

**CITY COUNCIL  
COMMUNICATION:**

**03-554**

**AGENDA:**

NOVEMBER 21, 2003

**SUBJECT:**

SPAGHETTI WORKS  
REHABILITATION—  
PRELIMINARY  
PROJECT APPROVAL

**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 November 21, 2003 Council agenda is a roll call to approve the preliminary terms of agreement set forth herein for the redevelopment of the upper floors of the Spaghetti Works building located at 302-310 Court Avenue. The redevelopment of the upper floors of this historic structure is an important component of the Court Avenue Project. Because the real estate is not owned by the City of Des Moines, the terms of agreement for the redevelopment of the structure are not included in the Urban Renewal Agreement for new construction on City property.

The Developer for the project is Court Avenue Partners (a joint venture of BH Equities—Harry Bookey, President, 400 Locust, Suite 790, Des Moines and Hubbell Realty—James Hubbell III, President, 6900 Westown Parkway, West Des Moines).

**FISCAL IMPACT —**

Per this preliminary terms of agreement, the City will provide the Developer with an ongoing economic development grant with a net present value of \$674,288 (4 percent discount rate). The ongoing grant is based on minimum assessed value and will be paid in 20 equal semi-annual payments beginning November 1 of the 12<sup>th</sup> year after completion. The total of these payments is \$1,300,540.

**RECOMMENDATION —**

**Council is asked to approve this preliminary terms of agreement for the redevelopment of the upper floors of the Spaghetti Works Building (302-310 Court) subject to negotiation and execution of a formal Development Agreement. The Development Agreement will establish the requirements for the rehabilitation and will specify the terms and conditions for the provision and use of economic development grants to be paid with tax increment financing funds.**

**BACKGROUND —**

Based on discussions with Court Avenue Partners, these 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 Court Avenue Partners

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("Developer").

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

- The City will provide the Developer with an ongoing economic development grant with a net present value of \$674,288 (4 percent discount rate). The ongoing grant is based on minimum assessed value and will be paid in 20 equal semi-annual payments beginning November 1 of the 12<sup>th</sup> year following completion. The total of these payments is \$1,300,540.
- City will grant ten year/100 percent tax abatement for the residential redevelopment.
- The City will process the Developer's application for City HOME funds and for the State Enterprise Zone Housing Program.
- The City of Des Moines will initiate the process to vacate and sell to the Court Avenue Partners the east one-half of the east/west alley adjacent to and adjoining 302-310 Court Avenue.

**Developer Responsibilities:**

- Developer will rehabilitate the upper three floors of the Spaghetti Works Building into 51 residential units. 25 units will be rented to tenants at or below 60 percent of area median income.
- The Developer is responsible for building acquisition.
- The total project cost will be at least \$9.5 million.
- A minimum assessment agreement in the amount of \$2,850,000 million is required.
- The Developer shall apply for tax credits through the Iowa Department of Economic Development Enterprise Zone Program.
- The project shall comply with the design guidelines for the Court Avenue Historic Area, Capitol Center West Urban Revitalization Area D; and Developer shall execute an appropriate declaration of covenants.
- The project may be assigned only upon Council approval.

The proposed sources and uses of financing for Spaghetti Works are as follows:

Sources:

City HOME Funds	\$ 250,000
State HOME Funds	700,000
Tax Abatement Mortgage	1,058,522

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Federal Historic Tax Credits	1,419,073
State Historic Tax Credits	985,467
Sales Tax Rebate	125,843
State Housing Enterprise Zone Credit	282,476
Low-Income Housing Tax Credit (LIHTC)	2,981,534
Long-Term Debt	1,736,430
Neighborhood Finance Corporation (NFC) Loan	<u>118,938</u>
TOTAL	\$ 9,658,283

Uses of Funds:

Building Acquisition	\$ 1,000,000
Construction Costs	6,170,133
Landscape/Streetscape	122,000
Professional Fees	376,778
Development/Consultant Fees	1,311,826
Construction Interim Costs	135,000
Permanent Financing Fees	140,000
Syndication Fees	35,000
Soft Costs	95,000
Iowa Finance Authority (IFA) Fees	46,547
Reserves	<u>226,000</u>
TOTAL	\$ 9,658,284

Other terms and conditions of the formal Development Agreement will be negotiated with Court Avenue Partners and presented for Council approval.

