

**CITY COUNCIL  
COMMUNICATION:**

**03-555**

**AGENDA:**

NOVEMBER 21, 2003

**SUBJECT:**

PRELIMINARY  
TERMS OF  
AGREEMENT FOR  
APARTMENT  
CONSTRUCTION OF  
EAST VILLAGE  
SQUARE  
DEVELOPMENT

**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 accept and approve the preliminary terms of agreement with Neighborhood Investment Corporation (the "Developer") for the construction of mixed-use residential/commercial building on the former Dewey Ford Showroom site. This development is a component of a larger project proposed under the title "East Village Square Development" containing condominiums and additional commercial space.

East Village Square Development is a joint venture of Knapp Properties (William Knapp II, Chairman, 5000 Westown Parkway, Suite 100, West Des Moines), Neighborhood Investment Corporation (Robert Mickle, President, 1620 Pleasant Street, Des Moines), and Hatch Development Group (Jack Hatch, President, 696 - 18<sup>th</sup> Street, Des Moines).

To assist the rental component of the project, the City will provide an upfront grant to the Developer totaling \$450,000. The City will also assist the Developer by defraying the land costs; assistance will be in the form of a \$496,386 deferred-payment loan to the Developer to purchase the land or in the form of a grant in the amount of one-half the purchase price. The final terms and conditions for provision and use of the economic development grants will be outlined in the formal Development Agreement.

To assist the ground floor commercial development in the rental building, the City will provide an upfront grant to the Developer totaling \$554,562. The City will also assist the Developer with ongoing grants valued at \$512,962 [net present value (npv)]. The final terms and conditions for provision and use of the economic development grants will be outlined in the formal Development Agreement.

Staff will continue to work with the representatives of East Village Square Development to negotiate the final terms of agreement for the mixed-use condominium/commercial project on the site. Council will review and approve these terms with the final terms of agreement for the mixed-income rental and commercial development.

**FISCAL IMPACT —**

By component, the structure of the proposed City subsidy is:

- |                                    |                           |
|------------------------------------|---------------------------|
| 1. Mixed-income Rental Development | \$450,000 Upfront Subsidy |
| 2. Commercial Development          | \$554,462 Upfront Subsidy |
|                                    | \$512,962 Ongoing Subsidy |

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(npv)

3. Land Subsidy

\$496,386 Cash Flow Loan  
OR \$248,193 Grant

The upfront subsidies will be advanced upon issuance of the certificate of completion. The land write-down grant or land loan will be advanced upon construction closing. The ongoing subsidy will be advanced in the form of an annual payment.

**RECOMMENDATION —**

**Approve this preliminary terms of agreement between the City and Neighborhood Investment Corporation, and direct the City Manager to:**

- 1. Negotiate and prepare a formal development agreement with the Developer based on preliminary terms of agreement set forth in this communication.**
- 2. Refer this matter to the Urban Design Review Board for their review and comment at appropriate times.**

**BACKGROUND—**

Based on discussions with the Developer and the other representatives of East Village Square Development, preliminary terms of agreement have been reached for the mixed-use commercial/rental component of the project. 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 the Developer.

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 the parking lot, and lease a set number of spaces to the Developer or make available spaces to tenants at a prevailing market rate.
- City will advance an economic development grant in the amount of \$450,000 for the residential component of the project. The City’s funds shall be released upon issuance of a certificate of completion. As partial consideration for receipt of the grant, payment of a portion of annual cash flow and net proceeds is addressed under Developer Responsibilities.
- City will advance a deferred-payment loan in the amount of \$496,386 for the purchase of land for the apartment component of the project OR the City will advance an economic development grant equal to one-half of the land acquisition price (\$248,193). The City will determine which option will be selected and terms and conditions will be incorporated in the formal

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Development Agreement.

- City will advance an economic development grant in the amount of \$554,462 for the commercial component of the project. The City's funds shall be released upon issuance of a certificate of completion.
- City will advance an ongoing economic development grant in the amount of \$512,962 (npv) for the commercial component of the project. The City's funds shall be distributed in 16 equal payments in Years 5-20. The total of these payments is \$824,000, and they have been discounted at 4 percent to determine net present value.
- City to grant ten-year 100 percent tax abatement on incremental value of the apartments and three-year 100 percent tax abatement on the incremental value of the commercial retail and/or office space.

**Developer Responsibilities:**

- The Developer shall construct at least 100 apartment units as a component of a mixed-use development located on the former Dewey Ford Showroom site on the west side of East Fourth Street between East Locust and East Grand.
- The Developer is responsible for all land acquisition.
- At least 40 percent of the units shall be affordable to persons at or below 60 percent of area median income.
- The Developer shall construct at least 17,000 square feet of office and retail space.
- The total project cost shall be at least \$14 million.
- A minimum assessment agreement for the commercial component of the rental building in the amount of \$1.5 million is required.
- 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 formal 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 formal Development Agreement.
- 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.

- The project may be assigned only upon Council approval.

All terms and conditions of the City's financial participation incorporated in a formal Development Agreement are subject to final review and approval by City Council.