



# Council Communication

Office of the City Manager

Date

March 10, 2008

Agenda Item No. 66

Roll Call No. 08-

Communication No. 08-135

Submitted by: Matt Anderson, Economic  
Development Administrator

## AGENDA HEADING:

Communication from the City Manager regarding preliminary terms of agreement with the owners of Merle Hay Mall for economic development assistance of up to \$400,000 annually for a total of up to \$5.6 million from proposed tax increment revenues for Merle Hay Mall located at 3830 and 3850 Merle Hay Road.

## SYNOPSIS:

Recommend proceeding with negotiations and final document preparation with the owners of Merle Hay Mall (Elizabeth Holland, general counsel for Abell Credit Corporation, 30 Michigan Ave. Suite 1008, Chicago, Il) for the use of proposed tax increment revenues.

## FISCAL IMPACT:

Amount: A development grant of 100% of the project's net tax increment generation, up to \$400,000 annually for up to a total of \$5,600,000, is requested on a cash-available basis; the value of the grant is based on a minimum assessment agreement of an additional \$10,000,000. The payments may extend over 15 tax years due to timing of the TIF receipts.

Funding Source: Funding of the assistance is contingent upon approval of the Merle Hay Commercial Area Urban Renewal Plan, which is anticipated to be before the Council in late spring/early summer 2008.

This developer assistance will be funded entirely through the new property taxes generated directly from the project after the required debt levies (about \$5.50 of the annual tax rate levy of \$46/\$1000) are paid and as the funding is available in the entire urban renewal area.

As noted in the February 11, 2008 Council communication, if one or more of the larger properties in this proposed urban renewal/ TIF area experiences a significant assessment decrease, this area has the potential to go "negative" in which the overall district drops below its "frozen" assessment base which means having no increment available for any public or private project.

If the urban renewal plan and TIF are approved by City Council, the Finance Department will create a new URR account code for this project.

## ADDITIONAL INFORMATION:

As stated in the February 11<sup>th</sup> Council communication, Merle Hay Mall is the largest mall in Polk County (totaling about 1.2 million square feet in Des Moines and Urbandale) and serves as the major retail center for northwest Des Moines and surrounding areas.

The economic health of Merle Hay Mall has a significant impact on Des Moines from commercial and residential aspects. If the mall continues to decline (its assessed value has decreased from about \$29 million in 2005 to \$16.5 million in 2008), it will have a significant negative impact on assessed values of other nearby major commercial properties. In addition, a decline will be reflected in a less attractive property and reduce the regional retail and commercial services for residents living in the area which may reduce values of area housing.

The developer has indicated obtaining the financing necessary to undertake the needed improvements will be in excess of what can be financed privately. This level of TIF assistance is necessary for financial underwriting approval to undertake the improvements.

The developer has identified improvements to be made as being located on the mall concourse at 3830 Merle Hay Road with exterior and interior building improvements proposed. Additional "streetscape" improvements on Merle Hay Road and Douglas Avenue are not proposed.

The preliminary terms of agreement, in addition to the standard terms and conditions, shall also require:

1. The developer shall enter into a binding agreement for a minimum \$10 million increase in property assessment for at least 15 years.
2. This project design reviewed as early as possible by the Urban Design Review Board before undertaking exterior renovations. The developer shall address the Merle Hay Road and Douglas Ave. frontages with streetscape improvements as part of its improvements plan. These improvements were to be located on the mall's private property and are not right-of-way streetscape improvements.
3. The developer shall provide written evidence of permanent financing.
4. Verification of at least \$14.1 million in expenditures for the capital and tenant improvements and tenant allowances (from January 1, 2007 to December 31, 2009) by the developer.
5. The City of Urbandale must:
  - approve a resolution by July 1, 2008 indicating its intent to create an urban renewal /TIF area that includes the Urbandale portion of Merle Hay Mall.
  - incorporate the Urbandale Merle Hay Mall properties into an urban renewal/TIF area on or by December 31, 2009.

Approval of the preliminary terms has been requested by the developer in order to work with the permanent lender for loan approval that will permit construction of exterior improvements to begin that can then be completed in time for back-to-school (August 2008) shopping.

*Merle Hay Neighborhood Association*

An informal meeting with representatives of the Merle Hay Neighborhood to review the proposed mall improvements and use of the TIF was held on February 29, 2008 and Neighborhood Development staff reviewed the proposal at the group’s general meeting on March 4, 2008. No action was taken at these meetings.

*Sources and Uses*

The developer has requested the tax increment assistance based on the following sources and uses of funding for the proposed mall renovations.

<i>Sources</i>	<i>Uses</i>
\$1,800,000 Developer cash investment (includes work done in past year)	\$6,009,443 Capital improvement (overall area)
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\$10,000,000 Bank Mortgage	\$3,718,145 Tenant Improvements
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\$ 2,332,959* TIF (14 yrs. x \$400,000 x 6.5% net present value)	\$3,846,563 Tenant Allowance
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<b>\$14,132,959 Total Sources</b>	<b>\$14,132,959 Total Sources</b>

\*The \$5,600,000 tax increment revenue is valued at 6.5% present value over a 15 year term; the developer intends to obtain a loan on the \$5.6 M aggregate value of the TIF payments. As noted previously, the payments may extend to a 15 year time period due to timing of the TIF receipts.

At this time, the developer is not ready to proceed with a project on the Urbandale portion of the mall (Younkers and Kohl’s store properties and the food court area); she anticipates requesting TIF assistance sometime in 2009 from Urbandale. The City’s financial assistance agreement with the developer will require the Merle Hay properties in Urbandale to be incorporated in an urban renewal/TIF area on or by December 31, 2009.

**PREVIOUS COUNCIL ACTION(S):**

Date: 2/11/2008

Roll Call Number: 08- 245

Action: From William Lillis and Daniel Manning, regarding proposed Merle Hay Mall Redevelopment and Tax Increment Financing (TIF) District. (Council Communication No. 08-075) Moved by Vlassis to receive and file the communication, direct staff to prepare a proposed urban renewal and tax increment financing plan for the Merle Hay area; and authorize the City Manager to negotiate a development agreement with the owners of Merle Hay Mall property for future City Council action. Motion Carried 7-0.

Date: 1/22/2007

Roll Call Number: 07- 144

Action: William J. Lillis, representing Merle Hay Mall and Bankers Trust, regarding a Tax Increment Financing (TIF) District in the Merle Hay and Douglas Avenue area. Moved by Vlassis to receive and file comments and refer to the City Manager for review and recommendation. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Completion of negotiations, final document preparation, and review of the proposed design and use of the tax increment revenues by the Urban Design Review Board.

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