

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	June 25, 2012
	<b>Agenda Item No.</b>	<b>63</b>
	<b>Roll Call No.</b>	<b><u>12-1055</u></b>
	<b>Communication No.</b>	<b><u>12-356</u></b>
	<b>Submitted by:</b>	<b>Richard A. Clark, City Manager</b>

**AGENDA HEADING:**

Resolution to select redeveloper for Central Fire Station property located at 900 Mulberry Street.

**SYNOPSIS:**

The Central Fire Station property at 900 Mulberry Street will be vacated in early 2013 when the Fire Department moves operations to its new headquarters. This property will no longer be used by the City which is now offering it for sale.

Two letters of intent to purchase the property have been received.

<i>Name</i>	<i>Address</i>	<i>Principal(s)</i>
Des Moines Social Club (DMSC)	400 Walnut St. / DM	Zachary Mannheimer, Executive Director with Jake Christensen as “Appointed Developer”
West End Architectural Salvage, LLC (West End)	22 SW9th St. / DM	Don T. Short, President

Staff recommends Des Moines Social Club (DMSC) be selected as preferred redeveloper and authorize staff to prepare the sales agreement with covenants that will preserve and improve the buildings. It is anticipated the Council will set the date of public hearing and hold the public hearing on the proposed contract in late summer 2012. The contract will set specific conditions that must be met, such as evidence of financing and approved building plans, before the conveyance of the property which is anticipated to be in early 2013.

Staff also recommends authorizing the City Manager, after review of the proposed historic tax credit application, to execute a letter on behalf of the selected redeveloper indicating the City, as the owner of the property, is permitting the redeveloper to submit an application for the City-owned property to the State of Iowa for historical tax credits. The applications are due by no later than July 13, 2012.

**FISCAL IMPACT:**

Amount: \$600,000 as revenue to the City if the Des Moines Social Club proposal is selected; funds would be available to the City at the time of conveyance which is estimated to be early 2013. In addition, it is anticipated that a portion of the building will be subject to property taxes estimated to be in the \$30,000 range annually and DMSC proposes an annual PILOT (Payment in Lieu of Taxes) of \$10,000 for its non-profit space.

Funding Source: Sales proceeds will be applied to the costs of constructing the new Central Fire Station.

### **ADDITIONAL INFORMATION:**

The 39,700 sq. ft. property is located at the SW corner of Mulberry and 9<sup>th</sup> Streets. The two on-site buildings date from 1937. The larger two story structure (about 25,000 sq. ft.) fronts Mulberry Street and houses fire vehicles, equipment and offices. The smaller structure (about 5,200 sq. ft.) which faces Cherry Street, serves as the vehicle and equipment maintenance shop.

Each proposal for the proposed redevelopment was evaluated by City staff. Key components include proposed purchase price, historic preservation of the buildings, proposed uses, financing for improvements and the schedule for completion. Each entity also responded to how the public would benefit if their proposal was selected.

Attached at the end of this Council Communication is a general summary showing the responses to these items.

Based on the responses, staff recommends selection of the Des Moines Social Club as the preferred redeveloper for the property.



### **Background**

In November 2011, the City received a letter from the Des Moines Social Club (DMSC) indicating its interest in purchase or lease of the property for its operations and activities. The City Manager was directed to work with DMSC on the potential development of the property as well as determining a process to offer the property to other potentially interested parties as required by state law.

Staff then developed several key concepts as proposed requirements for anyone buying or leasing the property. These concepts included retention of the main fire station, nomination of the building to the National Register of Historic Places and/or to the Local Historic Landmark listing and long-term covenants requiring City Council approval of any changes in uses and City profit participation in sale of any portion of the property.

In January 2012, a request for letters of interest in redeveloping the property was posted on the City website. Staff also notified a number of developers which had previously done historical renovations of the website. Letters of interest in redeveloping the property were received from two parties: Des Moines Social Club (DMSC) and West End Architectural Salvage (West End). Staff met with both parties to review general plans for reuse of the property. In the meantime, Fire Department and Office of Economic Development staff took several interested parties through the building. After the tours, none expressed further interest, citing the extensive costs to make the building viable for office and commercial uses.

