



**Council  
Communication**  
Office of the City Manager

<b>Date</b>	July 23, 2007
<b>Agenda Item No.</b>	<b>51</b>
<b>Roll Call No.</b>	<b><u>07-</u></b>
<b>Communication No.</b>	<b><u>07-460</u></b>
<b>Submitted by: Richard A. Clark, City Manager</b>	

**AGENDA HEADING:**

Resolutions Related to the Riverpoint West Redevelopment Project:

- A. Resolution with Respect to Public Hearing on the Proposed Authorization and Approval of a Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, As Amended, in the Amount of \$17,500,000, and Other Related Financing Documents by the City of Des Moines, Iowa.
- B. Resolution Instituting Proceedings to Take Additional Action for the Authorization and Approval of a Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, As Amended, in the Amount of \$17,500,000, and Other Related Financing Documents by the City of Des Moines, Iowa.
- C. Resolution Approving Form and Authorizing Execution and Delivery of a Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, As Amended, in the Principal Amount of \$17,500,000, and Other Related Financing Documents by the City of Des Moines, Iowa.
- D. Resolution Authorizing Application to Obtain a \$297,000 Federal Grant from the FY 2006 HUD Economic Development Initiative for Redevelopment of the Riverpoint West Area.
- E. Resolution Approving Programmatic Agreement with the Iowa State Historic Preservation Office for a Portion of the Riverpoint West Area.

**SYNOPSIS:**

Council set July 23, 2007 as the date of hearing to enter into the Section 108 Loan Agreement and related financing documents, which include but are not limited to a Brownfield Economic Development Initiative (BEDI) Grant Agreement; a Pledge, Assignment and Security Agreement; a Variable/Fixed Rate Note; and a Funding Approval Agreement. Council is requested to:

- A. Approve the above-referenced agreements and related financing documents to obtain a \$17,500,000 Section 108 loan and a \$2,000,000 BEDI grant, and authorize execution of the HUD Request for Release of Funds and Certification; and
- B. Authorize submittal of an application to obtain a \$297,000 Federal grant for infrastructure in Riverpoint West; and
- C. Approve the Programmatic Agreement with the Iowa State Historic Preservation Office (SHPO) related to conducting archaeological investigations in Riverpoint West prior to land disturbance. This work is necessary in order to comply with the environmental review that Federal law requires.

The Developer is proposing to assemble land, conduct site preparation and install infrastructure in order to facilitate the construction of a mixed-use, residential/commercial project on 125 developable acres directly south of the Central Business District in Riverpoint West. This area, to be re-branded as Gray's Lake Office Park and Gray's Lake Landing, is bounded by Martin Luther King, Jr. Parkway to the north, SW 9<sup>th</sup> Street to the east and the Raccoon River to the south and west. The Phase I portion is generally located from Martin Luther King, Jr. Parkway to Tuttle Street between SW 9<sup>th</sup> and SW 16<sup>th</sup> Streets (excluding MidAmerican Energy's substation and railroad-owned land) and from SW 9<sup>th</sup> to SW 11<sup>th</sup> Streets between Tuttle and Murphy Streets. The Phase II area consists primarily of railroad-owned land west of SW 11<sup>th</sup> Street and residential property will be located south of Tuttle Street to the Raccoon River west of SW 11<sup>th</sup> Street. Large-scale land assemblage and site preparation at one time are essential in order to provide an environment in which to create a signature urban development.

### **FISCAL IMPACT:**

There are three components to the Riverpoint West Redevelopment Project—Phase I commercial, Phase II commercial and a separate residential aspect. The total cost of the commercial land assemblage and site preparation project is projected to be \$50,780,000, and includes \$12,000,000 of net land sales proceeds (excludes real estate commissions and closing costs). The Phase I commercial site preparation cost is estimated at \$27,422,000 (includes \$6,200,000 of net land sales proceeds); Phase II commercial at \$23,358,000 (includes \$5,800,000 of net land sales proceeds); and residential at \$16,000,000 (net land sales proceeds to be determined).

The City anticipates obtaining approval for the entire \$17,500,000 Section 108 loan; however, there will be two notes—one for \$8,500,000 (Phase I project) and one for \$9,000,000 (Phase II project). A \$70 processing fee and issuance costs, estimated at \$42,500, will be deducted from each note.

