

Meeting Agendas/Info

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

01-300

SYNOPSIS -

AGENDA:

JUNE 4, 2001

SUBJECT:

APPROVAL
DEVELOPMENT
AGREEMENT FOR
GROCERY STORE
DEVELOPMENT AT
SIXTH &
UNIVERSITY

On the June 4, 2001 Council agenda is a Roll Call approving and authorizing actions related to the development of a 35,000 square foot full service grocery store near the intersection of 6th and University Avenues in the City of Des Moines Enterprise Community. The proposed developer/operator is a group comprised of Greg Stewart, Nick Nichols, Marvin Alexander and Franklin Green (incorporated under the name SNAG, LLC and hereinafter referred to as Developer).

By Roll Call No. 00-468, dated December 18, 2000, Council authorized the City Manager to negotiate with the Developer for the private redevelopment of a full-service grocery store near 6th and University.

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

FISCAL IMPACT -

The City has assembled a financial assistance package comprised of City and Federal sources, as follows:

SUBMITTED BY:

RICHARD CLARK
DEPUTY MANAGER

Enterprise Community Forgivable Loan
By Roll Call No. 98-2403, dated July 27, 1998, City Council approved and authorized \$685,000 from the Enterprise Community grant be used for the voluntary acquisition of properties and related activities in the proposed grocery store redevelopment site. The Enterprise Community Steering Committee at its July 20, 2000 meeting approved a recommendation to City Council that an additional \$765,740 in Enterprise Community Social Service Block Grant (SSBG) funds be designated to support the grocery store redevelopment project. The recommendation will provide a total of \$1,450,740 in Enterprise Community SSBG funds in the form of a forgivable loan in support of the grocery store project.

HUD Funds

The U.S. Department of Housing and Urban Development has approved funding, as follows: \$2,000,000 HUD Section 108

Guaranteed Loan - this loan will be used to finance construction costs associated with the project; secured by a first real estate mortgage on the project and repaid by the Developer over a term of 20 years; \$1,000,000 HUD Economic Development Initiative Grant - this grant can only be used in conjunction with the Section 108 Guaranteed Loan to pay for CDBG eligible costs associated with the redevelopment project. Approximately \$300,000 of the EDI Grant proceeds shall be retained in a loan loss reserve account to serve as collateral for the Section 108 Loan.

City Economic Development Forgivable Loan

To assist in the financing of the site acquisition, staff is proposing a City loan in the amount of \$400,000 to be forgiven over a term of five years. The loan will be funded from \$370,000 in tax increment funds allocated to the project by Roll Call 98-1435, dated May 4, 1998, and by Roll Call No. 98-2403, dated July 27, 1998 and \$30,000 from the Economic Development Enterprise Account.

The City is responsible for the monitoring of relocation benefits to residents relocated by the project. It is recommended that \$100,000 be allocated from the Economic Development Enterprise Account to fund relocation activities. Funding from the Economic Development Enterprise Account is intended to be interim and would be reimbursed from the disposition of the three parcels voluntarily acquired for redevelopment and by future tax increment financing revenues from the Metro Center Tax Increment Financing District.

RECOMMENDATION -

Approve the Roll Call and authorize:

1. Allocation and advancement of \$1,450,740 in Enterprise Community SSBG funds in the form of a 10 year forgivable loan; and
2. Allocation and advancement of \$130,000 from the Economic Development Enterprise Account on an interim basis to be repaid from disposition of redevelopment parcels and tax increment financing revenues from the Metro Center Tax Increment Financing District;
3. Allocation and advancement of a \$400,000 City Economic Development Five year forgivable loan;
4. Execution by the Mayor of the Development Agreement with SNAG, L.L.C.; and
5. Execution by the Mayor of the HUD Section 108 Guaranteed Loan Funding Approval Agreement and the HUD EDI Grant Funding Approval Agreement.

BACKGROUND -

The Developer is proposing to construct and operate a 35,000 square foot, full service grocery store near the intersection of 6th and University Avenues in the City of Des Moines Enterprise Community. The proposed project will create an estimated 100 employment opportunities and provide needed retail services to Enterprise Community residents. It will also act as a catalyst for further commercial redevelopment along the Sixth Avenue corridor in the Enterprise Community.

The Developer, working with SuperValu the nation's largest wholesale distributor to the grocery store industry, estimates the costs to construct and open the store at about \$7.0 million. Following is proposed uses and sources table based on known land costs, and estimated site construction costs:

Use Cost Source

Land acquisition \$1,832,500 \$1,450,740 EC Funds

\$ 400,000 City ED Loan

Site prep \$ 451,000

Architecture

& Engineering fees \$ 312,000 \$ 755,000 Developer Cash

Building Construction \$1,898,000 \$2,000,000 Section 108 Loan

Equipment \$1,790,000 \$1,000,000 EDI Grant

\$ 827,500 Bank Financing

Inventory \$ 630,000 \$ 150,000 SuperValu

Pre-Opening Expense \$ 60,000 \$ 390,260 Trade Payables

Total \$6,973,500 \$6,973,500

Additional City Costs - Relocation activities estimated at \$100,000 to be funded on an interim basis from the Economic Development Enterprise Account

Development Agreement

Following are the essential points of the Development Agreement with SNAG, LLC (hereinafter referred to as Developer).

