

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	November 17, 2014
	Agenda Item No.	25
	Roll Call No.	<u>14-1776</u>
	Communication No.	<u>14-545</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager; Philip Delafield, Community Development Director

AGENDA HEADING:

Resolution approving Preliminary Terms of an Urban Renewal Development Agreement with Wilkins Building, LLC and approving First Amendment to the Agreement for Community Development Block Grant Disaster Recovery (CDBG-DR) Funds for the Historic Redevelopment of the Wilkins Building (fka Younkers Building) at 713 Walnut.

SYNOPSIS:

On December 3, 2012, by Roll Call No. 12-1883, City Council approved an Urban Renewal Development Agreement with the Alexander Company (Joe Alexander, President, 145 East Badger Road, Suite 200, Madison, Wisconsin, 53713) for the historic renovation of the former Younkers Building at 713 Walnut. The proposed project was a \$36 million historic rehabilitation consisting of 120 affordable housing units and renovation of the former Younkers Tea Room space, as well as first floor and skywalk level retail space. Financing for the project included a City economic development grant of \$2.35 million in tax increment from the Metro Center Urban Renewal Area to be paid out over 10 years, and a \$3 million CDBG-DR award from the Iowa Economic Development Authority (IEDA), administered by the Community Development Department. City HOME (Home Opportunities Made Easy) funds, State and Federal Historic Tax Credits, Low Income Housing Tax Credits (LIHTC) at 4% from the Iowa Finance Authority (IFA) Enterprise Zone tax credits, and developer equity were also part of the financing structure.

On June 24, 2013, by Roll Call No. 13-1037, City Council approved the First Amendment to the Urban Renewal Development Agreement to provide an amended grant payment schedule from 10 years to 15 years, leaving the total amount of tax increment assistance unchanged at \$2.35 million. Demolition work began on the project in August 2013, with an estimated completion date of November 2014.

On March 29, 2014, a devastating fire at the Younkers site destroyed the east building and damaged the west (Wilkins) building. Since the fire, Alexander Company has worked diligently to structure a project that will salvage the Wilkins Building as a key landmark property in downtown Des Moines. The revised \$18.7 million project will provide a total of 60 housing units consisting of 29 market rate units and 31 workforce housing units for residents earning 80% of the area median income, a revision from the 120 affordable units previously planned. The project will include the renovation of the former Younkers Tea Room space and 14,000 square feet of commercial/retail space on the first floor.

Proposed City assistance through tax increment for the new project will be \$1,539,590, to be paid out over 10 years. The Tax Increment Financing (TIF) assistance will function to provide a backstop for

the lease-up of the Tea Room and the first floor commercial space. The CDBG-DR agreement is proposed to be amended with the IEDA to reflect the revised number of units and total project cost.

FISCAL IMPACT:

Amount: Economic Development Grant not to exceed \$1,539,590 payable in annual installments over 10 years; CDBR-DR \$3,000,000

Funding Source: Metro Center Urban Renewal Area TIF District Revenues; IEDA Community Development Block Grant Disaster Recovery Funds

ADDITIONAL INFORMATION:

Currently Proposed Project

Following the March 2014 fire and several months of cleanup and evaluation, Alexander Company determined that there was enough remaining historic fabric in the Wilkins Building (specifically the former Tea Room) to proceed with its redevelopment into 60 housing units, 29 market rate and 31 workforce units for residents earning 80% of the area median income for a period of 10 years. The Tea Room will undergo historic rehabilitation, and the first floor will include 14,000 square feet of commercial space. Alexander Company has also included \$200,000 in their calculations for the Walnut Street Streetscape project.

Changes to project financing sources include:

- Reduction of total TIF assistance from \$2,350,000 to \$1,539,590. This assistance will provide a backstop for the Tea Room and first floor commercial space, and will be reduced or eliminated with the successful leasing of the spaces.
- Internal Revenue Source (IRS) Safe Harbor Ruling in 2013 that established guidelines for making the state tax credit equity contribution untaxed at the federal level. This has made the State Historic Tax Credit pricing more consistent, and it is no longer considered a wild card, allowing the historic tax credit backstop to be eliminated.
- Elimination of LIHTC. In the previous structure, the Alexander Company determined that 4% LIHTC would be an appropriate vehicle in which to raise equity financing for the project. Because of the smaller project now proposed, this financing is no longer needed.
- The project will now be mixed-income per the CDBG-DR requirements. These requirements are that 51% of the units (31) be rented to households below 80% of median income for a period of 10 years after construction and filing of all necessary reports. Twenty-nine (29) units are market rate.
- The \$250,000 in City HOME funds committed to the project in 2012 will no longer be utilized.

