

**CITY COUNCIL
COMMUNICATION:**

03-556

AGENDA:

NOVEMBER 21, 2003

SUBJECT:

URBAN RENEWAL
AGREEMENT AND
TIF FUNDING
COURT AVENUE
PARTNERS
PROJECT, 3RD TO
5TH STREETS,
SOUTH OF COURT
AVENUE

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 an urban renewal agreement and utilization of tax increment financing (TIF) funding for a mixed-use project between 3rd and 5th Streets south of Court Avenue. The Developer for the project is Court Avenue Partners II, L.P. (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).

The Council is asked to approve an Urban Renewal Agreement with Court Avenue Partners for the mixed-use project. Upon completion of Phase I, the project will contain 40 condominium units, 104 apartment units, and over 17,000 square feet of commercial space. The project also includes two important related components not included in the Urban Renewal Development Agreement—the rehabilitation of the upper floors of Spaghetti Works into mixed-income rental units and the rehabilitation of the ground floor of the Generations and Nacho Mamas buildings. The Spaghetti Works project is detailed in Council Communication No. 03-554. The preliminary details of the Generations/Nacho Mamas project are outlined in the background section of this Communication.

The total cost of the entire project, including Spaghetti Works and the entertainment/restaurant venues is \$40,576,151. The total cost of the projects included in the Urban Renewal Agreement is \$29,817,493.

FISCAL IMPACT —

Following is a summary of the City funding for the three components for Phase I contained in the Urban Renewal Agreement:

4 th and Court Residential Development	\$726,333 Upfront Subsidy \$1,484,944 Ongoing Subsidy*
4 th and Court Commercial Development	\$1,236,206 Upfront Subsidy
Condominium Development	\$1,154,706 Upfront Subsidy
General Development Requirements (Required Upfront)	\$1,845,000 Land Write-Down \$100,000 Archeology \$225,000 Infrastructure Costs

* \$1,484,944 is the net present value (npv) of 20 equal semi-annual payments beginning November 1 of the 12th year based on a minimum assessed value.

**CITY COUNCIL
COMMUNICATION**

03-556

NOVEMBER 21, 2003

PAGE TWO

The total of these payments is \$2,864,100, and they have been discounted at 4 percent to determine the npv.

The proposal submitted by Court Avenue Partners also contemplates and provides information about Phase II of the project. Following is a summary of the incentives required for Phase II:

5 th and Court Residential Development	\$763,951 Upfront Subsidy	
	\$1,426,651 Ongoing Subsidy	
(Total		Cash Value—Not npv)

5 th and Court Commercial Development	\$462,589 Upfront Subsidy	
	\$361,000 Ongoing Subsidy (Total	
	Cash Value—Not npv)	

TOTAL INCENTIVES REQUIRED FOR THE THREE PHASE I PROJECTS:

	<u>Upfront Subsidy</u>	<u>Ongoing Subsidy</u>
Subtotal for Condos, New Rental Construction, New Commercial Construction	\$5,287,245	\$1,484,944 (npv)
Minus Non-Cash Expenses (Land Write-Down)	(\$1,845,000)	
<u>Revenue from Land Sale</u>	<u>(\$1,845,000)</u>	
Total Project Cash Costs	\$1,597,245	\$1,484,944(npv)

Both the rental and condominium projects will also receive ten-year 100 percent tax abatement. The commercial portions of the projects will also receive ten-year declining tax abatement.

TOTAL INCENTIVES REQUIRED FOR THE PHASE II PROJECT:

	<u>Upfront Subsidy</u>	<u>Ongoing Subsidy</u>
Subtotal for Condos, New Rental Construction, New Commercial Construction	\$1,226,540	\$1,787,651
Minus Non-Cash Expenses (Land Write-Down)	(\$ 307,500)	
<u>Revenue from Land Sale</u>	<u>(\$ 307,500)</u>	
Total Project Cash Costs	\$ 611,540	\$1,787,651

RECOMMENDATION —

Approve the urban renewal agreement, utilization of \$4,461,345 in TIF funds, \$1,597,245 upfront and \$2,864,100 (net present value equals \$1,484,944) in ongoing subsidies for the Court Avenue Partners' project (Phase I condominium, new rental construction, and new commercial construction components) and utilization of \$2,399,191 in TIF funds, \$611,540 upfront and \$1,787,651 in ongoing subsidies for the Court Avenue Partners' project (potential Phase II components).