In late May, letters were sent to DMSC and West End, the entities still expressing interest in the property, stating the City would receive general offers of intent to purchase the property. Written

proposals from DMSC and West End were received on June 14<sup>th</sup> indicating their desire to purchase and redevelop the fire station property.

### **Key Redevelopment Requirements**

With the incorporation of the key redevelopment requirements as covenants in the sales contract agreement, the City will retain control of important elements such as uses and profit participation in any sale for 10 years while accomplishing the goal of improving this iconic building in a financially responsible manner.

These key redevelopment requirements can be summarized as:

- Developer must agree to preserve the exteriors of the two buildings and to nominate the property to the National register of Historic Places and or to the City of Des Moines Local Landmarks listing.
- Any change in use and/or ownership –for a period of 10 years from the date of conveyance – must be approved by the City Council.
- Sale of any portion of the property is subject to a 50/50 split of the profit for a period of up to ten years from the date of conveyance. Additional details regarding how “profit” is to be defined, etc. are outlined in the attached summary.
- Before property is conveyed, developer must provide the following:
  - A viable business plan demonstrating its capacity for the long-term operation and maintenance of the property in accordance with the contract for sale. As part of this requirement, the entity that will own the building as well as its Board of Directors must be identified with an annual update of this information for a period of ten years to be submitted to the City.
  - Evidence of financing with the developer having equity and capital for the purchase price and 50% of the estimated improvement costs in-hand.
  - Building and site design plans that have been reviewed and recommended for approval by the Urban Design Review Board.
- Sales price of \$600,000 to be paid at time of conveyance.
  - If the DMSC proposal is selected, provision of an annual Payment in Lieu of Taxes .

These proposed requirements provide reasonable protections for the City while allowing for the long-term retention and improvement of this iconic property.

### **Lease vs. Purchase**

Staff evaluated the issue of lease versus sale of this property and its impact on the City. Presently there are no identified uses by the City for these facilities. Additionally, the buildings are at the point in their life cycles where significant financial investment to make necessary improvements are required to allow continued occupancy.

There are shortcomings to undertaking a lease situation for this property. With a lease, the City becomes the landlord and retains some liability exposure which represents an undesirable financial risk. And, if the property reverts back to the City through a lease default, the City is then responsible for property management activities which could be significant because both development proposals

have a number of different uses and users with separate rental/lease agreements. In addition, there could also be substantial financial responsibilities for maintenance and repairs which could lead to the decision to demolish the property which is not desirable.

Finally, one very important, non-financial consideration: the main fire building is an important iconic building and preservation of the building is very important. It is strongly believed that sale of the property with the requirement redevelopment covenants will better accomplish the goal of keeping the building and allowing for needed repairs and improvements to be made.

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

Date: November 21, 2011

Roll Call Number: [11-1987](#)

Action: Letter of Interest from Des Moines Social Club, to lease or purchase fire station property at 900 Mulberry Street. Moved by Hensley to receive and file and refer to the City Manager to explore the potential sale or lease of the property and direct the City Manager to work with the Des Moines Social Club on potential development of the property. Motion Carried 7-0.

### **BOARD/COMMISSION ACTION(S): NONE**

### **ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Review and recommendation on building and site design plans by the Urban Design Review Board before conveyance.

As part of the selection of a redeveloper, Council will direct staff to develop a contract for the sale of the property. It is anticipated the proposed contract would be before the Council to set the date of public hearing on the proposed contract by late summer 2012. The public hearing will then be held and at its conclusion, Council may then authorize execution of the contract which will detail the conditions the buyer must meet, including evidence of financing and detailed building plans before the property is conveyed. The City anticipates conveying the property, in "as-is" condition, by spring 2013 once the fire department operations have completed their move to the new central fire station that is currently under construction.