IEDA has advised that the CDBG-DR money is still being held for the project. Staff awaits an amendment to CDBG-DR contract 08-DRH-209 from IEDA, recognizing that the project will now be 60 units rather than 120. The CDBG-DR loan agreement is structured as a non-receding lien for a period of ten years at which time it is forgiven in full if all the conditions of the funding are met per the requirements of CDBG-DR Contract 08-DRH-209. The conditions primarily deal with restricted rents and income on 51% of the units. The project will also have labor and environmental requirements during the construction including Davis Bacon wage payments.

The City will enter into an agreement with Alexander Company for use of the \$3,000,000 CDBG-DR funds following an updated Environmental Review Record and the re-doing of lead and asbestos tests for the project. Prior to the fire, a private firm alleged inadequacy of earlier lead and asbestos tests; City staff will verify if any sanctions will be brought against the company performing the original tests prior to finalizing the CDBG-DR agreement.

The project will include 22 underground parking spaces, with remaining parking being provided by adjacent parking structures. The east site will be actively marketed for redevelopment by Alexander Company. In the interim period before redevelopment, Alexander Company will be responsible for the maintenance, security, appearance and safety of the east site, under requirements of the City.

History

On October 25, 2010, by Roll Call No. 10-1782, City Council approved preliminary terms of a \$6.8 million tax increment finance assistance package for the Younkers project, to be paid annually over 10 years from tax increment revenues generated in the Metro Center Urban Renewal Area. This assistance was to support project costs associated with the first and second floor retail spaces until this space could be leased, at which point the assistance would be offset in part by the commercial rents collected. Additionally, the residential portion of the project would have received 10 year 100% tax abatement, per the tax abatement program in place at the time.

In 2011, a significant drop in property valuation in the Metro Center Urban Renewal Area and the sunset of the 10 year 100% residential tax abatement program required that the original preliminary terms of agreement for the Younkers project be re-evaluated. In addition, the difficult real estate financing climate, along with the size, cost and complexity of the Younkers project, made securing construction and permanent financing very difficult. Throughout 2011, the Alexander Company worked to identify additional financing sources and in June 2012, respectfully requested that the City recommit to the project, a commitment that was essential to the project moving forward.

Revised Terms of Agreement-Historic Tax Credit Backstop and Introduction of LIHTC

On June 11, 2012, by Roll Call No. 12-0893, City Council approved revised preliminary terms of agreement with the Alexander Company for the Younkers project. The level of financial assistance in the revised preliminary terms of agreement was dramatically reduced from that approved by City Council in 2010. The revised preliminary terms of agreement provided for an economic development grant from TIF not to exceed \$2.9 million (reduced from the \$6.8 million approved in 2010) to be paid in annual installments over 10 years beginning in Fiscal Year (FY) 2015 from the Metro Center Urban Renewal Area. The \$2.9 million in TIF assistance would include \$637,000 as a backstop for the former Tea Room space until leased by a commercial tenant, which was consistent with the original terms approved in 2010. The remaining \$2,200,000 would serve to fill a financing gap identified by Alexander Company, a backstop that would potentially be reduced or eliminated with a successful historic tax credit structure. This element of project financing had run into a serious issue with a 2011 4th Circuit Appeals Court ruling that would negatively impact the net value of the credits. Legislative review of this issue would not be timely enough to meet project deadlines in place for use of the historic tax credits, so the City's timely commitment of the \$2.2 million backstop grant was essential.

The main element that provided the City's large reduction in level of assistance proposed in 2012 was the addition of LIHTC from the IFA into the financing structure.

The Alexander Company determined that LIHTC through IFA would be an appropriate vehicle in which to raise equity financing for the project. Because of the large amount of financing needed, coupled with the inability to fall under the per unit/per project cost caps imposed by IFA in the

competitive rounds for 9% LIHTC, Alexander Company decided to submit a funding application for LIHTC through IFA's non-competitive 4%, readily available and underutilized bond funds. By Roll Call No. 12-1134 on July 9, 2012, the City Council drafted a letter to the IFA board to support a waiver to the per unit cost caps for the Younkers project, which would provide an ability to utilize the 4% bond funds. This waiver was approved.

On December 3, 2012, by Roll Call No. 12-1883, City Council approved the Final Terms of Agreement with Alexander Company for the project, who were continuing work to secure remaining final financing commitments. The final amount of TIF assistance committed to the project was \$2,350,000, reduced from the proposed \$2.9 million. Construction was anticipated to begin in late spring of 2013.

Alexander Company approached Office of Economic Development staff in May 2013 to request an amendment to the development agreement, specifically to propose a revised payment schedule from 10 years to 15 years. The revised schedule had a direct relationship to the funds needed annually to meet debt service coverage ratio requirements in years 11-15 of the project. This proposal spread the City's assistance payments over time, lowered the annual payment from \$235,000 to \$156,667, lowered the new present value of the total assistance, and provided for the payments in years 11-15 to be project generated, after the conclusion of the 10 year 100% tax abatement. The previous commitment had the entire amount of the assistance coming directly from the Metro Center Urban Renewal Area, not the project itself.

