

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	June 27, 2011
	Agenda Item No.	30
	Roll Call No.	<u>11-1114</u>
	Communication No.	<u>11-404</u>
	Submitted by:	Phillip Delafield, Community Development Director

AGENDA HEADING:

Approve final terms and documents relating to \$250,000 of Community Development Block Grant (CDBG) funds for Completion of Rehabilitation and Site Improvements at the Murillo Apartments at 611 16th Street

SYNOPSIS:

By Roll Call 11-0689 at its April 25th meeting, City Council approved \$250,000 of CDBG funds for rehabilitation and completion of site improvements for the Murillo Apartment Building located at 611 16th Street. The developer is Ryan Galloway of Murillo Flats, LLC, 1312 Locust Street, Des Moines, IA 50309. At its April meeting, the City Council also directed questions to the City Manager regarding the project’s timeline, back decks/porches, contact and meetings with neighbors and the proposed financing. Final loan documents and terms were to return to City 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:

Ryan Galloway, 1312 Locust Street, Des Moines, IA 50309 has purchased the building Murillo Apartment Building at 611 16th for a cost of \$175,000 under the corporation of Murillo Flats, LLC,

The cost for rehabilitation and site improvements, including contingency, is \$365,000. The proposed improvements will satisfy the conditions of the Plan and Zoning Commission as a part of the Multi-Family design guidelines and the Permit and Development Center. Mr. Galloway and his contractor will meet with the Permit and Development Center and Neighborhood Conservation Inspector to insure that all improvements are being met prior to being issued an order to proceed.

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. He will have \$100,000 in owner equity in the building.

Mr. Galloway is working with Bankers Trust to borrow funds for a mortgage and construction financing at a 6% interest rate for five years. Bankers Trust will require the loan to be refinanced at the end of five years. This is a typical requirement in today's lending environment. (Bankers Trust is also the lending institution working with the City on the Highland Park, Aqualand Project so the bank is aware of City requirements). The CDBG and Bankers Trust construction loan will close simultaneously. The Enterprise Zone Credits funds will come in at the end of the rehabilitation.

SOURCES OF FUNDS		USES OF FUNDS	
First Mortgage	\$175,000	Acquisition	\$175,000
City CDBG Mortgage	\$210,000	Rehab/Site Improvements.	\$365,000
City CDBG Lien	\$40,000	Professional Services	\$1,800
Owner's Equity	\$100,275	Financing	\$14,500
Enterprise Zone Equity	\$38,025	Soft Costs	\$0
		Reserves	\$7,000
		Developer Fee	\$0
TOTAL	\$563,300	TOTAL	\$563,300

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.

As a condition of the City's CDBG loan, 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 does exceed the City's standard of providing a maximum financing of \$24,999 per unit. Staff recommended exceeding the standard because of the exterior re-pointing 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 and the developer and contractor have fully explored the mortar type and color.

The State Historic Tax Credits that were already issued are being reclaimed by the state because of the change in ownership. For the State Historic Tax Credits, the owner must maintain ownership for five years. Mr. Galloway will proceed with Enterprise Tax credits and sales tax rebates because of the building's location in the High Street North Enterprise Zone.

On May 4, 2011 Ryan Galloway mailed a letter to 18 property owners surrounding the project advising them of a meeting to discuss the project on May 10th. He also visited each of the 18 addresses and spoke with whoever was available to invite them to the meeting. Mr. Galloway reports that he has received support in general from the neighbors on the deck design and project scope. He has met directly with Steven Jacobs of 1717 High Street, Dr. Steven Burds Dentist and part-owner of 1540 High Street and Alan Zuckert owner of 1501, 1515, and 1535 Ingersoll Avenue and Kathie Lyman, Executive Director of the Polk County Medical Society at 1520 High Street who are each in support of his project.

A submittal is being prepared for the State Historic Preservation Office for a 106 review. Because of the level of detail provided to the SHPO no difficulty is anticipated for approval but final documents cannot be signed until SHPO approval is received. The back porches will be built per the approval by Plan and Zoning. The aluminum railings will be very similar to the style on the Brickstone Apartments at 1039 19th Street with a deck/porch floor made of a composite wood.



PREVIOUS COUNCIL ACTION(S):

Date: April 25, 2011

Roll Call Number: 11-0689

Action: [Preliminary](#) commitment of Community Development Block Grant (CDBG) Loan Funds for completion of rehabilitation and site improvements at 605 16th Street (Murillo Apartments, 1531 High), \$250,000. ([Council Communication No. 11-235](#)) **Moved by Hensley to adopt; refer to the City Manager to answer questions regarding timeline, decks, contact with neighbors and financing. Motion Carried 7-0.**

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): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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