



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

02-101

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

AGENDA:

FEBRUARY 18, 2002

SYNOPSIS -

SUBJECT:

FIRST AMENDMENT
TO PRESERVATION
PROPERTIES I, LLC
DEVELOPMENT
AGREEMENT

On the February 18, 2002, Council agenda is an amendment to the City's urban renewal development agreement for the rehabilitation of 501 East Locust with Preservation Properties I, LLC. Staff is recommending the following amendments: (1) modification of required funding sources to reflect current financing structure; (2) change of the project completion date to November 1, 2002; (3) change of repayment commencement date to June 1, 2003; (4) deletion of the clause requiring expenditure of \$2.9 million prior to the release of City funding; (5) deletion of the apportionment requirements; (6) addition of language allowing City funding to be subordinate to the mortgages from Firststar as well as the mortgage securing the Iowa Finance Authority Series A and Series B Bonds; (7) change of limit to principal amount to which the City will be subordinate; and (8) addition of sexual orientation to non-discrimination clause.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

FISCAL IMPACT -

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

The amendment will not change the fiscal impact: \$115,000 of the City's funds will be repaid over 15 years. The other \$300,000 is a deferred payment loan that will be repaid when a positive cash flow is generated.

RECOMMENDATION -

Approval.

BACKGROUND -

This amendment proposes changes to the contract between the City and Preservation Properties I, LLC. Key elements of the proposed amendments are as follows:

- Modification of required funding sources to reflect current financing

structure. Since the project was approved in March 2000, the sources of project funding have changed significantly. The revised sources are as follows:

Iowa Finance Authority Bond Proceeds	\$1,320,000
City of Des Moines	\$415,000
Equity from Tax Credit Partner (4% Federal Tax Credits/Federal Rehabilitation Tax Credits)	\$971,913
Firststar Mortgage	\$486,400
Equity-Iowa Historic Tax Credits	\$315,831

- Change the project completion date to November 1, 2002. The completion date contained in the agreement was May 1, 2001. As that date has passed and the project is not complete, it is necessary to establish a new completion date.
- Change repayment commencement date to June 1, 2003. The agreement requires repayments to begin when the Project obtains an occupancy of 90 percent, but in no event later than June 1, 2002. Given the anticipated completion date of November 1, 2002, it is unrealistic to establish June 1, 2002 as a repayment start date.
- Delete clause requiring expenditure of \$2.9 million prior to the release of City funding. This clause is in conflict with another section of the agreement establishing the payout process for the City funds. The City funds will be deposited into an escrow account with Firststar and drawn down with the other project funding.
- Deletion of the apportionment requirements. The agreement establishes the amount of City funds to be utilized for different project components. This clause is no longer relevant.
- Addition of language allowing City funding to be subordinate to the mortgages from Firststar as well as the mortgage securing the Iowa Finance Authority Series A and Series B Bonds. The original agreement did not contemplate a bank mortgage. The revised funding sources include a permanent mortgage from Firststar. The City funds will be subordinate to the mortgage securing the bonds as well as the permanent mortgage.
- Change of limit to principal amount to which the City will be subordinate. The current agreement allows the City to be subordinate

to \$1,800,000 of other debt. Given the current financing structure, this must be increased to \$3,600,000 until such time as the state historic tax credits are sold and the equity is injected.

- Addition of sexual orientation to non-discrimination clause.
-