



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 03/08/04

Communication

No.: 04-115

Agenda Item Type: Resolution

Roll Call

No.:

Submitted by: Richard Clark, Deputy City Manager

SUBJECT—

Communication from the City Manager regarding the preliminary terms of agreement with Metro Engineers, Inc. for the redevelopment of the former Kirkwood Hotel, 4th and Walnut, Des Moines, Iowa.

SYNOPSIS—

On the March 8, 2004 Council agenda is a roll call to approve the preliminary terms of agreement set forth herein for the redevelopment of the Kirkwood Hotel located at 400 4th Street, Des Moines, Iowa. The redevelopment of this historic structure is important to the redevelopment of the Court Avenue Neighborhood.

The Developer for the project is Metro Engineers, Inc. (John P. Chudy, 732 North 129th Street, Omaha, Nebraska, 68154).

FISCAL IMPACT—

Per this preliminary terms of agreement, the City will provide the Developer with an economic development loan in the amount of \$1,100,000. The loan shall be disbursed in three installments as follows:

1st Disbursal—\$400,000, Month 36 after closing on construction loan

2nd Disbursal—\$350,000, Month 48 after closing on construction loan

3rd Disbursal—\$350,000, Month 60 after closing on construction loan

The loan shall accrue interest at the rate of 2%. The loan shall be repaid from the sale of the residential units (projected in Year 7). If the units are not sold as condominium units or the sales lag, the loan shall be repaid from cash flow.

RECOMMENDATION—

Approval

BACKGROUND—

Based on discussions with Metro Engineers, Inc., 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 Metro Engineers, Inc. (“Developer”).

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

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3rd Disbursal—\$350,000, Month 60 after closing on construction loan

The loan shall accrue interest at the rate of 2%. The loan shall be repaid from the sale of the residential units (projected in Year 7). If the units are not sold as condominium units or the sales lag, the loan shall be repaid from cash flow.

- City to grant 10-year 100% tax abatement on the improvements.

Developer Responsibilities:

- The Developer shall convert the upper floors of the former Hotel Kirkwood (Floors 3 and above) into residential apartment units.
- The Developer shall maintain the units as rental housing until Year 7 of the project. (Year 1 is construction. The units shall be leased as residential units in Years 2-6. Units shall be maintained as rental units until title is transferred to an owner occupant.)
- Developer is responsible for all acquisition.
- The Developer shall construct at least 63 units.

- The Developer shall maintain the first two floors of the Kirkwood as office and retail space.
- The total project cost shall be at least \$13 million.
- 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, Court Avenue Historic Area, Appendix D—City Wide Urban Revitalization Plan and Developer shall execute an appropriate declaration of covenants.
- 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 proposed sources and uses of financing for the Kirkwood Hotel are as follows:

Sources of Funds:

Permanent/Construction Loan	\$5,000,000
Federal Historic Tax Credits Bridge Loan	\$991,498
Federal Historic Tax Credits (Part 2-3)	\$424,928
EZ Sales Tax Exemption	\$118,500
Court Avenue District Housing Fund	\$300,000
EZ Tax Credit (ITC)	\$531,159
City Loan	\$1,100,000
Deferred General Contractor Profit	\$657,070
Deferred Developer Fee	\$1,116,888
Deferred Purchase Price of Real Estate	\$2,000,000
<u>Owner’s Equity</u>	<u>\$862,928</u>
TOTAL	\$13,102,970

Uses of Funds:

Hard Construction Cost	\$6,295,700
General Requirements	\$275,000
General Contractor Overhead	\$600,000
Deferred GC Profit	\$657,070
Deferred Developer Fee	\$1,116,888
Selling Price of Kirkwood Building	\$2,000,000
Architectural Costs	\$489,000
TI Allowance for commercial space	\$150,000
Financing and Soft Costs	\$444,936
<u>Reserves/Interest/Taxes</u>	<u>\$974,376</u>

TOTAL

\$13,102,970

Other terms and conditions of the formal Development Agreement will be negotiated with Metro Engineers, Inc. and presented for Council approval.