

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	April 21, 2014
	Agenda Item No.	38
	Roll Call No.	<u>14-0628</u>
	Communication No.	<u>14-171</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Resolution to approve Urban Renewal Development Agreement with 505 East Grand, LLC for the redevelopment of 505 East Grand Avenue/Metro Center Urban Renewal Area.

SYNOPSIS:

The developer, 505 East Grand, LLC (Jake Christensen, 506 3rd Street, Des Moines, IA) has proposed redevelopment of the surface parking lot located at the SE corner of East 5th Street and East Grand Avenue for a new 18,000-square-foot building with commercial and retail uses. The developer has requested financial assistance to allow the building to achieve market rents of \$15-\$20/square foot given the project's cost to construct of approximately \$4 million. Financial assistance has been requested to bridge the gap and based on the new property taxes generated by the development.

FISCAL IMPACT:

Amount:

- A. Initial payment of \$369,600.
- B. Tax increment financing grant: Amount to be paid will decrease over the 11-year payment period and is based on the actual property taxes received after subtracting the protected debt levy and Self Supported Municipal Improvement District (SSMID). Schedule is provided in the table under Additional Information and the actual amount will be determined based upon the completed assessed value.

Funding Source:

- A. The initial payment of \$369,600 will be paid from the proceeds of the land sale.
- B. Metro Center Urban Renewal Area Tax Increment Financing District Revenues; an individual account for this project will be created.

ADDITIONAL INFORMATION:

Jake Christensen approached the City Council in November 2013 and requested the sale of the City-owned surface parking lot located on the SE corner of East 5th Street and East Grand Avenue for redevelopment as a 4-story mixed use project with commercial space on the first floor and apartments on second-fourth floors for a 36,000-square-foot building. The developer was asked to refine project design and finances and work with City staff on a formal proposal for the purchase of the property.

Since that time, a major change in the State of Iowa Enterprise Zone (EZ) program announced in January 2014, has effectively closed the program for new EZ housing credit applications. As a result,

the housing component of this development was eliminated, because even with revised design, reduction of developer fees and other “soft” costs, the developer was not able to make this project financially viable.

The developer is now proposing a 2-story all commercial building that will be about 18,000-square-feet in size. At 45 feet height, the overall appearance will be more of a 3-story building with a very tall first floor for retail uses, some with mezzanine spaces, and the 2nd floor will be for offices. Raygun, an East Village retailer, will be moving to the building’s first floor as will several new retail operations.

The developer is still not able to cash-flow the building in terms of having market rents of about \$15-\$20/square feet to cover the costs to construct (about \$4 million) and is requesting financial assistance.

- a. A grant for \$369,600 that “rebates” the land sales proceeds and is to be paid at the start of the project; and
- b. An annual grant for 11 years after the project is completed based on a decreasing percentage of the new property taxes generated after the debt and SSMID levies are subtracted.

<u>Year</u>	<u>Developer to Receive</u>	<u>City to Retain</u>
1-8	70%	30%
9-10	60%	40%
11	50%	50%

An initial estimate of the grant amounts shows the developer receiving about \$600,000 over the 11-year period and the City receiving a similar amount when the debt levy is considered.

This proposal allows for a portion of the property taxes to be received immediately by the City while permitting this development to proceed.

PREVIOUS COUNCIL ACTION(S):

Date: April 7, 2014

Roll Call Number: [14-0566](#)

Action: [On](#) proposed sale of City-owned property at 505 East Grand Avenue to 505 East Grand LLC, \$369,600. ([Council Communication No. 14-155](#)) Moved by Gatto to adopt. Motion Carried 7-0.

Date: March 24, 2014

Roll Call Number: [14-0480](#)

Action: [On](#) proposed sale of City-owned property at 505 East Grand Avenue to 505 East Grand LLC, \$369,600, (4-7-14). ([Council Communication No. 14-129](#)) Moved by Gatto to adopt; refer to the City Manager to coordinate a meeting with the stakeholders and Neighborhood Association prior to the hearing to discuss the project and the impact on parking. Motion Carried 7-0.

Date: November 18, 2013

Roll Call Number: [13-1850](#)

Action: [Authorizing](#) the City Manager to negotiate preliminary terms of developer initiated proposals for the purchase and redevelopment of two separate City-owned parcels for two projects in the East Village Area (East 4th Street and Grand Avenue) and initiating a parking study of the affected area. ([Council Communication No. 13-567](#)) Moved by Hensley to adopt. Motion Carried 6-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: March 25, 2014

Resolution Number: N/A

Action: Recommended approval of final design plans.

Board: Urban Design Review Board

Date: March 4, 2014

Resolution Number: N/A

Action: Recommended approval of proposed economic development assistance and approved preliminary design plans.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- The Plan and Zoning Commission will be reviewing the site plan, as required by the design guidelines provision in “C-3B” districts regulations, at its April 17, 2014 meeting.
- Additional approval from the Plan and Zoning Commission and the City Council will be required to vacate the air rights to allow the building overhang on East 5th Street.

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