The Developer shall:

- Construct and operate a 35,000 square foot, full-service grocery store within and in conformance with the approved Planned Urban Development (PUD) shopping center located between University and Indiana Avenues and between 6th Avenue and the alley west of 8th Street. Construction of the facility is to begin within 120 days of closing on the land purchases and be completed no later than the fall of 2002.
- By August 1, 2001, submit a final development plan for the grocery store for review by the appropriate City Boards and Commissions and approval by the City Council.
- Create at least 100 full-time and part-time jobs at the grocery store and will endeavor to fill at least 35 percent of the created jobs with individuals residing in the Enterprise Community.
- Comply with the terms and conditions of the Memorandum of Agreement (MOA) between the City and the State Historical Preservation Office and approved by the City Council by Roll Call No 01-1421, dated May 7, 2001.
- Submit evidence satisfactory to the City that Developer has a minimum of Seven Hundred Fifty-five Thousand Dollars (\$755,000) of equity capital for the project and has commitments for all other permanent and interim financing necessary for the construction and equipping of the Improvements.

City shall cause to be provided the following:

- An Economic Development Forgivable Loan for \$400,000 to be forgiven over a term of five years with the funds to assist in the purchase of land.
- An Enterprise Community Forgivable Loan for \$1,450,740 to be forgiven over ten years is to assist in the purchase of land. The Enterprise Community Forgivable loan is to be funded with a portion of the HUD Enterprise Community SSBG Grant funds.
- City shall advance both the Economic Development Forgivable Loan and the Enterprise Community Forgivable Loan to Developer upon satisfaction that Developer has taken ownership of the project site and provided a title opinion that Developer holds title to the property, Developer has executed and recorded a first Mortgage and the Declaration of Covenants in favor of the City.

If the project were not to go forward after the City Economic

Development Forgivable Loan and the Enterprise Community Forgivable Loan are disbursed, the City would be in a first mortgage lien position on the development site, which would allow the City to assert control over the redevelopment site.

- The mortgage securing the City Economic Development Forgivable Loan and the Enterprise Community Forgivable Loan will be a first mortgage until such time as the final collateral documents are executed for the HUD Section 108 Guaranteed Loan and private bank financing needed to complete the project. The City will execute all necessary documents to subordinate the mortgage securing the City Economic Development Forgivable Loan and the Enterprise Community Forgivable Loan, as necessary, to permit other project financing.

- A HUD Section 108 Guaranteed Loan in the amount of \$2,000,000 -- City shall provide to Developer a Section 108 Loan in the amount of Two Million Dollars (\$2,000,000) to be funded with the proceeds of a Section 108 Guaranteed Loan from HUD. HUD has approved an application for a \$2 million Section 108 Guaranteed Loan submitted by the City for this purpose, subject to finalization of the loan documents and satisfaction of the collateral requirements. The Developer will need to show interim financing commitments to cover project costs between the time construction begins and funds are available from the Section 108 Guaranteed Loan

- HUD EDI Grant for \$1,000,000 -- City shall provide to Developer an EDI Grant for One Million Dollars (\$1,000,000) to be funded with the proceeds of an Economic Development Initiative ("EDI") Grant from HUD. HUD has approved an application for a \$1 million EDI Program Grant submitted by the City for this purpose, subject to finalization of the documents.

- City and Developer agree to diligently pursue all necessary actions required for funding of the Section 108 Guaranteed Loan and the EDI Program Grant from HUD.

- The intent of the parties is for the City to serve as a conduit for the Section 108 Guaranteed Loan and EDI Program Grant financing, with all the obligations, liabilities, terms and conditions assumed by City in the Section 108 Guaranteed Loan and EDI Program Grant from HUD to be assumed and timely performed by the Developer.

By Roll Call No. 01-746, dated March 12, 2001, the City Council approved the "PUD" Conceptual Plan for the private redevelopment of property between University and Indiana Avenues and between 6th

Avenue and the alley west of 8th Street, as a shopping center with a 35,000 square foot grocery store and a 15,000 square foot retail store. At the time of the PUD approval, a private Developer was working with Walgreen's to locate on the site. Subsequent to the approval, Walgreen's has indicated that due to changing market conditions in the Des Moines metro market they will not pursue a store at this location. As a result, the private developer has indicated that they will not be pursuing a commercial development on the parcels east of 7th street within the PUD.

In an effort to keep this portion of the PUD development parcel assembled and to further commercial redevelopment along the 6th Avenue corridor, the Board of Directors of the Neighborhood Development Corporation has authorized its organization to take assignment of the purchase contracts for the parcels east of 7th Street. Over the next 90 to 120 days the NDC will be working with City staff and other community groups on a development plan focused on the type of retail services that are needed by area residents and complementary to the planned grocery store development.
