

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	September 26, 2011
	Agenda Item No. Roll Call No. Communication No. Submitted by:	26 <u>11-1636</u> <u>11-624</u> Terrance N. Vorbrich, Acting Economic Development Administrator

AGENDA HEADING:

Approval of Preliminary Terms of Agreement with West End Lofts, LLC, Steve Niebuhr, Sr. VP, Representative, Hubbell Realty, for redevelopment of 1440 Locust Street.

SYNOPSIS:

West End Lofts, LLC is proposing a \$6.8 million renovation to 1440 Locust Street (formerly occupied by Mitchell Transmission) converting the 2nd & 3rd floors of the building into 37 market rate loft apartments with commercial/retail space on the ground floor facing Locust Street. The proposed project would add additional market rent housing to the downtown mix of residential housing. The project has requested City assistance in the form of 10-year, 100% tax abatement or its equivalent, and an economic development grant with a present value of \$400,000. City staff and the Developer have reached agreement on a proposed economic development assistance package outlined below and recommended Council’s preliminary approval, subject to negotiation of a final Urban Renewal Development Agreement.

FISCAL IMPACT:

Amount: \$1,020,000 estimate

Funding Source: \$620,000 estimated value of 10-year, 100% abatement on the value added improvements; \$400,000 estimated present value of supplementary economic development grant to be funded from tax increment revenues of the Metro Center Urban Renewal Area tax increment financing district.

ADDITIONAL INFORMATION:

West End Lofts, LLC is proposing a \$6.8 million renovation to 1440 Locust Street (formerly occupied by Mitchell Transmission) converting the 2nd & 3rd floors of the building into 37 market rate loft apartments with commercial/retail space on the ground floor facing Locust Street. The Developer has provided the following project uses and sources:

Use of Funds		Source of Funds	
Building Costs	\$2,235,670	Mortgage Financing	\$3,670,000
Improvements	\$3,350,000	Tax Credit	
Contingency	\$ 167,500	State & Federal Historical	\$1,625,500

Design & Soft Costs	\$ 225,000	Enterprise Zone Housing	\$ 443,725
Financing Costs	\$ 424,610	Developer Equity	\$ 671,029
Leasing Exp.	\$ 67,474	City Assistance	\$ 400,000
Developer Fees	\$ 340,000		
Total Costs	\$ 6,810,254	Total Sources	\$ 6,810,254

Presently, City ordinance provides a five-year, 100% tax abatement schedule on residential property. Staff is recommending an economic development grant paid in five annual installments equal to the new ad-valorem tax paid on the West End Lofts project’s new value-added improvements after completion of the existing five-year tax abatement schedule. The intent of the economic development grant is to provide the equivalent of five additional years of tax abatement on the project. If in the future City Council were to approve a 10-year, 100% abatement schedule for residential projects and the West End Lofts project qualified for abatement under that new schedule, City staff proposes that the project use the new 10-year abatement schedule rather than the proposed economic development grant paid in five annual installments.

Further, staff is recommending a supplemental economic development grant with a present value of approximately \$400,000 to assist the project. The economic development grant will be paid in 12 annual installments as follows: beginning in the City’s Fiscal Year 2015, nine annual installments of \$57,500, then beginning in Fiscal Year 2023, three annual installments of \$75,000.

The proposed City assistance is conditioned on the Developer complying with the following stipulations: the Developer renovate 1440 Locust into at least 37 market rate residential apartments with street level retail; that the residential apartments will be taxed as commercial property; and if the State of Iowa Legislature should in the future change the real property tax code resulting in a reduction of commercial property taxes collected by the City from the West End Lofts project, the annual supplemental economic development grant installments will reflect a dollar for dollar reduction in the amount to be paid by the City to the Developer.

West End Lofts has submitted an application to the State of Iowa under the Brownfield/Grayfield Redevelopment Tax Credit. The Brownfield/Grayfield tax credits are not included in the project's uses and sources previously submitted to City staff. If the tax credit application is approved it will have a positive impact on the project and would eliminate the need for the supplemental economic development grant. Staff's recommendation includes withdrawal of the supplemental economic development grant if the full amount of the requested Brownfield/Grayfield tax credits (\$500,000) is approved by the State of Iowa. If only a portion of the requested Brownfield/Grayfield tax credits are approved, City staff will work with the Developer to determine what, if any, portion of the supplemental economic development grant is necessary for the project to be constructed as presented.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Approval of Urban Renewal Development Agreement.

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