### Amount/Funding Source:

\$8,500,000, which represents 49% of the \$17.5 million Section 108 loan that HUD approved on February 23, 2007, will be disbursed to acquire the majority of Phase I land, which will be repaid through project-generated TIF. Up to \$2.9 million of Metro Center TIF will be used to cover any shortfall between the time the loan payments are due and sufficient TIF is generated from the project, anticipated to be in FY 2016/17; however, the City projects that \$2.5 million of Metro Center TIF will actually be expended. The Developer will be required to pay any shortfall thereafter in project-related TIF needed to cover loan payments. The Phase I commercial development at full build-out is anticipated to generate approximately \$17.7 million in tax revenues over 20 years (75% project-related TIF), which is sufficient to repay the principal and interest on the loan estimated at \$16.5 million over 20 years.

Other issues that affect fiscal impact are as follows:

- It is anticipated that the City will draw down the entire \$8,500,000 million Section 108 loan and \$2,000,000 Brownfield Economic Development Initiative (BEDI) grant in 2007. The first interest-only payment will be due by January 23, 2008. Prior to this action, the U.S. Department of Housing and Urban Development (HUD) must have approved the Section 108 Loan Agreement, including the loan repayment schedule acceptable to the City and the Developer. In addition, the Developer must own or have under contract 60% of the Phase I commercial redevelopment area, have provided the City with a Special Warranty Deed for acquired property, and have demonstrated that it has obtained a minimum of \$6.6 million in equity, which may include New Market Tax Credits.

- The Section 108 loan will not count against the City's constitutional debt limit. Its repayment will be structured as non-recourse debt, subject to annual appropriation of Metro Center TIF funds. The Section 108 loan must be repaid. If not, HUD will withhold payments from the City's future Community Development Block Grant (CDBG) allocations.
- Repayment of the Section 108 loan is predicated on the Council amending the current 10-year, 100% residential tax abatement schedule in the downtown to 5-year, 100% residential tax abatement in order to generate sufficient project-generated TIF.

#### **ADDITIONAL INFORMATION:**

On July 9, 2007 by Roll Call No. 07-1341, the City Council approved the Phase I Commercial Development Agreement with River Point West LLC (managing member: George Sherman, President, Sherman Associates, Inc., 233 Park Avenue South, Suite 201, Minneapolis, MN) to allow the initial commercial land assemblage and site preparation project to proceed.

River Point West LLC, as master developer, intends to sell pad-ready commercial and residential sites to third parties, which must be approved by the City. The Phase I commercial development is expected to generate 557,000 square feet of office and retail space, which will yield approximately \$50 million in new taxable value. It is a prelude to Phase II commercial and the residential development, which is projected to provide an additional tax base of \$115 million. The new \$165 million, mixed-use urban village will comprise an estimated 740,000 square feet of office and retail space, at least 543 dwellings, and environmental enhancements. The first new commercial development is anticipated to be completed by 2009 and the entire project by 2015, pending market absorption, which represents a six-year build-out.

The \$17,500,000 Section 108 loan, \$2,000,000 BEDI grant and \$297,000 Federal earmark are an integral part of financing the redevelopment of Riverpoint West. The Section 108 loan will be drawn down in two installments--\$8,500,000 by August 31, 2008 and \$9,000,000 by September 1, 2012. Each note will be amortized over 20 years but may be prepaid after 10 years.

The security pledged for loan repayment will be (1) Metro Center TIF funds, subject to non-appropriation; (2) all allocations or grants which the City has received or may become eligible for under Section 106 or Section 108(q) of the Act; (3) program income directly generated from use of the Section 108 Loan Agreement proceeds, including but not limited to payments by the developer under the Phase I Commercial Development Agreement; (4) all rights of the City in the security documents described in Section 15 of the Section 108 Loan Agreement and to the collateral described therein; (5) all proceeds from any of the foregoing, including insurance and condemnation proceeds; and (6) all funds or investments in the accounts established in the Section 108 Loan Agreement. Sufficient security exists to repay the loan so as not to require HUD to withhold any of the City's future Community Development Block Grant (CDBG) allocations.

