

**CITY COUNCIL
COMMUNICATION:**

REVISED

ITEM _____

02-058

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

AGENDA:

SYNOPSIS -

JANUARY 28, 2002

On the January 28, 2002, Council agenda is a roll call to approve the Development Agreement between the City of Des Moines and the Developer of the Masonic Temple (1011 Locust) for the rehabilitation of the property. Downtown Preservation Partners, LLC (DPP); BH Temple, Inc.; and The Temple Partners, L.P. are the joint Developer of the project. A second roll call recommends approval to the Des Moines Enterprise Commission of an application by the Developer for benefits under the Enterprise Zone program.

SUBJECT:

DEVELOPMENT
AGREEMENT
BETWEEN CITY OF
DES MOINES AND
DEVELOPER FOR
REHABILITATION
OF THE MASONIC
TEMPLE

BH Temple, Inc. acquired the Masonic Temple and is the present titleholder. BH Temple, Inc. is the sole manager of DPP. BH Temple, Inc. will, before the property is "placed in service," transfer the property to DPP. DPP will, in turn, transfer the property to the Temple Partners, L.P. Harry Bookey (400 Locust, Des Moines) is the Managing Partner of DPP.

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

FISCAL IMPACT -

The City's project participation is as follows:

SUBMITTED BY:

ERIC A. ANDERSON
CITY MANAGER

- 1. \$1,085,000-Economic Development Grant: This grant is equal to the property purchase price. The Gateway Project is the source of these funds.
- 2. \$200,000-Economic Development Grant. These funds will be utilized for project rehabilitation costs. The Gateway Project is the source of these funds.
- 3. \$450,000-Unsecured Loan of Project Funds: These funds will be utilized for project rehabilitation costs. Repayments will be made to the City from excess annual cash flow. The Gateway Project is the source of these funds.

4. Supplemental Economic Development Grant-Annual payment from project tax revenues not to exceed \$31,000 per year for 20 years: The City will utilize the incremental tax revenues from the project to make annual payments to the Developer for 20 years. The net present value is estimated to be \$280,000.

The Developer has agreed to a Minimum Assessment Agreement of \$1,600,000.

RECOMMENDATION -

Approve the Development Agreement with the Developer and direct the City Manager to carry out the City obligations and approve a recommendation for approval to the Des Moines Enterprise Commission of an application by the Developer for benefits under the Enterprise Zone program.

Terms of Agreement

Following are the essential features of the Development Agreement between the City and the Developer.

- 1. The Developer will undertake the construction of the restoration, rehabilitation, renovation, and related improvements to the property for office, professional service, commercial, and cultural use in substantial compliance with the Conceptual Development Plan attached to the Agreement.**
- 2. The Developer agrees to enter a Minimum Assessment Agreement on the value of the improvements in the amount of \$1,600,000 for a period of 21 years following completion of the project.**
- 3. The Developer shall submit to the City evidence that the Developer has a minimum of \$900,000 of equity capital for construction of the improvements and that the Developer has obtained financing necessary for completion of construction of the improvements.**
- 4. The Developer will construct the improvements in conformity with the Secretary of the Interior Standards and the Western Gateway Development Design Guidelines.**
- 5. The Developer will limit the building uses to only qualified limited "C-1" Neighborhood Retail Commercial Zoning District permitted uses that are listed in Exhibit "D" of the Agreement.**

6. The City will provide project funding as follows:

- **\$1,085,000-Economic Development Grant:** This grant is equal to the property purchase price. The Gateway Project is the source of these funds.
- **\$200,000-Economic Development Grant.** These funds will be utilized for project rehabilitation costs. The Gateway Project is the source of these funds.
- **\$450,000-Unsecured Loan of Project Funds:** These funds will be utilized for project rehabilitation costs. Repayments will be made to the City from excess annual cash flow. The Gateway Project is the source of these funds.
- **Supplemental Economic Development Grant-Annual payment from project tax revenues not to exceed \$31,000 per year for 20 years:** The City will utilize the incremental tax revenues from the project to make annual payments to the Developer for 20 years. The net present value is estimated to be \$280,000.

