



# Council Communication

Office of the City Manager

Date

April 12, 2010

Agenda Item No. 37  
Roll Call No. 10-  
Communication No. 10-189  
Submitted by: Larry Hulse, Director  
Community Development

## AGENDA HEADING:

Authority to negotiate a Community Development Block Grant loan for up to \$250,000 for completion of rehabilitation and site improvements at the Murillo Apartments at 605 16<sup>th</sup> Street (1531 High).

## SYNOPSIS:

The Murillo Apartment building was moved from 14<sup>th</sup> Street downtown to the NE corner of 16<sup>th</sup> and High Street. City staff is seeking authority to work with Great Western Bank and the proposed purchaser to provide a Community Development Block Grant (CDBG) loan for up to \$250,000 to complete the rehabilitation of the housing units and exterior improvements.

## FISCAL IMPACT:

Amount: \$250,000

Funding Source: Community Development Block Grants SPO20 CDDO49900 Rental Acquisition/Rehabilitation

## ADDITIONAL INFORMATION:

The Murillo Apartments are eligible for the National Register of Historic Places and sits directly south of the National Register Boundary for the Sherman Hill Historic District. The building consists of six apartments, two on each floor. An additional apartment may be added in the basement, pending approval by the Plan and Zoning Commission of the site plan.

Prospective purchasers have approached the City of Des Moines for assistance in completing the rehabilitation. If the building is not purchased, renovated and occupied, it will have a negative impact on the downtown and the Sherman Hill Neighborhood.

The building had a sales price of \$529,000 but an offer has been accepted for \$400,000. The developer has \$80,000 for down payment and will have a loan with an 8.0% interest rate with Great Western Bank. The loan has a five-year balloon payment amortized over 15 years. The building has between \$200,000 and \$250,000 worth of rehabilitation and site improvements yet to be completed. An appraisal has not been completed; however, the assessed valuation of the land is \$180,000.

The purchasers are Gary Porth (500 5<sup>th</sup> Street, Waukee, IA 50263) and Nate Snelson (620 3<sup>rd</sup> Street, Waukee, Iowa 50263).

Staff recommends using CDBG funds for a loan for the rehabilitation and site improvements. All federal regulations must be met but the loan would require a deviation from several city standard practices which City Council needs to approve for staff to proceed with negotiations and to send a preliminary letter of commitment to the bank. Staff is viewing the project as an historic preservation project rather than a project based specifically on affordable housing.

This is a privately financed project and does not involve the Low Income Housing Tax Credits. As such, the project has much less subsidy overall than do many rental rehabilitation projects in which the City provides funding. The purchaser is not taking a developer fee to complete the building.

Variation of Standard Practice #1 – Allow fewer units to be designated for low-income households and for a shorter period of time.

The use of CDBG requires that 51% of the apartments in the Murillo Apartments must be for households 80% of median income and the units must not exceed the Fair Market Rents and utilities costs as set by HUD. This requirement must be in place for at least one year. The City's standard practice is to require that all units be available for low income housing with a maximum rent to be charged for a five or ten year minimum depending upon the amount of funding provided. This project cannot afford the debt payment if the rents are restricted on 100% of the units for a five or ten year period.

Variation of Standard Practice #2 – Possibly exceed \$24,999 per unit for rehabilitation costs.

Because this property was moved to the site, the rehabilitation must conform to the multi-family housing design guidelines and city landscaping requirements. With the small number of units, there is very little economy of scale in paving and installing decking. In addition, the original owner will utilize the state historic tax credits for the rehabilitation, not allowing the new owner that additional funding. Staff is working through the federal historic tax credits with the owner to determine how much funding that can put into the project. Much of the work to be completed remains on the exterior.

Variation of Standard Practice #3 – Defer beginning re-payment until Year-Four (4) for a for-profit rental project. (January 2014)

Great Western Bank has stated that its approval of the loan is dependent upon the city commitment. Most of the Bank's requirements, such as a reserve account and operating cost estimates, are very similar to the City staff assumptions and requirements. However, the bank assumes a 75% occupancy rate for the first three-years; City staff assumes an occupancy rate of around 90%. The bank's assumption does not allow any payment to the city for at least three years.

All these practices have been varied singularly for other projects but the Murillo may require a variance of each of the provisions. The project has received no City financing to date. The City Council did approve their tax abatement application in January of this year.

The Neighborhood Revitalization Board recommended approval of the loan for completion of the Murillo at its November 23, 2009 meeting. If negotiations are successful, the City Council will need to approve the specific loan and its terms at a future meeting.

**PREVIOUS COUNCIL ACTION(S): NONE**

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

Board: Neighborhood Revitalization Board

Date: November 23, 2009

Action: Recommend approval of loan to City Council

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Approval of loan terms and documents.

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