



Agenda Item:

77A

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 10/25/04
04-516

Communication No.:

Agenda Item Type: Resolution
No.:

Roll Call

Submitted by: Richard Clark, Deputy City Manager

SUBJECT—

Resolution approving urban renewal agreement for sale of land for private redevelopment with Court Avenue Partners II, L.P.

SYNOPSIS—

This action approves an urban renewal agreement and utilization of tax increment financing (TIF) funding for a mixed-use project between 3rd and 4th 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-Rick Tollakson, President and Chief Executive Officer, 6900 Westown Parkway, West Des Moines).

As this project involves the sale of City-owned property acquired through urban renewal, disposition has required a competitive process. Although there were inquiries from four other development groups, no competing proposals were received.

FISCAL IMPACT—

The total City subsidy is \$4,221,806 upfront and \$1,016,257 ongoing. (The net present value of the ongoing cash injection is \$609,929). The net cash required upfront is \$2,376,806. As is mentioned in the background section, the City's financial participation was reviewed previously by Council. The final agreement responds to issues identified by Council at the June 7, 2004, meeting.

RECOMMENDATION—

Approval

BACKGROUND—

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 4th 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-Rick Tollakson, President and Chief Executive Officer, 6900 Westown Parkway, West Des Moines).

At the June 7, 2004 Council meeting, the preliminary terms of agreement for the Court Avenue Project were preliminarily approved, subject to several issues identified by Council regarding the City's financial participation in the project. The major issues identified were:

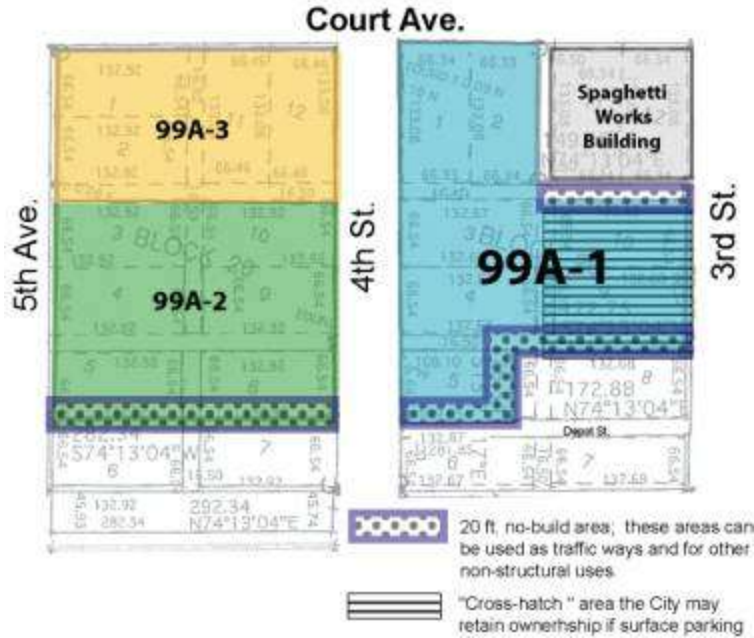
- Amount and timing of developer fees
- Injection of City funds
- City participation

In response to the City the developer reviewed all of the construction cost and financing assumptions, soft costs, and the timing of construction starts. The cost of construction has increased dramatically this past year, specifically in the area of concrete and steel. Interest rates on these types of projects have also increased about 75 basis points in the past couple of months. In addition, the State of Iowa Historical Tax Credits are not expected to be available until 2015 or later, a full five years later than the developer had anticipated. Based on this update of the project numbers, as well as in response to the issues identified by the City, several major changes were made in the financing structure that are now incorporated into the final agreement.

On August 9, 2004, by Roll Call No. 04-1693, the Council directed the City Manager to proceed with the solicitation of a Developer-initiated proposal for the redevelopment of City-owned parcels of land between 3rd and 4th Streets. On September 13, 2004, by Roll Call 04-1971, the Council received and filed a Developer-initiated proposal from Court Avenue Partners and approved a competitive process for the sale and redevelopment of the subject property.

