

## Meeting Agendas/Info

**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

**01-567**

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

**AGENDA:**

NOVEMBER 5, 2001

**SUBJECT:**

PRELIMINARY  
MEMORANDUM OF  
AGREEMENT FOR  
ECONOMIC  
DEVELOPMENT  
PROJECT AT  
PENNSYLVANIA  
AND EAST GRAND  
AVENUE

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

RICHARD CLARK  
DEPUTY CITY  
MANAGER

**SYNOPSIS -**

On the November 5, 2001 City Council agenda is a roll call to accept and approve a communication from the Deputy City Manager outlining the terms of a preliminary memorandum of agreement with Johnson Property Development, L.C. (hereinafter referred to as Developer), Jared Johnson, Principal, for a new economic development project to be located in the vicinity of the intersection of Pennsylvania and East Grand Avenue.

The Developer has proposed a two phase project, the first phase to be comprised of an 84,000 square foot commercial office building (investment of about \$8.6 million) and a 870 space parking garage (investment of about \$14.4 million) for a total investment of about \$23 million. The second phase of the project is a proposed hotel or equivalent commercial development at an anticipated investment of between \$2.5 and \$5 million. The Developer has a preliminary commitment from the State of Iowa to lease 80,000 square feet of the commercial building for a term of 20 years. The parking garage will be divided under a condominium like arrangement with between 309 and 319 parking spaces owned by the Developer to support the commercial building and Phase Two of the project, with the balance of the parking spaces (approximately 551) being purchased by the State of Iowa for \$9.1 million.

For the project to proceed forward, the Developer has requested \$2.5 million in public assistance. City of Des Moines Office of Economic Development staff are proposing an economic development assistance package that includes an economic development grant with a present value of \$2.2 million and an Enterprise Zone application requesting the rebate of sales and use tax on construction materials valued at \$305,000. The economic development grant would be paid in installments over 20 years from tax increment funds generated by the project. Additionally, the City Manager's Office is working with the Iowa Director of General Services to pursue Capitol view protection strategies with the State working to remove parking located west of the Capitol at East Locust and Pennsylvania and replace it with a landscaped area. Without the development of Phase

One, neither of these actions would occur.

### **FISCAL IMPACT -**

The Developer will execute a minimum assessment agreement on Phase One of the project totaling \$8,865,500 that will result in an initial increase in the City's taxable commercial base of \$7,890,000. Phase Two of the project is projected to increase the commercial tax base by an additional \$3.4 million.

The proposed economic development grant with a present value of \$2.2 million would be paid in semi-annual installments estimated at \$117,000 over 20 years. The project's Phase One will result in a present value of net new tax revenues (new revenues less grant) over 20 years of \$1.9 million. The addition of Phase Two to the project is projected to increase the present value of net new tax revenues over the 20 years to \$3.4 million.

### **RECOMMENDATION -**

**Approve the preliminary memorandum of agreement between the City and Developer and approve a recommendation for approval to the Des Moines Enterprise Commission of an application by Developer for benefits under the Enterprise Zone program and direct the City Manager to:**

**1. Prepare a development agreement and minimum assessment agreement with Johnson Property Development, L.C. based on the preliminary memorandum of agreement as attached and set forth in this communication.**

**2. Refer this matter to the Urban Renewal Board and any other City Boards and Commissions as necessary for their review and comment at the appropriate times.**

### **BACKGROUND -**

Based on discussions with the Developer, a preliminary memorandum of agreement (attached) has been reached. The following general points comprise the key features that will be defined in detail as part of a formal development agreement between the City and the Developer

