

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: August 10, 2015
	Agenda Item No. 38 Roll Call No. <u>15-1386</u> Communication No. <u>15-452</u> Submitted by: Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Resolution Approving Preliminary Terms of the Second Amended and Restated Development Agreement between the City of Des Moines and Riverpoint West, LLC.

SYNOPSIS:

On September 22, 2014, by Roll Call No. 14-1521, City Council approved the First Amendment to the Amended and Restated Urban Renewal Development Agreement with River Point West, LLC (George Sherman, Sherman Associates, 233 Park Avenue Suite 201 Minneapolis, MN 55415). This action was the culmination of three years of analysis and work by Sherman Associates and the City to reset the 2007 development agreement between the entities. It provided for significant forward movement on financial restructuring and conceptual plan revisions to reactivate the development after the 2008 market collapse.

Since that date, Sherman Associates has initiated construction on a 121 room Holiday Inn Express hotel, and is working to close financing for the 142 unit Nexus at Gray’s Landing apartment project, the Gray’s Lake Office Park building and the Edge at Gray’s Landing, a 90 unit apartment project. All three projects will be started in 2015. In addition, Sherman Associates has initiated construction on the section of Tuttle Street between SW 9th Street and SW 11th Street, with an estimated completion of fall 2015.

Extraordinary development costs have arisen, due to significant earthwork throughout the development area and unanticipated major utility costs on the construction of Tuttle Street. In order to continue the forward movement and continue to add needed taxable valuation to the development which will fund the Section 108 Loan payments for the remainder of the loan term, Sherman Associates and City staff are proposing preliminary terms that will keep the construction momentum going, provide project generated tax increment, and provide for the continued development of the area as an active mixed use district. Additional details on the proposal are provided below.

FISCAL IMPACT:

Amount: Sherman Associates will advance to the City an amount estimated at \$7,419,957.00 to fund any shortfall in the HUD 108 repayment obligation. Sherman Associates will then be repaid up to an equal amount beginning in Fiscal Year (FY) 2027 under the terms described in Additional Information below.

Funding Source: Sherman Associates and project generated tax increment in the Metro Center Urban Renewal Area

ADDITIONAL INFORMATION:

Original Development Agreement Terms

The premise for the original development agreement with Riverpoint West LLC was to redevelop a former industrial brownfield area into an active mixed-use district for business and residential development. The developer was charged with the purchase, clearing, preparation and development of land under a Master Conceptual Plan approved by the City. This premise remains the same, with the exception that the former concentration of office park development has now been revised to propose a mix of office and retail development uses, and the residential development has been brought online in earlier phases to spur the ability to attract retail tenants.

The financing structure under the original development agreement was based on a complex assortment of funding sources, including New Market Tax Credits, developer equity, brownfield tax credits, various HUD and EPA funds and an \$8.5 million HUD Section 108 loan. The agreement provided for the Section 108 funds to assist the developer with the purchase and preparation of land. A HUD Brownfields Economic Development Initiative (BEDI) was provided to the City to be used for the first years of repayment on the Section 108 loan, and a Supplemental Grant from the City to the developer provided additional support in the early years. This was designed to allow the project to ramp up to the point where project generated tax increment (TIF) would assume the remainder of the payments.

The original agreement provided for a parcel development agreement, minimum assessment agreement and City review and approval of the development plans for each parcel of land sold in the development area. This has occurred and will continue. The land sale proceeds for each parcel were originally to be divided between the City and the developer. With the September 2014 action, the City agreed to defer receipt of any proceeds from land sales in order to assist the developer with bringing forward more simultaneous projects on an earlier timeframe.

Proposed Revised Terms

Sherman Associates will:

- Provide funds to be used to meet any shortfall in the payments due on the Section 108 loan until such date as adequate project generated tax increment is produced to fund the payments 100%. The current estimated amount of the remaining payments is \$8,200,000.
- Shift the obligation to fund the payment above from Riverpoint West LLC (whose primary assets are limited to the land in this redevelopment area) to Sherman Associates, Inc., which has a much broader asset base, net worth, and liquidity to fund the Section 108 payments.
- Complete construction of Tuttle Street between SW 9th Street and SW 11th Street.
- Continue work to completion on the hotel, office building, Nexus and Edge housing projects, pulling all permits before December 31, 2015.
- Retain the right to purchase additional City owned parcels as provided in the original agreement. A uniform and coordinated development plan will be presented for the parcels that will be approved by the City.
- Consent and waiver to the future extension of Tuttle Street west of SW 11th as a special assessment project. Any future assessment will be done in a uniform manner that will apply to all owners of property fronting the future street.
- Continue to work together with the City and other property owners on a regional solution to stormwater management within the area bounded by Martin Luther King Jr. Parkway, SW 9th Street and the Des Moines River.

