friends of Iowa regarding a development proposal at the site. Council has requested that the City Manager review the two proposals and make a recommendation to Council.

Along with City staff analysis, we asked the Corporation for Economic Development in Des Moines (CEDDM) to evaluate the two proposals. Since 1981, the CEDDM has administered direct loan programs for small business expansion funded by both the City and the US Small Business Administration. The CEDDM Loan Committee, comprised of local bankers and small business owners and managers, met and reviewed the proposals. This independent third party review and staff review has focused on developer strength and sustainability, financial feasibility, development costs, and community impact.

It has been determined that the Investor Group consisting of Franklin Green, Marvin Alexander, Dimaggio Nichols, and Greg Stewart have the stronger proposal at this time. We are recommending to Council that staff continue to work with this group with the goal of finalizing site development and financial issues leading toward drafting a formal development agreement.

There are positive aspects of the 1000 Friends of Iowa proposal that, if financially feasible, could be incorporated in the eventual development. Any City assisted development at this site will include goals for community employment at a livable wage, employment of Enterprise Community residents, and sensitivity to neighborhood impacts.

The next phase will include Market Study update, finalizing agreement between the Development Group and SuperValu, and agreement with the Developer representing the national retailer that

has control of the project site.

FISCAL IMPACT -

This estimated \$7.155 million project will require approximately \$3.85 million from a variety of public sources including Section 108 Loan (to be repaid by Developer), Economic Development Incentive (EDI) grant funds, Enterprise Community funds, and Tax Increment Financing (TIF). We will seek reasonable collateral encumbrance for as high a proportion of the required public funding as possible.

RECOMMENDATION -

Authorize the City Manager to proceed with discussions with the Investor Group comprised of Franklin Green, Marvin Alexander, Dimaggio Nichols, and Greg Stewart, for a grocery store/commercial redevelopment project for a site at Sixth and University, and to prepare a redevelopment agreement for Council's consideration.

BACKGROUND -

The criteria used in this review process has both qualitative and quantitative components; and, as with any development process, there will be issues arising that need to be resolved. However, this recommended Council action allows staff to concentrate its efforts on the more feasible proposal.

1. Developer strength/sustainability:

- The Investor Group proposal has the capacity from an economic feasibility and sustainability standpoint to accomplish this project. This is exemplified by the crucial proposed supplier/distribution arrangement with SuperValu, the designation of an experienced owner/operator, and the substantial at-risk investment of the principals. This latter point includes the presumption that those individuals making a substantial up-front investment are more likely to have the ability and willingness to provide additional capital should problems arise.

- As compared to the Franklin Green, Marvin Alexander, Dimaggio Nichols, and Greg Stewart proposal, the 1000 Friends of Iowa proposal does not identify a developer with comparable financial

backing to build and own the proposed project, or an experienced operator. Also, the 1000 Friends of Iowa proposal may not provide a level of confidence that their reliance on local agricultural producers will be able to provide the strength and reliability that the Investor Group linkage with SuperValu will provide. However, local producers would potentially be an excellent source to supplement and augment established producers and suppliers.

2. Community Impact:

- The Investor Group proposal needs to incorporate more of the neighborhood- and pedestrian-friendly aspects of the 1000 Friends of Iowa plan, including architectural sensitivity to the neighborhood, site beautification considerations, and neighborhood pedestrian orientation and access. It does appear that the Investor Group site plan better addresses the parking needed for this scale of development.

- There should be further exploration of the locally grown producer/supplier concept. Issues such as producer capacity, reliability of product supply, and product quality may inhibit the ability of such suppliers to establish markets.

Any project that receives City assistance will be required to seek Community input as the development process goes forward.

3. Development costs and operating pro-formas:

- The Investor Group is working collaboratively with SuperValu in developing their project costs and operating projections. The project costs are predicated on the basis of a 35,000 square foot store using SuperValu's construction and store layout standards and actual costs associated with land acquisition. Their revenue and expense projections include significant input from SuperValu based on its 1999 proprietary market analysis.

- The 1000 Friends of Iowa proposal bases its project investment costs primarily on references to industry standards. Its revenue and expense projections are based on the 1993 market analysis contracted for by the City from SuperValu, adjusted to current industry standards by their Consultant.

- The 1000 Friends of Iowa proposal includes estimated investment costs and operating projections for both a 20,000 square foot and a 35,000 square foot store. The business plans state that an updated market analysis needs to be done to reflect current market feasibility

between the two store sizes.

Based on the reviews of the two proposals, it appears that the Investor Group of Franklin Green, Marvin Alexander, Dimaggio Nichols, and Greg Stewart has in place the key factors to bring its proposal to reality in the near future. With the incorporation of more neighborhood- and pedestrian-friendly elements into their site design, their proposal offers the better opportunity to achieve the community goal of a successful full-service grocery store at this location. We recommend that Council authorize City staff to work with the Investor Group of Franklin Green, Marvin Alexander, Dimaggio Nichols, and Greg Stewart.

The community owes a debt of gratitude to 1000 Friends of Iowa for focusing on neighborhood impact and suggesting "out of the box" approaches. We hope they continue to be a contributor to the process.