It is anticipated the new owner will be required to obtain Board of Adjustment approval for the change in use of the building and a conditional use approval for liquor sales. Rezoning may also be required because of the site's current split zoning" C-3 on its north half and C3A on the south portion.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to [cityclerk@dmgov.org](mailto:cityclerk@dmgov.org)

**Summary Review of Proposals to Purchase 900 Mulberry St. property**

<i>Item</i>	<i>Des Moines Social Club</i>	<i>West End Architectural Salvage</i>	<i>Staff Comment</i>
Purchase price of at least \$600,000.	\$600,000 offered.	\$300,000 offered	The City's in-house estimate of fair market value is in the range of \$600 -\$650,000 with the proposed development requirements. DMSC is offering the larger amount of the two proposals.
Agree to the following concepts that will be drafted as agreements/covenants:  --Preserve the exterior of main fire station structure	Yes. Plans show extensive renovations on the main and maintenance buildings.	Yes. Plans to make code-compliance improvements for the main and maintenance buildings.	Both proposals will retain the two buildings that are now on-site. DMSC proposes an overall program for the rehab of the building. West End is making a less intensive set of improvements.
--Nominate property to the National Register of Historical Place and/or Local Landmark designation.	Yes to National Register. Probable use of federal historic tax credits so renovations will require SHPO approval and signoff.	Yes to National Register. Minimal changes are proposed.	DMSC shows about \$1.6M in costs for their proposed rehab and renovation; this amount does not include individual tenant improvements. West End did not provide any estimate of costs.
-- City participation in sales proceeds for a period of ten years from conveyance with City to receive 50% of all proceeds from any future sale that exceeds the original purchase price paid to the City with City's share capped at an amount that represents \$1.2 million minus the purchase price. If developer sells any portion of the property, part of the original purchase price will be proportionally allocated to determine City's share of the proceeds.	Yes to the 50% participation and 10 year period. DMSC wants to work with City to define this concept more clearly.	Yes to the 50% participation but a 3 year period for this provision.	DMSC has agreed to a longer term (10 years) for the covenants to remain in effect and will undertake a greater level of improvements to the property.

<i>Item</i>	<i>Des Moines Social Club</i>	<i>West End Architectural Salvage</i>	<i>Staff Comment</i>
<p>Description of what the property will be used for. Specificity on those activities (i.e. identified occupants and tenants) and locations of the proposed activities is helpful.</p>	<p>DMSC provided a graphic layout showing locations of proposed uses: retail/restaurant (including a 6,500 sq. ft. restaurant by Orchestrate Management) on the first floor of the main fire house, classrooms, gallery space, meeting rooms on the 2<sup>nd</sup> floor and theater, bar and theater-related uses in the maintenance building fronting Cherry St. and a structure connecting the maintenance building to the main building.</p>	<p>West End indicated retail (expansion of their existing store) and an event venue on the first floor of the main building, office space for West End and other businesses, and a furniture shop in the maintenance building. The outdoor space is for display of stone and landscaping work, employee parking and additional outdoor event space.</p>	<p>Both proposals require Board of Adjustment approval for the change in use which would include bar operations.</p>
<p>Buyer to show how purchase price and estimated costs of the improvements will be financed. Because the City wants assurance buyer has financial capacity to undertake the renovations and be able to continue as viable user(s), the buyer must provide:</p>	<p>Purchase Price: \$600,000  Est. Improvement Cost: \$1,600,000 based on Beal Derkenne Construction Co. "Conceptual Estimate" of costs. Individual tenant improvements are not included in this cost estimate.</p>	<p>Purchase Price: \$300,000  Est. Improvement Cost: None provided</p>	
<p>- A schedule detailing when it will meet benchmarks on financing and fundraising (loans, pledges and in-hand cash) before the property will be conveyed. At a minimum, the buyer must have equity capital and financing for the purchase price and at least 50% of estimated costs of improvements available as cash or other assets in-hand, loans and firm pledges payable before conveyance will occur.</p>	<p>The Fundraising Committee (Cara Heiden, Fred Hubbell and Connie Wimer) indicate \$635,000 in pledges have been made to-date. They plan to have \$1M by Oct. 1, 2012; \$2M by Jan. 2013 and \$3M by March 2013.  Community Bank provided a letter of interest in providing financing for the project.  Three commercial tenants have indicated significant interest in the first floor space for about 8,900 sq. ft. of the available 10,100 sq. ft.</p>	<p>West End indicated it can provide a letter from bank regarding financing. No information provided estimated costs of improvements.</p>	<p>Based on the schedule and costs estimates provided, DMSC would meet the proposed requirements for evidence of financing required before conveyance of the property by January 2013.</p>