**CITY COUNCIL
COMMUNICATION**

03-556

NOVEMBER 21, 2003

PAGE THREE

BACKGROUND —

On November 20, 2003, the Urban Design Review Board unanimously approved the terms and conditions as contained herein.

On August 11, 2003, the Council directed the City Manager to initiate negotiations with Court Avenue Partners. Court Avenue Partners was one of four developers that submitted proposals in response to a Request for Proposals distributed by the Court Avenue Housing Fund. The initial proposal contemplated a mixed-use development with 307 rental units, a large entertainment venue, and a public market.

At a special meeting on October 17, 2003, Council initiated the urban renewal offering period and detailed the terms and conditions for redevelopment proposals for the redevelopment of City-owned property located on Court Avenue between 3rd and 5th Streets. Council also set the dates for receipt of proposals (November 18, 2003) and selection of a developer by the Council (November 21, 2003 special meeting). Court Avenue Partners is the only developer that has submitted a redevelopment proposal in response to the City's urban renewal offering.

Since the submission of their original proposal to the Court Avenue Housing Fund, Court Avenue Partners has worked to refine their proposal. The current proposal contains the following elements:

1. Rehabilitation of the upper three floors of Spaghetti Works into 51 mixed-income rental units.
2. Construction of two new buildings with commercial space on the first floor and mixed-income rental units on the upper floors. A total of 104 rental units will be constructed.
3. Construction of 40 condominium units.
4. Rehabilitation of the Nacho Mamas space into a high-end Latin American/Asian fusion restaurant and rehabilitation of the Generations space into a high-end New Orleans-style bar.
5. Potential Phase II Improvements consisting of 52 apartment units above ground floor commercial retail and/or office space.

The Urban Development Agreement before Council focuses on three of these components—the Phase I rental new construction with ground level retail, the condominium new construction, and the Phase II rental new construction with ground level retail. The conveyance of property and commencement of construction of three Phase I buildings will occur within the next year, subject to receipt of Low-Income Housing Tax Credits (LIHTC). The potential conveyance of property and commencement of construction of the Phase II building will occur prior to May 2007, subject to receipt of LIHTC. More specifically, the Court Avenue Partners' proposal provides for the following

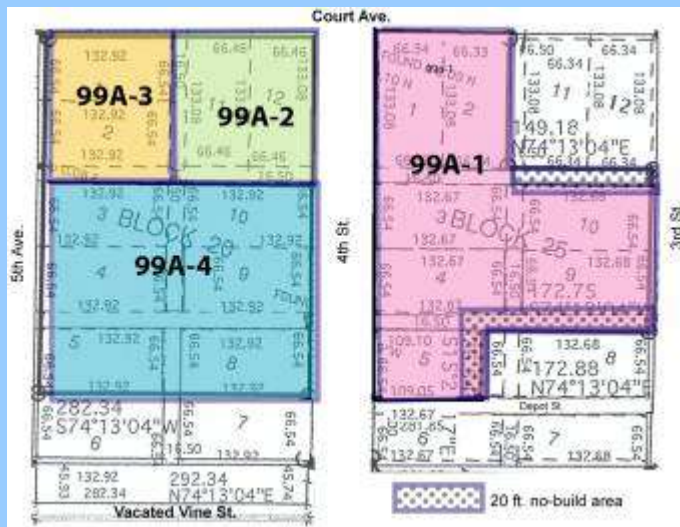
new development:

Disposition Parcel

Uses

- | | |
|-------|--|
| 99A-1 | 40 condos, 52-unit mixed-income apartments, 7,156 sq. ft. commercial, surface parking, and 67 underground parking spaces. The surface parking will serve the apartments, including the Spaghetti Works (Lederer-Strauss Building at 302-310 Court Avenue) that will be renovated by Court Avenue Partners. |
| 99A-2 | 52-unit mixed-income apartment and 13,450 sq. ft. commercial. |
| 99A-3 | Option to purchase, expiring in 2007, for construction of Phase II 52-unit mixed-income apartments and 12,456 sq. ft. commercial. |
| 99A-4 | Surface parking to support residential development and potential construction of Phase III residential units and structured parking. |

The proposed parcels are shown graphically:



As mentioned above, the related redevelopment also includes the rehabilitation of the upper three floors of the Spaghetti Works Building into mixed-income rental units (detailed in Council Communication No. 03-554) and the rehabilitation of the ground floors of the Nacho Mamas and Generations buildings for use as entertainment/restaurant venues. Neither of these project components are located on urban renewal parcels and therefore are not included in the Urban Renewal Agreement.

The current project proposes locating a high-end Cuban/Asian fusion restaurant in the building formerly occupied by Nacho Mamas. The building formerly occupied by Generations would be converted into a New Orleans-style bar. The finishes would be of similar quality to the finishes of Centro.

**CITY COUNCIL
COMMUNICATION**

03-556

NOVEMBER 21, 2003

PAGE FIVE

Because the Developer has not finalized the lease terms with the owners of Nacho Mamas and Generations, the project numbers are still preliminary. If the negotiations with the owners of the Nacho Mamas building result in lease rates that cannot be supported, the restaurant will be located in the new commercial construction space. The current sources and uses project an upfront City subsidy for the restaurant and entertainment development in the amount of \$62,886 and an ongoing subsidy with a net present value of \$1,505,288 (total cash dispersal of \$2,335,800).

The original Court Avenue Partners' proposal outlined a plan to locate a public market in the first floor of the City parking garage located at 3rd and Court. The City intends to pursue this possibility, but the other project components are not dependent on the development of this facility. The City will work with the General Services Administration of the federal government to determine the possibility of the public market.

The Developer has requested that the City consider making Court Avenue a two-way street. Such a decision will require an analysis of traffic conditions, present and future. Staff will initiate the necessary traffic study and submit a recommendation to Council.

MAJOR TERMS OF URBAN RENEWAL AGREEMENT:

1. The City will work with the Developer to develop an Environmental Plan and an Archeological Plan.
2. Parcels 99A-1, 99A-2, and 99A-4 will be sold to the Developer no later than May 1, 2005. Parcel 99A-3 shall be sold no later than May 1, 2007.
3. A Good Faith Deposit of \$200,000 is required.
4. Phase I minimum improvements include 104 apartment units, 40 condominium units, 13,351 square feet of commercial retail space (plus or minus 10 percent), 6,000 square feet of commercial retail/office space (plus or minus 10 percent), 67 underground parking spaces, and 199 surface parking spaces.
5. Phase II minimum improvements include 52 apartment units, 6,456 square feet of commercial retail space (plus or minus 10 percent) and 6,000 square feet of commercial retail or office space (plus or minus 10 percent).
6. The Developer will submit a detailed Conceptual Development Plan for each phase of the improvements that includes a conceptual site plan, schematic signage and lighting plans, detailed building elevations, floor plans, and lighting plans.
7. The Minimum Assessed Values for the improvements are as follows:

Phase I Apartments	\$6,300,000
Phase I Commercial	\$1,935,200
Phase II Apartments	\$3,120,000
Phase II Commercial	\$1,246,000

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|--|---|
| | <ol style="list-style-type: none">8. Economic development grants as outlined in the Fiscal Impact section of this Council Communication shall be provided to the Developer.9. It is expected that the Developer will construct Phase III improvements on Disposition Parcel 99A-4 within eight years after issuance of the Certificate of Completion of Phase I improvements or as soon thereafter as market conditions allow. Phase III improvements shall contain at least 80 additional dwelling units and structured parking to serve the additional units and to replace the surface parking previously constructed on Disposition Parcel 99A-4.10. The contract calls for the City and the Developer to negotiate a participation agreement which will allow the City to receive a return after a preferred return for the Developer. |
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