City of Des Moines will:

- Release security and claim to future land sale proceeds, allowing the developer the ability to mortgage property and create additional equity for the construction of Tuttle Street and the associated utility and earthwork costs.
- Provide for the rebate through project generated TIF of the payments made by the developer to meet the shortfall of the payments due under the Section 108 loan. Rebate payments will be subject to an interest rate of 5% per annum, from 100% of the project generated TIF, through FY 2035.
- City will continue to work with the developer on a regional solution to stormwater management within the area bounded by Martin Luther King Jr. Parkway, SW 9th Street and the Des Moines River.

The City's Urban Design Review Board will continue to review each project that comes forward in the development, and provide comment and recommendation on the Master Conceptual Development Plan.

PREVIOUS COUNCIL ACTION(S):

Date: May 18, 2015

Roll Call Number: [15-0822](#), [15-0823](#), [15-0824](#), and [15-0825](#)

Action: Items regarding the Gray's Landing Development Area: ([Council Communication No. 15-252](#))

- (A) [Second](#) Amendment to the Amended and Restated Urban Renewal Development Agreement with Riverpoint West, LLC. Moved by Hensley to adopt. Motion Carried 7-0.
- (B) [Parcel](#) Development Agreement with the Edge at Gray's Landing, LLC and Redevelopment Plan for the construction of a 90 unit apartment building. Moved by Hensley to adopt. Motion Carried 7-0.
- (C) [Parcel](#) Development Agreement with the Nexus at Gray's Landing, LLC and Redevelopment Plan for the construction of a 142 unit apartment building. Moved by Hensley to adopt. Motion Carried 7-0.
- (D) [Amended](#) and Restated Parcel Development Agreement with Sherman Gray's Landing Office Development, LLC and Redevelopment Plan for the 72,000 square-foot Gray's Lake Office Building. Moved by Hensley to adopt. Motion Carried 7-0.

Date: September 22, 2014

Roll Call Number: [14-1521](#)

Action: [First](#) Amendment to the Amended and Restated Urban Renewal Development Agreement with River Point West LLC, a Parcel Development Agreement with Sherman Gray's Landing Hotel Development, LLC for construction of a 102-room hotel and a Parcel Development Agreement with Gray's Landing Office Development, LLC for construction of a 72,000 square foot office building in the River Point West Redevelopment area. ([Council Communication No. 14-471](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: October 8, 2007

Roll Call Number: [07-1991](#)

Action: [Amended](#) and Restated Urban Renewal Development Agreement with River Point West LLC and a Loan Agreement with River Point West Investment Fund LLC for the River Point West Redevelopment Project. ([Council Communication No. 07-612](#)) Moved by Hensley to adopt. City Manager will provide periodic status reports to Council. Motion Carried 7-0.

Date: June 4, 2007

Roll Call Number: [07-1119](#)

Action: [Setting](#) date of hearing on Proposal to enter into an Urban Renewal Development Agreement with River Point West, LLC for the River Point West Redevelopment Project including the sale of land and inviting competing proposals, (7-9-07). ([Council Communication No. 07-315](#)) Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: April 21, 2015

Resolution Number: N/A

Action: Motion for final approval as presented by Mormann. Seconded by Nagle. Yes: 7; No: 0; Absent: 3.

Board: Urban Design Review Board

Date: December 16, 2014

Resolution Number: N/A

Action: Motion by Hielkema to approve the design subject to further consideration of north/south connectivity through the site dependent on the development of Tuttle Street with close attention to the integration of utilities into the façade. Seconded by MacRae. Yes: 10; Absent: 1.

Board: Urban Design Review Board

Date: October 21, 2014

Resolution Number: N/A

Action: Motion by Clark to approve as presented subject to screening west parking lot from MLK Jr. Parkway. Seconded by MacRae. Yes: 8; Abstain: 1; Absent: 1.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

The Master Conceptual Development Plan will be reviewed by the Urban Design Review Board.

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