The \$2,000,000 BEDI grant will be drawn down in entirety at the same time as the initial \$8,500,000 Section 108 loan disbursement. It will be used to create a debt service reserve to repay the Section 108 loan. The BEDI Grant Agreement states that for every \$8.75 of Section 108 loan proceeds, the City is entitled to \$1.00 of BEDI grant funds. In the event that the City does not borrow the additional \$9,000,000 of Section 108 loan proceeds, it would be required to repay HUD \$1,028,571 to maintain the \$8.75:1 loan to grant ratio.

It is essential to enter into the Section 108 Loan Agreement, BEDI Grant Agreement and Programmatic Agreement and to submit the HUD Request for Release of Funds and Certification promptly in order for the developer to meet deadlines for exercising options to acquire property and to enter into agreements to access New Market Tax Credits, which are critical to project financing.

**PREVIOUS COUNCIL ACTION(S):**

Date: July 9, 2007

Roll Call Number: 07-1341

Action: On Urban Renewal Development Agreement with River Point West LLC for the River Point West Redevelopment Project, including the sale of City-owned land. (Council Communication No. 07-393) Moved by Hensley to adopt. Motion Carried 7-0.

Date: July 9, 2007

Roll Call Number: 07-1342

Action: Setting Date of Hearing on Section 108 Loan, \$17,500,000 and other related financing documents, (7-23-07). Moved by Hensley to adopt. Motion Carried 7-0.

Date: July 9, 2007

Roll Call Number: 07-1343

Action: Directing City Manager to prepare an amendment to the City-wide Urban Revitalization Plan to remove the downtown core area from the Targeted Residential Area and extend the City-wide tax abatement program for residential development for another 5 years. (Council Communication No. 07-387) Moved by Hensley to direct the City Manager to prepare and present for further consideration by the City Council at the earliest practical time, an amendment to the City-wide Urban Revitalization Plan to remove the downtown core area from the Targeted Residential Area, and to extend the City-wide tax abatement program for residential development for another 5 years. City Manager will arrange a meeting with the Downtown stakeholders within 30 days. Motion Carried 7-0.

Date: June 4, 2007

Roll Call Number: 07-1119

Action: Setting date of hearing on Proposal to enter into an Urban Renewal Development Agreement with River Point West, LLC for the Riverpoint West Redevelopment Project including the sale of land and inviting competing proposals, (7-9-07). (Council Communication No. 07-315) Moved by Hensley to adopt. Motion Carried 7-0.

Date: August 7, 2006

Roll Call Number: 06-1617

Action: Section 108 Loan Guarantee Application and Amended Brownfield Economic Development Initiative (BEDI) Grant Application for Redevelopment of Riverpoint West. (Council Communication No. 06-484) Moved by Hensley to adopt. Motion Carried 6-1.

Date: October 24, 2005

Roll Call Number: 05-2603

Action: Preliminary Agreement with Riverpoint West LLC for redevelopment of Riverpoint West Area. (Council Communication No. 05-611) Moved by Hensley to adopt. Motion Carried 7-0.

Date: May 23, 2005

Roll Call Number: 05-1331

Action: Preliminary Agreement with Hubbell Realty Company and Hubbell Terminal Corporation (Rick Tollakson, President & CEO) and Riverpoint West LLC (George Sherman, President) for redevelopment of parcels west of SW 9<sup>th</sup> along Tuttle and Murphy Streets. (Council Communication No. 05-305) Moved by Hensley to adopt. Motion Carried 6-1. Absent:Vlassis.

#### **BOARD/COMMISSION ACTION(S):**

Date: May 1, 2007

Roll Call Number: N/A

Action: Urban Design Review Board recommended approval of using tax increment finance revenue to repay the \$8.5 million Section 108 loan.

#### **ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Future actions include:

- Amending the current 10-year, 100% residential tax abatement in the downtown to 5-year, 100% residential tax abatement.
- Approving loan and trust agreements, assignments and other contracts to implement a New Market Tax Credits structure.
- Approving the Conceptual Development Plan and pro forma and any material amendments thereto.
- Approving each Parcel Development Agreement for the sale and redevelopment of any parcel.
- Approving the future Phase II Commercial Development Agreement and the Residential Development Agreement.