



Agenda Item:

32

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 12/19/2005
731

Communication No.: 05-

Agenda Item Type: Resolution

Roll Call No.:

Submitted by: Richard Clark, Acting City Manager

SUBJECT—

Development Agreement between the City and Court Center, LLC to assist in the renovations to 216 Court Avenue. The principals of the development group are Russ K. McCullough, 200 Stanton Avenue, Suite 101, Ames, IA 50014; David A. Keller, 200 Stanton Avenue, Suite 101, Ames, IA 50014; and Mark Rodgers, 7029 Rocklyn Circle, Urbandale, IA 50322.

SYNOPSIS—

This action approves a Development Agreement between the City and Center Court, LLC, as Developer, in the renovation of 216 Court Avenue (formerly occupied by Nacho Mama's Restaurant). The building is being renovated for a ground level restaurant, Legends American Grill, with the second and third levels to be developed for commercial/entertainment uses. City participation totals \$400,000 in two loans. The first is a Neighborhood Revitalization Loan (NCR) for \$200,000 to be repaid over a 20-year term and the second is an Economic Development Bridge Loan for \$200,000 to be repaid upon completion of the project's improvements from the syndication of federal and state historic tax credits.

FISCAL IMPACT—

The NCR Loan for \$200,000 will be funded from the Economic Development Financial Assistance Program, Community Development Block Grant (CDBG) funds. The loan would be at zero interest with no payments for five years. Beginning in year six, the loan would begin to amortize at four percent (4%) interest over 15 years. The Economic Development Bridge Loan for \$200,000 at zero percent will be funded from the Economic Development Enterprise Account and repaid upon completion of the project's renovations from the Developer's receipt and syndication of federal and state historical tax credits.

The Developer has met with and has submitted the preliminary design plans for review with the State of Iowa Historical Preservation Office (SHPO). State staff have preliminarily approved the renovations in accordance with historical guidelines and recommended the renovations for approval to the National Park Service. Assuming the project is completed in compliance with the federal historical design guidelines, the project will be eligible for up to 20% federal historic tax credits and 25% state tax credits under the newly designated Court Avenue Entertainment and Cultural District historical tax credit program. The exact value of the proposed federal and state historical tax credits will not be known until the project is completed, however, it is estimated that the total net value to the project is between \$300,000 and \$500,000. There is a risk that even though the Developer makes a good faith effort to comply with the historical standards, tax credits could be withheld at the project completion. If the developer does not receive the anticipated historical tax credits, the Economic Development Bridge Loan would be repaid from tax increment revenues generated from the project's improvements.

Assuming the project is completed in accordance with historical guidelines, the project will be eligible for tax abatement on the improvements under the City's 10-year declining schedule. Based on discussions with the Assessor's Office, it is anticipated the improved property may be assessed at about \$3.2 million, which is a \$2.5 million increase over the current assessment and would provide net new taxes (after tax abatement) over the next ten years of about \$940,000.

RECOMMENDATION—

Approval

BACKGROUND—

Russ K. McCullough, David A. Keller are associated with EV Cochran and Associates and Gateway Real Estate located in Ames, Iowa. Mr. McCullough and David Keller have been involved in several residential and commercial mixed-use developments in the Ames area. Mark Rodgers is the owner and operator of the three Legends American Grill restaurants located in the Des Moines metro area.

The Developer is proposing to rehabilitate the building located at 216 Court Avenue for a ground floor restaurant with the 2nd and 3rd floors renovated for commercial/entertainment venues. The building is a three-story structure building is approximately 35,112 square. The Developer is proposing a Legends American Grill restaurant as the ground floor tenant. The second and third levels will be improved at this time, but the interior would not be finished to provide flexibility of use as the Developer attempts to find tenants.

The high acquisition price combined with the generally deteriorated and outdated condition of the building make this an expensive project to achieve success. Due to the high project costs, construction risks involved in renovating the building, financial carrying costs, and projected lease rates, the

Developer's projected rate of return is not sufficient for them to pursue the project. The Developer has stated they will not pursue the project without City assistance.

One of the major cost components of this project are the 2nd and 3rd floors which do not meet required code standards for commercial/ entertainment use and will need to be strengthened. These floors will be renovated on a speculative lease basis with net rental rates for the second and third levels are projected at \$6.5--\$7.50/square foot.

Project costs are currently estimated to be:

Project Costs

Purchase price	\$1,725,000
Construction (incl. tenant finish for Legends)	\$2,188,500
Soft costs (design, construction interest, contingency)	\$184,500
Total Project Costs	\$4,098,000

Project Sources

Bank Financing	\$2,540,000
Seller Financing	\$456,000
City NCR Loan	\$200,000
City ED Bridge Loan*	\$200,000*
Owner Equity	\$702,000
Total Sources	\$4,098,000

*City ED Bridge Loan will be repaid upon receipt of funds from sale of proposed federal and state historical tax credits.

Proposed City Assistance

This financial package is recommended on the basis of being the most economical method to bring a much needed street level component of Court Avenue back to life and create usable commercial / entertainment space on the long vacant 2nd and 3rd floors.

Neighborhood Commercial Revitalization Loan: \$200,000 Neighborhood Commercial Revitalization (NCR) loan funded by an allocation from the Community Development Block Grant program. The loan interest rate will be at zero percent with no payments for five years; from Year 6-15, the loan amortizes in monthly installments at a 4% rate of interest.

Economic Development Bridge Loan: \$200,000 funded from the Economic Development Enterprise Account. The loan interest rate will be at zero percent and will be repaid upon completion of the project and syndication of federal and state historic tax credits. If the Developer actively and in good faith pursues federal and historic tax credits, but does not receive the tax credits the Bridge loan would be repaid from Metro Center Tax Increment Financing District revenues generated from the project's improvements.

Tax Abatement

If the project is completed in accordance with historical guidelines, the project will be eligible for tax abatement on the incremental assessment associated with the value-added improvements under the City's 10-year declining schedule.

The Urban Design Review Board at its December 6, 2005 meeting reviewed the project's conceptual design plans and the proposed City financial assistance. The Board found the proposed use of tax increment financing appropriate and recommends to the City Council approval of the proposed City financial assistance to the project.

On September 26, 2005, by Roll Call No. 05-2383, Council gave preliminary approval to the City financial assistance and directed the City Manager to negotiate the terms and conditions of a final development agreement to assist the project.