1. The Developer will construct Phase One of the project that includes an 84,000 square foot commercial office building and a 570space parking garage by December 31, 2002 at a minimum investment of approximately \$23 million.
2. The Developer will diligently pursue the development of the project's Phase Two comprised of a hotel or the equivalent commercial development at an anticipated investment of between \$2.5 and \$5 million.
3. The Developer will execute a minimum assessment agreement on Phase One of the project totaling \$8,865,500, effective upon substantial completion by January 1, 2003, for a term of 20 years. The minimum assessment valuation will increase 3 percent every two years with the first adjustment in January 1, 2005.
4. The Developer agrees to make an application for benefits under the State of Iowa Enterprise Zone program as an eligible development business. The Developer further agrees that if approved for benefits under the State of Iowa Enterprise Zone program, the Developer will only seek benefits for the rebate of state sales and use tax on project construction materials on the office building and the portion of the parking structure to be owned by the Developer (estimated value \$305,000).
5. Developer agrees that any benefits exceeding \$305,000 received under the State of Iowa Enterprise Zone program will reduce the amount of the economic development grant on a one to one basis. The City acknowledges that any sale or use tax refunded to the Developer on the portion of the parking structure to be owed by the State would not be treated as a benefit received under the State of Iowa Enterprise Zone program.
6. Developer and City agree that State of Iowa approval of the Enterprise Zone application and issuance of the Enterprise Zone Agreement limiting benefits to the rebate of state sales and use taxes paid on construction materials must precede approval of the final development agreement.
7. The Developer agrees not to seek tax abatement on any part of the proposed project's Phase One development. Developer agrees not to seek tax abatement on Phase Two without the City's written consent.
8. The City will provide an economic development grant with a present value of \$2,200,000 as of the date of substantial completion anticipated to be December 31, 2002, to be paid to Developer in 40

installments paid on each December 15 and June 15, beginning December 15, 2004.

9. To receive the installments of the economic development grant, Developer must have substantially completed the project and certify annually to:

a. Maintenance of the project structures.

b. That at least 95 percent of the commercial building space is occupied.

c. That the project is insured against casualty loss and with requirements to rebuild if the project suffers partial or total casualty loss.

d. That the property (exclusive of the parking spaces sold to the State) remains subject to property taxes and the taxes are timely paid.

e. That spaces in the parking structure are made available to the public for parking.

10. If Developer's final development plans reflect a building of less than 84,000 square feet or a parking structure in which there will be less than 309 privately owned parking spaces, the present value of the City economic development grant shall be reduced in proportion to the reduction in the size of the building and/or privately owned parking spaces.

11. The City and the Developer acknowledge that they will work diligently to reach mutually agreeable terms to be included in the final development agreement regarding actions to be taken should the State exercise its rights under a non-appropriation clause within the proposed lease prior to the end of the minimum assessment agreement period and payment of the last installment of the economic development grant.

12. Developer agrees to work diligently with the City and the State of Iowa to complete all of the necessary procedural steps, applications, and documents necessary for approval of the proposed public assistance. This will include, but may not be limited to, a final development agreement between the City and Developer, review of the development plan (including building design and site plans) by the City to ensure compliance with the Gateway East Plan and urban design criteria as may be identified through the review process and all Enterprise Zone program documents.

13. Other terms and conditions of the development loan will be negotiated with the Developer and presented for Council approval.

The Developer and the State have not closed their transaction and are in the process of finalizing drafts of the lease agreement and other necessary documentation. The Developer will provide to the City for review, copies of the lease agreement and other necessary documentation prior to finalizing the urban renewal development agreement between the City and Developer.

The proposed project has been evaluated in accordance with the City's adopted standards for the use of tax increment financing (TIF) funds. The project meets all the required policy standards, as follows:

- 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.

At this point in time, it is not possible to ascertain the exact number of jobs the project will retain or the wages that will be paid. However, the project may be considered for eligibility under the TIF policy exceptions, as it will provide a positive impact on the district through its:

- Support of the adopted Capitol Gateway East Plan and the removal of slum and blight.
- Influence as a positive catalyst on the Gateway East area by providing increased commercial office space, retail amenities, visual and economic enhancement to the area.

Attachment

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