

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	September 8, 2014
	<b>Agenda Item No.</b>	<b>46</b>
	<b>Roll Call No.</b>	<b><u>14-1413</u></b>
	<b>Communication No.</b>	<b><u>14-449</u></b>
	<b>Submitted by:</b>	<b>Matthew A. Anderson, Assistant City Manager</b>

**AGENDA HEADING:**

Resolution Approving Urban Renewal Development Agreement with 201, L.L.C. (formerly known as 201 East Locust , L.L.C.) for a \$49 million project constructing a 137 room hotel, 124 market rate residential units and a 317 space parking garage at 201 East Locust Street and approving proposed Conceptual Development Plan.

**SYNOPSIS:**

On February 10, 2014, by Roll Call No. 14-0241, City Council approved preliminary terms of an Urban Renewal Development Agreement with 201 East Locust, L.L.C. (Troy Hansen, Managing Member, 5665 Greendale Road Suite A, Johnston, Iowa 50131) for a \$45 million project to construct a 120 room hotel, 104 market rate residential units, and a minimum 236 space parking garage on the former Bud Mulcahy dealership site.

Since the February action, hard construction numbers have been received at an amount that was more than \$4 million over preliminary projections. The project cost has increased to \$49 million. To cover the additional costs, 201, L.L.C. will inject additional developer equity into the project and have also increased their bank financing commitment. The recommended \$5,000,000 (Net Present Value {NPV} \$3,546,845) in Tax Increment Financing (TIF) assistance to the project has not changed, and the majority of assistance will remain project generated as originally proposed, and be paid out over a 15 year term.

The preliminary project design included 7,600 square feet of commercial space, divided into two bays on the first floor, with the hotel lobby programmed between the bays. Proposed commercial tenants had included Enterprise Rent-A-Car and a coffee shop, anticipated to be a Starbucks. The preliminary hotel design also included a mezzanine space on the second floor that contained the hotel pool and fitness center.

The higher than anticipated construction costs, compounded with the inability to secure lease commitments for the two proposed commercial bays, prompted work on several scenarios to re-design the project. The conclusion was reached that without tenants, the construction of these spaces at a rate the market could support is financially infeasible. The design has now been revised to move the hotel pool and fitness center programming down to the first floor. These two uses, along with heavy landscaping, architectural design and streetscape elements now serve to activate the first floor to pedestrians. Through the re-design process, an additional 17 hotel rooms have been added to the project. Design refinement has also added 81 more structured parking spaces, and 20 more market rate housing units since the preliminary proposal.

**FISCAL IMPACT:**

Amount: Payment stream of \$5,000,000 has a net present value of \$3,546,845 over a 15 year term, or approximately 10% of the total project cost of \$49 million. (Payments in years 1-5 will not exceed \$400,000; payments in years 6-15 will not exceed \$300,000.) New tax increment generated by the project will be the primary funding source; however, the first five (5) years will require \$97,357 annually from the Metro Center TIF District. Over the remainder of the 15 year term, the project will generate more than 100% of the amount needed for the economic development grant, repaying the first five years of the City's payments from Metro Center.

Funding Source: Metro Center Urban Renewal Area tax increment, majority to be generated by the project. A new account code will be generated by the Finance Department.

**ADDITIONAL INFORMATION:**

201, L.L.C. has been working for seven years to develop a concept for the former Bud Mulcahy Jeep site in the East Village, and has worked with the Office of Economic Development to evaluate several proposals and means of financing the project. The current proposal has been positively received, adding new taxable valuation and desired urban density, while also providing a parking solution that will address the parking needs brought by the project without straining existing parking resources in the East Village.

With reduced valuation in the Metro Center TIF District, the impact of property tax rollbacks, and the need to prioritize available tax increment for capital projects where possible, it has been imperative to identify ways for economic development projects to be primarily self-supporting, generating enough new increment to meet developer requests for City TIF assistance. Creating new taxable valuation is also critical, and the proposal for 201 East Locust, L.L.C. is presented in effort to meet both of these goals for the City.

The proposal has been evaluated under a 20 year examination to determine the City's return on investment. It has been vital to be able to demonstrate that the project will be able to return the upfront investment provided for the first five years, when the Metro Center TIF District will provide a portion of the economic development grant payment. The evaluation has shown that the project itself will produce 76% of the TIF for the economic development grant in the first five years, and that the project will be able to repay the full amount of the Metro Center's early years contribution over a three year period after year 12, when the project is producing well over 100% of the amount requested.

In no event shall the actual amount of the annual installments in years 6 through 15 exceed the amount of the project generated tax increment. The tax levy and revenues generated by the Downtown Self-Supported Municipal Improvement District (SSMID) shall be excluded in the calculation of the project generated TIF. Those revenues have already been pledged to support the Downtown SSMID.

Developer sources for the project will include conventional financing through a new first mortgage, owner equity, and State of Iowa Enterprise Zone tax credits for the housing component of the project.

**PREVIOUS COUNCIL ACTION(S):**

Date: April 21, 2014

Roll Call Number: [14-0624](#)

Action: [Application](#) to the Des Moines Enterprise Zone Commission and the Iowa Economic Development Authority for Enterprise Zone Benefits for the 201 East Locust, LLC housing project in the Gateway Enterprise Zone. ([Council Communication No. 14-183](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: April 7, 2014

Roll Call Number: [14-0542](#)

Action: [On](#) vacation and conveyance of the remaining segment of east/west alley right-of-way adjoining 306 East 3<sup>rd</sup> Street to 201 East Locust, LLC, \$31,000, (4-21-14). Moved by Mahaffey to adopt. Motion Carried 7-0.

Date: February 10, 2014

Roll Call Number: [14-0241](#)

Action: [Preliminary](#) terms of agreement with 201 East Locust, LLC for a \$45 million project constructing a 120 room hotel, 104 market-rate residential units and a minimum of 236 space parking garage at 201 East Locust Street. ([Council Communication No. 14-057](#)) Moved by Voss to receive, File and approve the preliminary terms of agreement as set forth in council Communication No. 14-057, and to direct the City Manager to proceed with negotiation of formal agreement with 201 East Locust, LLC, consistent with the terms set forth in Council Communication No. 14-057. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S):**

Board: Plan and Zoning Commission

Date: September 4, 2014

Resolution Number: N/A

Action: Approval of the 201 East Locust Mixed-Use Site Plan subject to the following conditions:  
(1) Compliance with all administrative review comments by the Permit and Development Center;  
(2) Vacation of all necessary air and subsurface rights which would be necessary for awning and roof overhang encroachments, a for subsurface storm water features; (3) Provision of water quality detention methods for storm water management, with any features within the public right-of-way as approved by the City Engineer; (4) Installation of all street tree plantings per the requirements of the Municipal Arborist. (Yes = 11, No = 2)

Board: Urban Design Review Board

Date: August 19, 2014

Resolution Number: N/A

Action: Motion recommending against approval of the design due to the lack of retail space failed in a tie vote. (Yes = 3, No = 3, Abstain = 2, and Absent = 2)

Board: Urban Design Review Board

Date: May 6, 2014

Resolution Number: N/A

Action: Approve preliminary design as submitted. (Yes = 5, No = 0, Abstain = 1, and Absent = 3)  
Recommend approval of the financial package as presented by a consensus of the members present.  
(Yes = 4, No = 0, Abstain = 1, and Absent = 4)

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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