

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: April 25, 2011
	Agenda Item No. 37 Roll Call No. <u>11-0689</u> Communication No. <u>11-235</u> Submitted by: Phil Delafield, Community Development Director

AGENDA HEADING:

Authority to preliminarily commit \$250,000 of Community Development Block Grant (CDBG) Loan funds for Completion of Rehabilitation and Site Improvements at the Murillo Apartments at 605 16th Street (1531 High).

SYNOPSIS:

The Murillo Apartment Building was moved from 14th Street in the downtown to the NE corner of 16th and High Street. The developer ran into financial problems and the building has sat vacant for the last two years. Staff has met with numerous developers and real estate agents to discuss the project and its completion. City staff is seeking authority to negotiate with Ryan Galloway of Murillo Lofts LLC for a \$250,000 loan for the Murillo Apartments. Final loan documents will return to Council for approval.

FISCAL IMPACT:

Amount: \$250,000 of Community Development Block Grant Funds.

Funding Source: FY2010-11 Operating Budget, Community Development Block Grant CDBG2010-017 SP020, CDD049900, CDBG2010-017.

ADDITIONAL INFORMATION:

By Roll Call 10-528 on April 12, 2010 the Des Moines City Council provided staff the authority to negotiate with Gary Porth and Nate Snelson of Waukee, IA for a \$250,000 loan for rehabilitation and site improvements on the Murillo building. Several exceptions were granted to the City’s general policies for rehabilitation loans to make the project feasible but the project was unable to succeed because of financing and the cash flow over fifteen years. Staff has continued to meet with developers and real estate agents regarding the project but each developer had issues that could not be overcome.

Ryan Galloway, 1312 Locust Street, Des Moines, IA 50309 has made an offer of \$175,000 for the building which has been accepted. It is estimated the project needs approximately \$300,000 of rehabilitation and site improvements. For the project to be successful, the purchaser has requested the infusion of the City’s funding for rehabilitation and site improvements.

Mr. Galloway has worked as a co-developer with Hatch Development on MLK Brickstones at 1039 19th Street and on rehabilitation projects in Cedar Rapids. Mr. Galloway is continuing his association with Hatch Development but will develop this project independently. Mr. Galloway is not taking a developer

fee and will manage the building himself in order to save operating costs.

Mr. Galloway is working with Bankers Trust to borrow funds for the mortgage at a 7% interest rate. He will provide equity of \$83,000 from his personal funds. There will also be ten-year tax abatement for the full project if it has a certificate of occupancy issued by the end of this year. A partial ten-year abatement was approved by City Council in January of 2009. The building is assessed as a multi-family residential property and will not utilize a condominium regime for tax purposes.

The City of Des Moines has funding to provide a rehabilitation loan of \$250,000. As a condition of the funding, four of the units will be rented to low income households with a restricted rent for five years. The rent will be approximately \$650 monthly with annual increases determined by HUD. Two units will rent at a market rate of approximately \$875 with an estimated 3% increase annually. This is in conformance with federal regulations.

To accommodate the five years of affordability, the City will forgive \$40,000 of the funding over a five year period. The \$40,000 is the difference in rent between the market rate and the assisted units over four years, Mr. Galloway will make up the fifth year on his own. The additional \$210,000 will be paid back in full at a 0% interest rate over a 20 year amortization period. The first payment will be due by June 30, 2012 and will be made annually on that date until 2032.

The project will exceed the City's standard of providing a maximum financing of \$24,999 per unit. Staff is in favor of this exception because of the exterior work that needs to be completed and the higher costs of the metal decking over wooden decking and historic requirements on the re-pointing of the building. The "recipe" for the new mortar must be consistent with the brick and existing mortar and no power tools are to be used in grinding out the old mortar.

The State Historic Tax Credits that were already issued are being reclaimed by the state because of the change in ownership. The owner is required to be a partner within the project for at least five years. Mr. Galloway is investigating the availability of additional historic tax credits and Enterprise Zone credits.

PREVIOUS COUNCIL ACTION(S):

Date: April 12, 2010

Roll Call Number: 10-528

Action: [Authorizing](#) negotiations with Gary Porth and Nate Snelson for up to \$250,000 of CDBG loan for rehabilitation of Murillo Apartments at 605 16th Street (1531 High Street), subject to final Council approval. ([Council Communication No. 10-189](#)) Moved by Coleman to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Plan and Zoning Commission

Date: December 16, 2010

Resolution Number: Site Plan Case # 10-08-7.75

Action: Approve amendment to back decks

Board: Neighborhood Revitalization Board

Date: November 23, 2009

Action: Recommend approval of loan for developer of Murillo Apartments subject to underwriting

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

City Council to approve loan documents and final terms

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