With these improvements to the City's original financial commitment, it was recommended that the previously committed backstop for the project's historic tax credits be foregone.

On June 24, 2013, by Roll Call No. 13-1037 City Council approved the First Amendment to the Urban Renewal Development Agreement. Construction was initiated in September 2013.

PREVIOUS COUNCIL ACTION(S):

Date: June 24, 2013

Roll Call Number: [13-1037](#)

Action: [Approving](#) First Amendment to the Urban Renewal Development Agreement with Alexander Company for the \$36,000,000 Historic Renovation of the former Younkers Building. ([Council Communication No. 13-309](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: December 3, 2012

Roll Call Number: [12-1883](#)

Action: Items regarding historic renovation of former Younkers building at 713 Walnut Street: ([Council Communication No. 12-600](#))

- (A) [Approving](#) \$3,000,000 in Community Development Block Grant Disaster Recovery (CDBG-DR) funds and \$250,000 HOME Investment Partnerships Funding (HOME) loan with 713 Walnut, LLC for the development of 120 housing units as part of the Younkers Building Project.

- (B) [Approving](#) Urban Renewal Development Agreement with the Alexander Company, Inc. and Conceptual Development Plan.
- (C) [Approving](#) application for Enterprise Zone Benefits to be referred to the Des Moines Enterprise Zone Commission and the Iowa Economic Development Authority for Younkens Building, LLC (Joe Alexander, President, Alexander Company) \$35 million dollar project constructing of 120 housing units at 713 Walnut Street in the Gateway Enterprise Zone.

Date: June 11, 2012

Roll Call Number: [12-0893](#)

Action: [Regarding](#) amended preliminary terms of agreement with The Alexander Company, for redevelopment of the former downtown Younkens Department Store, 813 Walnut Street. ([Council Communication No. 12-260](#)). Moved by Hensley to receive, file and approve amended preliminary terms of agreement as set forth in the accompanying Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with The Alexander Company consistent with such terms. Motion Carried 7-0.

Date: October 25, 2010

Roll Call Number: [10-1782](#)

Action: [Preliminary](#) terms of agreement with The Alexander Company for redevelopment of the former downtown Younkens Department Store at 713 Walnut Street. ([Council Communication No. 10-623](#)). Moved by Hensley to receive, file and approve preliminary terms of agreement set forth in the Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with The Alexander Company consistent with the terms set forth in the Council Communication. Motion Carried 7-0.

Date: November 8, 2010

Roll Call Number: [10-1849](#)

Action: [Major](#) Amendment No. 4 to CDBG-DR Fund Contract with IDED adding funds for Anawim/Hubbell Project in 2200 block of Forest Avenue and Younkens Building/Alexander Company projects. ([Council Communication No. 10-675](#)) Moved by Hensley to approve. Motion Carried 7-0.

Date: June 28, 2010

Roll Call Number: [10-1096](#)

Action: Submittal of Multi-Family New Construction Applications for CDBG-DR funds to the IDED for the following: ([Council Communication No. 10-391](#)).

- (B) [Redevelopment](#) of 140 rental units at 713 Walnut (Former Younkens Building), \$3,060,000. Moved by Griess to approve. Motion Carried 7-0.

Date: December 8, 2008

Roll Call Number: [08-2161](#)

Action: [Communication](#) from the Office of Economic Development seeking authorization to negotiate with New Market Investors, LLC for the possible redevelopment of the former Younkers Building, 713 Walnut Street ([Council Communication No. 08-728](#)). Moved by Hensley to receive, file and authorize the City Manager to negotiate with New Market Investors, LLC as set forth in the accompanying Council Communication and to direct the City Manager to engage the State of Iowa, Polk County, the local business community and other stakeholders to gauge their interest in assisting with the redevelopment of the property. Motion carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: July 17, 2012

Resolution Number: N/A

Action: Motion for final approval as submitted by Hearn. Seconded by Rypma. Motion carried.

Board: Urban Design Review Board

Date: June 19, 2012

Resolution Number: N/A

Action: Motion to approve by Allen. Seconded by Clark. Motion carried.

Board: Urban Design Review Board

Date: February 15, 2011

Resolution Number: N/A

Action: No action taken. Board requested that Low Income Housing Tax Credits be evaluated for the projected to potentially reduce the amount of City tax increment assistance needed.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

The Urban Design Review Board will review the proposed design and financial assistance proposal in November. A final development agreement and conceptual development plan will be presented to Council following Urban Design Review Board action.

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