



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

02-201

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

AGENDA:

SYNOPSIS -

APRIL 12, 2002

On the April 12, 2002 Council agenda is a series of roll calls to approve the utilization of Tax Increment Financing (TIF) funding for a home ownership/rental housing project at 1st and Vine Streets. Water Street Brownstones is a 34-unit condominium project. Vine Street Lofts is a 109-unit mixed-income rental project. The developer of both projects is Lander Sherman Urban Development (George Sherman, Sherman and Associates, 233 Park Avenue South, #201, Minneapolis, and Michael Lander, Lander Group, 3346 Hennepin Avenue, Minneapolis). The owner of Vine Street Lofts is Vine Street Limited Partnership and the owner of Water Street Brownstones is Water Street Brownstones LLC.

SUBJECT:

TIF FUNDING FOR
VINE STREET
LOFTS AND WATER
STREET
BROWNSTONES

In summary, the Council is asked to approve:

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

1. An Agreement with the State of Iowa: The State will grant \$699,972 in HOME funds to be utilized in conjunction with \$250,000 of City HOME funds to purchase the parcel for the rental units. The City will transfer the property to Vine Street Limited Partnership for \$10.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

2. A Development Agreement with Vine Street Limited Partnership: In exchange for \$950,000 City TIF loan, the partnership agrees to construct at least 108 rental units, 44 of which will be affordable units. Also, Council is asked to approve a **Participation Agreement with Court Avenue District Housing Investment Fund, LLC.** The Participation Agreement provides for the Investment Fund to pay the City \$300,000 for future streetscape improvements, and to pay the developer \$475,000 towards the condominium project. In exchange for this contribution, the City agrees to share equally with the Investment Fund the \$950,000 of loan repayment dollars. This loan repayment shall be from excess cash flow. It is anticipated that this loan repayment will occur over 20 years, but in any event must be repaid within 40 years.

3. A Development Agreement with Water Street Brownstones, LLC: In exchange for \$1,027,799 City TIF grant, the corporation

agrees to construct 34 owner-occupied housing units, to construct Vine Street and to complete all streetscape improvements including the paving of Vine Street from 1st to 3rd Streets.

4. **Release of Easements:** On a previously vacated alley right-of-way in the property.

FISCAL IMPACT -

\$1,977,799 in TIF funds will be committed to the developer for this project. Approximately \$500,000 in additional TIF funds has been or will be expended directly by the City. Both the rental and condominium projects will also receive ten-year 100 percent tax abatement. This TIF funding, and the tax abatement, are consistent with Council's initial commitment to the Court Avenue Housing Project, although the source of the dollars has changed. The TIF dollars pledged to the project are available in the "economic development" section of the adopted CIP.

The City HOME funds pledged to the project are part of the City's allocation from the U.S. Department of Housing and Urban Development (HUD). The City is responsible for the repayment of the HOME funds should the project fail.

RECOMMENDATION -

Approval.

BACKGROUND -

The Vine Street Lofts and Water Street Brownstones project is the culmination of over three years of work by the public and private sector to develop housing south of Court Avenue. The Court Avenue District Housing Investment Fund was formed by the private sector as an instrument to incent and participate in housing development in this area. Both project partners have worked closely with the developer to create an exciting project for downtown Des Moines.

On June 4, 2001, Council gave preliminary approval to use TIF assistance for a proposed housing project at 1st and Vine Streets. On March 18, 2002, Council approved the acquisition of real estate currently owned by Neighborhood Improvement Corporation and located at 1st and Vine Streets with proceeds from a HOME Program

grant. The Council also approved the conveyance of the real estate to the Vine Street Limited Partnership encumbered by the HOME Program covenants and lien requirements. The property will be used for the construction of Vine Street Lofts, the rental component of the proposed housing project.

The sources and uses of financing for Vine Street Lofts are as follows:

| Sources: | |
|--|---------------------|
| HUD First Mortgage | \$ 5,835,000 |
| HUD-insured Tax Abatement Loan | 1,695,000 |
| Tax Credit Equity | 4,450,000 |
| EZ Tax Credit Equity | 450,000 |
| EZ Sales Tax Rebate | 240,000 |
| City Loan | 950,000 |
| NFC Loan (5 Percent Interest) | 500,000 |
| Polk County Housing Trust Fund | 250,000 |
| TOTAL | \$14,370,000 |
| Uses of Funds-Vine Street Lofts | |
| Land Acquisition | \$ 10 |
| Construction Costs | 10,476,960 |
| Professional Engineering Fees | 435,290 |
| Financing-Permanent | 293,665 |
| Capitalized Interest/Taxes | 346,868 |
| Financing Costs | 325,000 |
| Legal | 80,000 |
| Organization Expenses | 30,000 |
| Cost Certification/Accounting | 40,000 |
| Insurance/Bond | 55,000 |
| Title Recording | 65,000 |
| Syndication Costs | 110,000 |
| Laundry Equipment/Decorating | 75,000 |
| Soft Cost Contingency | 76,607 |
| Developer Fee | 1,500,000 |
| Working Capital | 150,600 |

| | |
|-------------------|---------------------|
| Operating Deficit | 200,000 |
| Lifetime Reserve | <u>110,000</u> |
| TOTAL | \$14,370,000 |

Note: *The source and use of funds are subject to change.*

The other component of the housing project is Water Street Brownstones-a 34-unit condominium development. The sources and uses of financing for Water Street Brownstones are as follows:

| | |
|------------------------------------|---------------------|
| <u>Sources:</u> | |
| Sale Proceeds | \$ 8,868,000 |
| Garages (14 extra @ \$10,000 each) | 140,000 |
| Court Avenue District Housing Fund | 475,000 |
| City of Des Moines Grant | 1,027,799 |
| Sales Tax Rebate | <u>100,000</u> |
| TOTAL | \$10,610,799 |

| | |
|---------------------------|---------------------|
| <u>Uses:</u> | |
| Land Acquisition | \$ 475,000 |
| Construction | 7,012,299 |
| Holding Costs | 1,260,000 |
| Developer Costs | 1,460,000 |
| Architect Fee/Engineering | 273,500 |
| Contingency | <u>130,000</u> |
| TOTAL | \$10,610,799 |

Note: *The source and use of funds are subject to change.*

At their May 29, 2001 meeting, the Urban Development Board recommended that Council approve the use of TIF funds for this housing project. At their February 19, 2002 and March 26, 2002 joint meetings, the Urban Development Board and the Architectural Advisory Committee reviewed and recommended that the Council approve the conceptual design plan for Vine Street Lofts and Water Street Brownstones. City staff is working with Crose, Gardner, Shukert (the project landscape architects) to develop the streetscape parameters for the development.

It is anticipated that project closing including conveyance of property will occur next Tuesday, April 16, 2002 assuming execution of all documents and formal release of the HOME funds by the State of Iowa.