7. The City will assume the following development responsibilities in the vicinity of the property:

- **Vehicle and Pedestrian Access:** The City will provide temporary and permanent service vehicle and pedestrian access within the block containing the Masonic Temple.
- **Sidewalks:** The City will install new sidewalks adjacent to the building on Locust and 10th Streets.
- **Demolition, Landscaping, and Construction Staging:** The City will commence demolition of the AIB Building by January 31, 2002, and shall utilize its best efforts to acquire and relocate the Door of Faith Mission prior to December 31, 2002. The City will seed all property on the block owned by the City with no buildings and not utilized for parking or access prior to September 1, 2002. The City will not permit any construction or staging within 40' to the west or 50' to the north of the Masonic Temple.
- **Outdoor and Patio Lease:** Subject to Council approval, the City shall lease portions of the vacated north-south alley west of and adjacent to the building for use as an outdoor patio and café.
- **Temporary Parking:** City shall lease to the Developer the paved

lot on the northwest corner of the block from September 1, 2002 until July 31, 2003 for use as customer parking, unless needed by the Library for staging or construction.

The \$1.085 million economic development grant will be injected into the project prior to the start of construction. The \$450,000 economic unsecured loan will be deposited into an escrow account with the project equity. The construction lender will draw down the City funds prior to drawing bank funds for payment.

BACKGROUND -

On May 7, 2001, the Council selected DPP as the Developer for the Masonic Temple. On October 17, 2001, BH Temple, Inc. (associated partner of DPP) acquired the property from the Masonic Temple Association of Des Moines, Inc.

Since May, the Developer has worked to identify funding for the project as well as to secure commitments to lease space in the property. Following is a summary of the project sources and uses:

| Sources: | |
|----------------------------------|-------------|
| City Funds for Temple | \$1,085,000 |
| First Mortgage | 1,400,000 |
| Equity | 900,000 |
| Greater Des Moines Partnership | 250,000 |
| City of Des Moines Loan (Tier 1) | 250,000 |
| City of Des Moines Loan (Tier 2) | 400,000 |
| County Subordinated | 250,000 |

| | |
|--------------------------------|--------------------|
| Equity | |
| Federal Tax Credit | 800,000 |
| State Tax Credit | 351,000 |
| Enterprise Zone Tax Credits | 182,000 |
| EZ Sales Tax Rebate | 60,000 |
| County Grant | 250,000 |
| Corporate Contributions | 300,000 |
| Donations | <u>185,930</u> |
| TOTAL | \$6,663,930 |

| | |
|--|-------------|
| Uses: | |
| Purchase of Property | \$1,085,000 |
| Rehab Costs/Tenant Impr/Contingency | 4,957,430 |
| Marketing Materials | 20,000 |
| Architectural/Developmental Fees | 200,000 |
| Legal Fees | 40,000 |
| Financing Costs | 113,500 |
| Consulting Fees | 48,000 |
| Leasing Commissions | 30,000 |

| | |
|-----------------|--------------------|
| Cash Reserves | 120,000 |
| Working Capital | 50,000 |
| TOTAL | \$6,663,930 |

Identified tenants of the rehabilitated Masonic Temple include the Des Moines Symphony and the Des Moines Children's Chorus. Coffee House Productions will hold a minimum of 140 concerts a year at this location. In addition, the Developer is working with a coffee shop, a restaurant and a bookstore to lease commercial space on the first floor.

As noted in the sources above, the Developer is applying for Enterprise Zone tax credits. Once the Council recommends approval of the application, the Enterprise Commission will review and approve the application. It is then submitted to the Iowa Department of Economic Development for final approval. The tax credits and associated sales tax rebate are an important source of project funding.