<i>Item</i>	<i>Des Moines Social Club</i>	<i>West End Architectural Salvage</i>	<i>Staff Comment</i>
<p>- A pro-forma showing the revenue sources, costs and how the proposed uses will perform financially for first 5 years</p>	<p>The 5 year pro-forma projects revenues and expenses with a \$35,000/surplus each year. Revenues are primarily from membership, space leases, and various grants. Major projected expenses are personnel, building and programming.</p>	<p>None provided.</p>	
<p>A general timeline for the project including start and completion of construction on the site.</p>	<p>DMSC shows a 10 month construction period.</p>	<p>West End will move in as soon as code-required improvements are completed and a Certificate of Occupancy is issued.</p>	<p>West End is likely to have the property open for use more quickly than DMSC because of the extent of the proposed DMSC improvements will take longer to complete.</p>
<p>Any other conditions of sale?</p>	<p>Would like Council to select their proposal at the June 25<sup>th</sup> meeting and support their application for the 2013 allocation of State of Iowa historical tax credits to renovate the buildings; applications are due by July 13, 2012.</p>	<p>None stated</p>	
<p>What the public gains if the property is sold to the developer?</p>	<p>Proposed firefighters display to reflect building's heritage</p> <p>Working for LEED certification so building is energy efficient and its physical operations are sustainable on an environmental minimum impact basis.</p> <p>Building will function as an arts incubator providing wide range of arts, cultural and educational events, a gathering space for arts and culture organizations and audiences in an iconic building.</p>	<p>Proposed firefighters display to reflect building's heritage</p> <p>Expansion of employment opportunities related to furniture made on premises as well as creation of new event space, and expansion of a known retail destination location while retaining an iconic building.</p>	<p>Both proposals will retain and improve a local iconic building and create new events spaces.</p> <p>DMSC has an extremely wide spectrum of activities and groups involved in its current operations and it is anticipated this will continue. The addition of several for-profit businesses, including a restaurant to be run by Orchestrate Management, is a very desirable component to attracting people to this downtown area.</p>

<i>Item</i>	<i>Des Moines Social Club</i>	<i>West End Architectural Salvage</i>	<i>Staff Comment</i>
<p><i>Cont'd.</i>            What the public gains if the property is sold to the developer</p>	<p>The Social Club started several years in a rented space and has since relocated to another rental space while continuing to grow and generating a very inviting environment for creative artists and activities that appeal to a wide range of people.</p> <p>Property Taxes:            - Proposal shows commercial tenants occupying about 12,000 sq. ft. of the first floor space of the main building; DMSC estimates about \$86,000 in annual property tax revenue from that space.            - A large portion of the property will be used by federally- certified non-profit entities and not subject to property taxes. DMSC indicated its willingness to make an annual \$10,000 payment to City in lieu of property taxes.</p>	<p>West End has operated as a retail business for the past 10 years, expanding from a small rental space to its own 31,000 sq. ft. building which has become a tour bus destination and event venue</p> <p>Property Taxes: West End is for-profit and will pay property taxes.</p>	<p>West End has identified a retail niche that has proven to be very popular and expanded and enhanced its property by adding a coffee shop and other activities that have brought many people into this downtown area.</p> <p>Property taxes: Staff believes the DMSC property tax estimate is high and estimates an annual receipt of about \$20-30,000/year from the for-profit commercial space.</p>