

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	July 25, 2011
	<b>Agenda Item No.</b>	<b>28</b>
	<b>Roll Call No.</b>	<b><u>11-1294</u></b>
	<b>Communication No.</b>	<b><u>11-505</u></b>
	<b>Submitted by:</b>	<b>Terrance N. Vorbrich, Acting Economic Development Administrator</b>

**AGENDA HEADING:**

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

**SYNOPSIS:**

On July 11, 2011 by Roll Call 11-1207, City Council approved Revised Preliminary Terms of Agreement with N.D. 22 Fleming, L.L.C. (Jake Christensen, Co-Manager, 321 East Walnut Suite 2 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 Office of Economic Development has negotiated final terms of agreement with N.D. 22, Fleming L.L.C. for financial assistance through three scheduled economic development grants totaling an estimated NPV of \$1,275,000, provided by tax increment generated by the project improvements.

**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, SP 746, CMO0980716, 2011-2012 Operating Budget page 87, to be paid in years 1-5 following completion of the project; Project generated tax increment from the Metro Center Urban Renewal Area 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:**

On June 14, 2010 by Roll Call 10-923, City Council approved Preliminary Terms of Agreement with N.D. 22 Fleming, L.L.C. 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. 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 assistance will be disbursed in three Economic Development Grants:

- ED Grant One will 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;
- ED 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.

Because the preliminary terms were established over a year ago, and before the impact of the economic downturn on tax increment valuations were known, it is necessary for the City to utilize non-project generated tax increment taxes to support this project. This type of financing for future projects will not be available until valuations return to previous levels. 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 has been incorporated into the final terms of agreement.

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 requested no 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).

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. The Fleming Building adaptive reuse project will add quality market rate housing and taxable valuation, contributing to the continued revitalization of downtown Des Moines,

#### **PREVIOUS COUNCIL ACTION(S):**

Date: July 11, 2011

Roll Call Number: 11-1207

Action: [Preliminary](#) Terms of Urban Renewal Development Agreement with ND Fleming, LLC for residential redevelopment of Fleming Building, 604 Walnut Street. ([Council Communication No. 11-456](#)) **Moved by Meyer to receive, file and approve preliminary terms of agreement set forth in Council Communication No. 11-456 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 Council Communication No. 11-456. 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 to 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: NONE**

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