

**CITY COUNCIL  
COMMUNICATION:**

**02-499**

**AGENDA:**

SEPTEMBER 23,  
2002

**SUBJECT:**

PRESERVATION  
PROPERTIES I, LLC  
ENTERPRISE ZONE  
APPLICATION  
(CAPITOL VILLAGE  
LOFT  
APARTMENTS AT  
501/507 EAST  
LOCUST STREET)

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

RICHARD CLARK  
DEPUTY CITY  
MANAGER

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

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

**SYNOPSIS —**

On the September 23, 2002 Council agenda is a resolution that recommends approval to the Des Moines Enterprise Zone Commission of Preservation Properties I, LLC's application for enterprise zone benefits regarding a project in the Gateway Enterprise Zone. Preservation Properties I, LLC is in the process of rehabilitating 501/507 East Locust Street (the McCoy Building) in the East Village neighborhood for commercial space on the first floor and 20 affordable and market rate loft apartments on the second and third floors. Bernard Van Til (Capital Square Building, 400 Locust Street, Suite 245, Des Moines) is the developer. The total project cost is approximately \$3.25 million, of which \$2.8 million represents the residential investment. The East Village Neighborhood Association has reviewed the project and supports the development. Construction commenced in October 2000 and is projected to be completed by December 31, 2002, which is required by the Iowa Finance Authority and the lender. Council approved amendments to the development agreement for the project on February 18, 2002.

Ellen Walkowiak with the City's Office of Economic Development is assisting Preservation Properties I, LLC with its Enterprise Zone application.

**FISCAL IMPACT —**

A total of \$204,000 in State Enterprise Zone Investment Tax Credits (\$167,500) and State Sales Tax Rebate (\$36,500) will be awarded to the project, provided that the Des Moines Enterprise Zone Commission and the Iowa Department of Economic Development (IDED) approve the application. Capital expenditures ineligible for tax credits include federal, state, and local government tax credits, grants, and forgivable loans.

The State Enterprise Zone Program provides State Corporate Income Tax Credits equivalent to 10 percent of eligible capital expenditures and a 100 percent refund of sales, service, and use taxes paid on materials and utilities used in construction contracts. There will be no effect on the General Fund.

**RECOMMENDATION —**

**Approval.**

## **BACKGROUND —**

On September 14, 1998, by Roll Call No. 98-2839, Council established the Des Moines Enterprise Zone Commission in accordance with state law, which IDED approved. The role of the Commission is to review applications primarily for state tax incentives from qualified businesses and developers located within, requesting to locate within, or developing housing within an enterprise zone in order to encourage new development in economically distressed areas. The Commission's authority is independent of the Council and serves in an advisory capacity to IDED.

On October 6, 1998, the Commission adopted an application process that requests the Council to review applications for enterprise zone benefits and to forward its recommendation to the Commission.

On January 28, 1999, the Commission adopted a requirement that as a part of the application process for benefits in any State of Iowa Enterprise Zone located in Des Moines, businesses and developers must meet with the appropriate neighborhood organization to elicit a recommendation on the project. The East Village Neighborhood Association has provided a letter of support for this project. This project meets a critical need for downtown housing and can be a catalyst for additional residential development.

The Capitol Village Loft Apartments project consists of renovating commercial space on the first floor and 20 apartment units on the second and third floors of a mixed-use building listed on the National Register of Historic Places. Approximately 16 units will be affordable and four units will be market rate. Rental rates have not yet been established. Maximum rents are estimated at \$700 for a one-bedroom, 710-square foot (average size) apartment, and \$1,200 for a two-bedroom, 1307-square foot (average size) unit. Projects, a furniture store, leases one-third of the commercial space; the developer is targeting retail and service uses for the other two-thirds.

The upper floors of this brick structure have been vacant for over 50 years. New investment in it will eliminate its functional obsolescence and extend its life span. The project will add to the diversity of new quality uses along this portion of Locust Street, which leads up to the State Capitol. Uses include rehabilitation of the Teachout Building, the Hohberger Building, and a new brick office building west of Iowa State Bank.

Enterprise Zone benefits are requested for this project because they will allow the developer to invest in a few more project amenities. Project amenities include upgraded carpeting and appliances, wood floors, fireplaces, and other items. Because there are few comparables to determine market value, the rehabilitated property will appraise at

more conservative values. Additional equity is required which results in increased investor risk and/or higher loan costs. Enterprise Zone benefits will assist in providing project equity.

The developer is in compliance with the terms of the City Urban Renewal Development Agreement, as amended in February 2002. The City has released to the developer a check for \$415,000 as a loan in accordance with the terms of the Agreement. Disbursement of these funds was not contingent on the developer obtaining Enterprise Zone benefits because the lender committed the required funds to the project in any event.

Initial Certificates of Occupancy are projected to be issued in late October 2002 for the second floor units. The developer has proceeded through several inspection phases and is in the process of sheet rocking. Outstanding work includes constructing occupancy separations for the dwelling units and exit systems as well as making building life safety and sanitation improvements, including completing plumbing and lighting and installing sprinklers and alarm systems. Based on inspections to date, it is anticipated the developer will complete construction approximately 30-45 days beyond the Council-approved deadline of November 1, 2002.