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|  <h1 style="text-align: center;">Council Communication</h1> <p style="text-align: center;">Office of the City Manager</p> | Date: | November 17, 2014 |
| | Agenda Item No. | 26 |
| | Roll Call No. | <u>14-1777</u> |
| | Communication No. | <u>14-550</u> |
| | Submitted by: | Matthew A. Anderson, Assistant City Manager |

AGENDA HEADING:

Approval of Redevelopment Agreement for redevelopment of the former Dilley Manufacturing buildings and adjacent property (215-221 East 3rd Street).

SYNOPSIS:

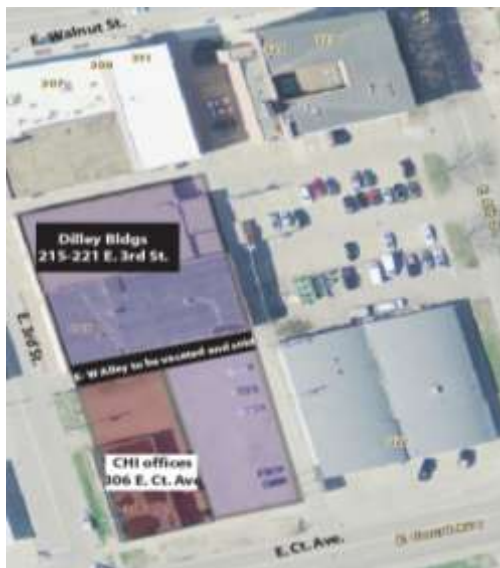
The developer, 215 East 3rd Street, LLC (Jake Christensen, Christensen Development, Des Moines, IA) is proposing conversion of the former Dilley Manufacturing buildings for office and restaurant/commercial uses. The project is anticipated to cost proximately \$4.8 million and the company has requested economic financial assistance from the City.

FISCAL IMPACT:

Amount: Thirty (30) semi-annual payments, based on a declining percentage of the new property tax increment generated by the project beginning in November 2017. The estimated total amount of the economic development grants is approximately \$720,000.

Funding Source: Metro Center Urban Renewal Area project generated tax increment revenues. A project account for will opened when payments begin.

ADDITIONAL INFORMATION:



The former Dilley Manufacturing properties are located on the east side of East 3rd Street between East Court Avenue and East Walnut Street. The property is currently owned by Community Housing Initiatives (CHI 500 East Locust Street, Suite 500, Doug LaBounty, President).

215 East 3rd Street, LLC is proposing purchase of the property which will then be subdivided with CHI retaining the small building at the NE corner of East 3rd Street and East Court Avenue for renovation into offices for the non-profit organization.

This map shows the proposed property division and location of the alley the developer has requested vacation and sale.

The remaining portion of the property – the one-story and two-story buildings located at 215 and 221 East 3rd Street and the adjoining parking lot – will be purchased by the developer. Office tenants are Beal-Derkenne Construction and Christensen Development. A commercial tenant for the north building is to be identified but is likely to be a restaurant operation.

Financial Assistance

The developer, is proposing a major renovation of the buildings (about 25,000 square feet) for an estimated \$4.8 million.

The overall \$4.8 million project is projected to be funded from:

- Federal 10% historic tax credit equity \$350,000;
- City of Des Moines economic development assistance \$720,000 (15 years); and
- Equity and permanent financing \$3.7 million.

Funds will be used for “hard” costs (construction, acquisition, etc.) of about \$3.76 million and “soft” costs (interim financing, legal fees, developer fee, required reserves, etc.) of \$1.02 million.

The proposed financial assistance package, will use project generated Metro Center Urban Renewal tax increment revenues. The property, now assessed at about \$400,000, is anticipated to increase to more than \$2 million.

The final development agreement requires:

1. Project be started by May 1, 2015 (defined by obtaining a building permit) and completed by December 31, 2016;
2. Undergrounding of the overhead utilities along the frontage of the Dilley buildings on East 3rd Street and the east-west alley immediately to the south of the building;
3. Removal of outdoor advertising sign located in the SE corner of the property by no later than December 31, 2021. If the sign is not removed, no further economic development payments will be made;
4. General restoration of the buildings’ exteriors to unpainted brick and similar window treatments to the original windows, new heating/ventilation system, life safety systems and grease interceptor;
5. If surface parking is installed on any portion of the property, no East Court Avenue access or egress is permitted;
6. Property to be assessed as commercial for the term of the economic development agreement; and
7. Thirty (30) semi-annual annual payments based on the following: a declining percentage (90% for years 1-5, 85% for next four (4) years, 80% for three (3) years and 75% for final three (3) years) of the new property tax revenue after Self Supported Municipal Improvement District (SSMID) and various protected levies totaling about \$6.5/\$1,000 are deducted, starting in 2017.

The request for financial assistance is based on the gap between actual project costs and the project appraisal. The normally used historic tax credits (state credits of 45% and federal credits of 20%) are not available since one building has been declared ineligible and the second building is unlikely to qualify for the National Register of Historic Places. The developer is anticipating use of the 10% federal historic tax credits available for non-residential buildings constructed prior to 1936.

PREVIOUS COUNCIL ACTION(S):

Date: October 20, 2014

Roll Call Number: [14-1641](#)

Action: [Preliminary](#) Terms of Agreement with 215 East 3rd Street, LLC for redevelopment of the former Dilley Manufacturing building and adjacent property at 215-221 East 3rd Street. ([Council Communication No. 14-513](#)) Moved by Hensley to receive, file and approve the preliminary terms of agreement as set forth in Council Communication No. 14-513, and to direct the City Manager's Office to proceed with negotiation of a formal agreement with the developer consistent with the terms set forth in Council Communication No. 14-513. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: October 21, 2014

Resolution Number: N/A

Action: The proposed financial assistance and site and final conceptual building design review were recommended for approval.

Board: Plan and Zoning Commission

Date: October 16, 2014

Resolution Number: N/A

Action: Review of site plan and request to vacate and sell east-west alley were recommended for approval.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

City Council - Vacation and sale of east-west alley.

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