This Developer-initiated proposal contemplates the redevelopment of the City-owned land between 3rd and 4th Streets south of Court Avenue and designated as Parcel 99A-1 below. Separate Developer-initiated proposals will be submitted for the redevelopment of parcels 99A-2 and 99A-3. It is anticipated that 99A-2 will contain a commercial use and that 99A-3 will contain structured parking wrapped by condominiums.

This project will provide a dramatic infusion of new residents within a diverse offering of affordable rental units, market rate rental units, and condominium units in two new buildings.



Based on the Developer-initiated proposal, the terms of agreement are as follows:

The City will provide the Developer with economic development grants as described below. This communication does not detail the City's participation in the rehabilitation of Spaghetti Works or in the entertainment/restaurant venues.

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|---|---|
| <ul style="list-style-type: none"> • 4th and Court Residential Development (52 rental units) • 4th and Court Commercial Development • Condominium Development—E of 4th (40 units) • Parking Lot—South of SW • General Development Requirements (Required Upfront) • | <ul style="list-style-type: none"> \$430,073 Upfront Subsidy \$609,929 Ongoing Subsidy* \$699,684 Upfront Subsidy \$1,292,289 Upfront Subsidy \$552,260 Upfront Subsidy \$922,500 Land Write-Down \$100,000 Archeology \$225,000 Infrastructure Costs |
|---|---|

TOTAL City Subsidy = \$4,221,806 upfront and \$609,929 ongoing

Net Cash Required Upfront = \$2,376,806

*net present value (npv) of ongoing cash injection of \$1,016,257 discounted at 4 percent to determine the npv.

- The City will grant 10-year 100% percent tax abatement for the residential redevelopment.

- The City will process the Developer's application for the State Enterprise Zone Housing Program.
- The City will provide 25 parking spaces for the 52-unit new apartment project at prevailing market rate within the Permitted Parking Location zone as identified in an exhibit to the Urban Renewal Agreement.

Developer Responsibilities:

- The Developer will construct the following:
 1. 40 new condominium units (located along 4th Street north of the existing Baggage Claim Building and south of the proposed apartment building)
 2. 52 new apartment units in one building (located on the southeast corner of 4th and Court)
 3. 8,500 square feet of commercial located on the first floor of the apartment building
- A minimum assessment agreement will be required establishing a minimum taxable value of \$3 million for the 4th and Court Residential Development, and \$1.4 million for the 4th and Court Commercial Development, exclusive of the value of the underlying land.
- The Developer shall apply for tax credits through the Iowa Department of Economic Development Enterprise Zone Program.
- The Developer shall agree to share any unanticipated profits with the City. The terms of this participation are outlined in Article 8 of the Urban Renewal Agreement. In summary, the major concepts of the participation are as follows:

Any excess annual cash flow for the apartments and commercial components shall be distributed as follow:

1. The equity investors will be repaid in full with interest at the rate of 15% per year.
2. After the equity investors are repaid, 60% of the annual cash flow will be paid to the equity investors and 40% to the City of Des Moines until the total payments to the City equals the City's investment.
3. After the equity investors and the City are repaid, 90% of the excess cash flow will be distributed to the equity investors and 10% will be distributed to the City.

Upon sale of the property, net proceeds will be distributed in the same manner.

Any excess annual cash flow for the apartments and commercial components shall be distributed as follow:

1. The equity investors will be repaid 120% of costs.
2. After the equity investors are repaid, 60% of the annual cash flow will be paid to the equity investors and 40% to the City of Des Moines until the total payments to the City equals the City's investment.
3. After the equity investors and the City are repaid, 90% of the excess cash flow will be distributed to the equity investors and 10% will be distributed to the City.

Upon sale of the property, net proceeds will be distributed in the same manner.

The City and the Developer will continue to negotiate the City's financing for the entertainment and restaurant components of the project.