

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	July 11, 2011
	Agenda Item No.	29
	Roll Call No.	<u>11-1207</u>
	Communication No.	<u>Council Communication: 11-456</u>
	Submitted by:	Terrance N. Vorbrich, Acting Economic Development Administrator

AGENDA HEADING:

Resolution Approving Revised Preliminary Terms of an Urban Renewal Development Agreement with N.D. 22 Fleming, L.L.C.

SYNOPSIS:

On June 14, 2010 by Roll Call 10-923, City Council approved Preliminary Terms of Agreement with N.D. 22 Fleming, L.L.C. (Jake Christensen, Managing Member, 616 10th Street Des Moines, Iowa 50309) to assist with meeting a financing gap to convert nine of the eleven floors of the historic Fleming Building (604 Walnut Street) from office use into 111 market rate apartment units. The first floor will be commercial/retail use and the second floor will be commercial office space, with an existing tenant remaining.

The original approved preliminary terms of agreement contained provisions for ten year 100% tax abatement on the proposed residential units, and an economic development grant funded in ten annual installments of \$160,000 from tax increment revenues generated in the Metro Center Urban Renewal Area. The project was anticipated to begin in 2010, but was delayed due to difficulties in arranging bridge financing on the project's historical tax credits. The Developer now has all financing committed and is ready to move the project forward. Due to reduced commercial valuations in the Metro Center Urban Renewal Area, and the December 2010 sunset of the ten year 100% residential tax abatement in downtown Des Moines; the Office of Economic Development negotiated a revised financial assistance package with the Developer.

The revised preliminary terms of agreement provides the following financial assistance:

- The project will be eligible for five year, 100% property tax abatement on the residential component of the project;
- The project's commercial component will not be eligible for commercial property tax abatement;
- Three Economic Development Grants:
 - Grant One is proposed to be paid in five annual installments of \$160,000 in years 1-5 following completion of the project and funded from the economic development enterprise account;
 - Grant Two is proposed to be paid in five annual installments in years 6-10 following completion of the project in an amount equal to the new tax increment revenues generated on the residential component of the project to the Metro Center Urban Renewal Tax Increment District; and

- Grant Three is proposed to be paid in five annual installments of \$160,000 in years 11-15 following completion of the project and funded from the new tax increment revenues generated by the project to the Metro Center Urban Renewal Tax Increment District.

In the event Council adopts a downtown 10-year residential abatement program for rehabilitation of existing structures applicable to projects completed after the adoption of the program, the Grant Two payments would be eliminated and the five-year 100% tax abatement would be changed to 10-year 100%. Language to this effect will be incorporated into the final terms of agreement.

FISCAL IMPACT:

Amount: 1,275,000 Estimated Net Present Value of the three Economic Development Grants

Funding Source: Five grant installments of \$160,000 per year funded from the Economic Development Enterprise Fund, SP746, CMO0980716, 2011-2012 Operating Budget Page 87, to be paid in years 1-5 following completion of the project; Metro Center Urban Renewal Area tax increment revenues generated by the project to fund: Five grant installments equal to the new tax increment revenues paid on the residential component of the project in years 6-10 following completion of the project, and five grant installments of \$160,000 per year to be paid in years 11-15 following completion of the project.

ADDITIONAL INFORMATION:

The Fleming Building constructed in 1907 was designed by architect Daniel Burnham, who also designed the Flatiron Building in Manhattan's Madison Square and Union Station in Washington, D.C. The proposed project will provide new life and valuation to the substantially vacant 92,000 square foot building. The building's peak value was in 1995, when it was assessed at \$2.5 million. Its current assessed value is \$345,000. The project will produce additional market rate housing, add population to the downtown area and contribute to continued revitalization efforts in the City of Des Moines.

Floors 3-11 will be converted from office space into market rate housing units eliminating vacant office space from the downtown inventory. The first floor will be commercial/retail use and the second floor will be commercial office space, with an existing tenant remaining. The Fleming Building requires extensive renovation including asbestos abatement, \$1.6 million in new windows, new heating and cooling system replacement, and construction of a new 11 story internal stairwell.

The project was originally presented to Council as a \$14.7 million project with a financing gap of \$1.1 million. The updated construction cost for 2011 is \$18.4 million, which reflects the difficult and costly nature of converting an historic building into market rate housing. The Developer is not requesting additional City assistance. The increased costs are being financed through proportional increases in awarded State and Federal Historic Tax Credits (\$7 million), State of Iowa Enterprise Zone benefits (\$1 million+), conventional primary and bridge financing, and developer equity (\$3 million).

Jake Christensen, Managing Member of the Developer, has conducted previous adaptive building reuse projects in downtown Des Moines, including the Liberty Building and the Hawkeye Transfer Lofts, as well as new construction of E-300 apartments.

PREVIOUS COUNCIL ACTION(S):

Date: May 9, 2011

Roll Call Number: 11-0795

Action: [Application](#) from ND22 Fleming LLC for Enterprise Zone Benefits on construction of 110 residential units at 604 Walnut Street in the Gateway Enterprise Zone. ([Council Communication No. 11-290](#)) **Moved by Hensley to adopt. Motion Carried 7-0.**

Date: June 14, 2010

Roll Call Number: 10-923

Action: [Preliminary](#) terms of agreement with ND 22 Fleming, LLC for residential redevelopment of Fleming Building at 604 Walnut Street and directing City Manager to proceed with negotiations of formal agreements. ([Council Communication No. 10-327](#)) **Moved by Hensley to receive, file and approve preliminary terms of agreement set forth in the accompanying Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with ND 22 Fleming, LLC consistent with the terms set forth in the accompanying Council Communication. Motion Carried 7-0.**

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: June 7, 2011

Resolution Number: N/A

Action: Recommend approval of the proposed design, with the condition that a third window option be presented to the National Park Service, and that any changes recommended by the National Park Service on fresh air intake be presented to the UDRB for review. Motion by Garner. Seconded by Clark. Motion carried.

Board: Urban Design Review Board

Date: May 17, 2011

Resolution Number: N/A

Action: Motion to approve the financial assistance request for the Fleming Building project by Clark. Seconded by Allen. Motion carried.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

City Council approval of a final Urban Renewal Development Agreement.

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