

**CITY COUNCIL  
COMMUNICATION:**

**03-222**

**AGENDA:**

MAY 19, 2003

**SUBJECT:**

PRELIMINARY  
TERMS OF  
REDEVELOPMENT  
OF BETTS  
HARDWARE SITE

**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 May 19, 2003 Council agenda is a roll call to accept and approve the preliminary terms of agreement with Soho Development, L.L.C. (Tony DeAngelo, Chief Executive Officer, 5813 Waterbury Circle, Des Moines, Iowa). The City will provide up to \$1,398,780 (net present value of \$980,000) over 12 years to the Developer. The Developer will construct a mixed-use development containing 31 condominium units and retail and restaurant space on the ground floor.

**FISCAL IMPACT —**

The proposed \$1,398,780 subsidy will be advanced as follows:

Year 1 (commencing FY2006/07):	a grant in an amount equal to one-half the cost of Developer's property acquisition and demolition cost for the Betts Hardware property (estimated to be \$275,000)
Years 2-3 (commencing FY2007/08):	\$0 (no taxes generated)
Years 4-5 (commencing FY2009/10):	\$68,390 per year
Years 6-12 (commencing FY2011/12):	\$141,000 per year

The source of funding for the grant in Year 1 is the Gateway Account. Tax increment financing (TIF) revenues generated by the project will be utilized for payments in Years 4-12.

The return to the taxpayer from taxes generated by the project in Years 1-20 is estimated to be \$1.4 million (net present value). The City will also receive a return from cash flow. This return will be negotiated as a part of the development agreement.

**RECOMMENDATION —**

**Approve the preliminary terms of agreement between the City and Soho Development, L.L.C., and direct the City Manager to:**

- 1. Prepare a development agreement with Soho Development L.L.C. on preliminary terms of agreement as set forth in this communication.**

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**2. Refer this matter to the Urban Design Review Board and any other City boards and commissions as necessary for their review and comment at appropriate times.**

**BACKGROUND —**

Based on discussions with Soho Development, L.L.C., preliminary terms of agreement have 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 Soho Development, L.L.C.

The following funding estimates are “not to exceed” numbers subject to final financial submissions (cash flow, source and use, underlying assumptions).

- City will acquire land north of Grand, demolish buildings, pave parking lot, and lease up to 25 spaces to Soho at the rate of \$875 per month or \$10,500 per year. (This equates to \$35 per month per space.) Multi-year lease term is possible. Rate would increase over time based on prevailing market rates in the area. City would be able to move the parking to another location with similar proximity to project.
- City will advance a grant in an amount equal to one-half the cost of Developer's property acquisition and demolition cost for the Betts Hardware property. This would amount to about \$275,000. The City's funds shall not be released until the Developer closes on the construction financing, is issued a building permit, and satisfies other conditions relating to the development. As partial consideration for receipt of the grant, payment of a portion of annual cash flow and net proceeds is addressed under Developer Responsibilities.
- Assuming the current tenants are relocated, City will demolish the Thai Grocery coincidentally with the demolition of the Betts Hardware building by the Developer. The City will use best efforts to expedite the relocation of the tenants.
- City to grant three-year 100 percent tax abatement on new commercial, and five-year 100 percent tax abatement on residential. The estimated Net Present Value (NPV) of these abatements assuming discount rate of 7 percent is \$795,000.
- In addition, the City will provide a series of grants in a fixed amount (NPV now estimated to be \$705,000) to be paid in annual advancements solely from the TIF revenues received by the City from the incremental taxes upon the project within the first 12 fiscal years after the completed project is first assessed for taxation. Based on a minimum assessment agreement of \$6.4 million, the City will make annual advancements on these annual grants as follows (assuming project completion in 2004):

Years 1-3 (commencing FY2006/07): \$0 (no taxes generated)

Years 4-5 (commencing FY2009/10): \$68,390

Years 6-12 (commencing FY2011/12): \$141,000

The deeds transferring title of the condominium units shall include language referencing the minimum assessment agreement between the City and the Developer.

- The City shall facilitate the planning and implementation of significant improvements in the properties directly east of the new development between East 4<sup>th</sup> Street and East 5<sup>th</sup> Street. By August 31, 2003, the Council will establish a schedule for the implementation of the improvements for the following 24 months.

**Developer Responsibilities:**

- The Developer shall construct a mixed-use development located on the Betts Hardware site on the northeast corner of East Locust and East 4<sup>th</sup> Street.
- Developer is responsible for all land acquisition.
- The Developer shall construct at least 31 condominium units.
- The Developer shall construct at least 15,000 square feet of office and retail space.
- The total project cost shall be at least \$6.8 million.
- A minimum assessment agreement in the amount of \$6.4 million is required which shall contain a schedule for the proportionate assessments of all condominium units.
- The Developer shall apply for tax credits through the Iowa Department of Economic Development Enterprise Zone Program.
- The project shall comply with the Eastern Gateway "Area 1" Design Guidelines, and Developer shall execute an appropriate declaration of covenants.
- Until the project is sold to an unrelated party, Developer shall make annual payments to the City. The percentage of the annual cash flow to be received by the City shall be negotiated as a term of the final development agreement.
- Upon any sale of the project to an unrelated party, the City shall receive a portion of the net proceeds of sale. The percentage of the net proceeds to be distributed the City shall be negotiated as a term of the final development agreement.
- The project may be assigned upon Council approval.

All City terms and conditions of the City's financial participation are subject to final review and approval by City Council.

The parties acknowledge that amendments to the Urban Renewal Law were pending before the Iowa Legislature when it last adjourned, and that the Legislature is expected to meet in special session later this spring. Execution of the final development agreement by City is contingent upon there being no changes made to the Urban Renewal Law which detrimentally impact the City's ability to perform the responsibilities identified above.