

 <p style="text-align: center;"><b>Council</b> <b>Communication</b> Office of the City Manager</p>	<b>Date:</b>	December 21, 2015
	<b>Agenda Item No.</b>	<b>63C</b>
	<b>Roll Call No.</b>	<b><u>15-2185</u></b>
	<b>Communication No.</b>	<b><u>15-668</u></b>
	<b>Submitted by:</b>	<b>Matthew A. Anderson, Assistant City Manager</b>

**AGENDA HEADING:**

Approving preliminary terms of a master agreement for redevelopment of the City Hall parking lot and agreement to reimburse the development team for design costs.

**SYNOPSIS:**

The City of Des Moines owns the surface parking lot in the East Village across Robert D. Ray Drive from City Hall, bordered by East Grand Avenue, East Locust Street, and East Second Street. 219 East Grand, LLC (Jake Christensen and Tim Rypma, officers and Jim Cownie, principal investor) proposes a mix of retail, office, housing, and structured parking on the site.

Staff has negotiated a preliminary terms of agreement for this developer-initiated proposal, including:

- First phase of development will be a 5-story, approximately 535-space public parking structure. The parking structure is planned to include solar panels on the roof that will provide “net zero (0)” operations for the garage (the solar panels will produce all of the energy needed to operate the garage). The parking structure will be constructed by the development team pursuant to a lease-purchase agreement (LPA) with the City. The parking structure will be for public use and the City will take possession in mid-2017. Current budget estimates project cost of \$19,073,000. A related project by the same development team includes ground floor retail/restaurant space and 98 apartments on a privately-owned site at 219 East Grand Avenue; parking in this parking structure will be offered to residents and visitors of this new development.
- The development team will acquire the north and south parcels for the second and third phases of development. Each development will be a minimum of 4-floors with ground floor restaurant or retail space, a minimum combined total of 28,000-square-feet of office use and residential on the upper floors. Incentives for the development of each phase will include: 70% TIF grant years 1-8, 60% years 9-10, 50% years 11-15 or residential tax abatement as provided by the City’s Urban Revitalization Plan and rebate of the land cost. Any additional financial gap resulting from the development exceeding the minimum standards required by the agreement will be subject to further negotiation for TIF incentives.

The City will retain ownership of the western parcel facing City Hall for a potential future City office building.

To date, the development team has invested approximately \$211,230 on design, a site survey, a traffic study and environmental assessment for the parking structure (phase 1) and has an additional \$775,000 under contract to complete the design documents. Should implementation of the garage not advance, the City would reimburse the development team for costs incurred and retain ownership of the design documents.

**FISCAL IMPACT:**Amount:

- Phase 1, Parking Structure: current estimate of project costs is \$19,073,000.
- Phase 2, private development: 70% TIF grant years 1-8, 60% years 9-10, 50% years 11-15 or residential tax abatement as provided by the City's Urban Revitalization Plan and rebate of the land cost. The estimated total amount of the economic development grant will be communicated to Council upon further resolution of the development proposal.
- Phase 3, private development: 70% TIF grant years 1-8, 60% years 9-10, 50% years 11-15 or residential tax abatement as provided by the City's Urban Revitalization Plan and rebate of the land cost. The estimated total amount of the economic development grant will be communicated to Council upon further resolution of the development proposal.
- Phase 4, City office: unknown.

Funding Source:

- Phase 1, Parking Structure: a combination of parking system revenues and Metro Center Urban Renewal Area tax increment revenues. Allocation from each source to be determined after completion of a parking system revenue study. A project account for will opened when payments begin.
- Phase 2, private development: Metro Center Urban Renewal Area project generated tax increment revenues or residential tax abatement as provided by the City's Urban Revitalization Plan. If TIF is utilized, a project account for will opened when payments begin.
- Phase 3, private development: Metro Center Urban Renewal Area project generated tax increment revenues or residential tax abatement as provided by the City's Urban Revitalization Plan. If TIF is utilized, a project account for will opened when payments begin.
- Phase 4, City office: unknown.

**ADDITIONAL INFORMATION:**

The supply of commercial and residential development in the East Village is currently not keeping pace with market demand. Both retail/restaurant space and residential units are nearly 100% occupied and those seeking new opportunities must delay their decisions or seek space elsewhere in the market. Staff believes that timing is opportune for redeveloping this large City-owned site that serves as a key connector between the East Village neighborhood, commercial activity, Riverwalk, and the central business district.

City staff and the development team have developed a proposal for structured parking at the center of the City-owned parking lot that could provide the parking supple for 219 E. Grand redevelopment, Metro Waste Building tenants, collect the parking spaces currently used by City Hall employees and leased to Embassy Suites, and provide parking for new demand generated by the additional redevelopment at the perimeter of the City-owned site. An update to the East Village Parking Study drafted this fall shows the demand generated from all identified parking needs by current and planned development on this block and immediately adjacent blocks through 2025 is estimated at 600-800 spaces. This presents challenges and opportunities that can be gauged as East Village development materializes over the next decade. Strategies such as maximizing use of surplus private parking, working with developers of future projects to build more parking on-site, and working with owners of

nearby surface parking lots to develop mixed-use projects that includes structured parking could address the high parking demand if planned projects develop at the higher range of projected densities and uses.

The proposed 5-story parking structure will accommodate approximately 535 cars and portions of the garage will exceed the 55-foot height limit imposed by the Capitol Dominance Overlay District. The development team will seek an exception to this height limit through the City’s Board of Adjustment to allow the stair/elevator towers and the proposed solar panels to extend to approximately 75-feet (the maximum height allowed by residential development in this District).

A solar panel canopy is proposed for the roof of the parking structure. An array placed across the center parking stalls is projected to provide all of the electricity needed to operate the garage on an annual basis (“net zero (0)” operation). The budget for implementing the solar panels also includes the cost of constructing framing to expand the solar array for use by the City’s potential future office building on the west side of the site. The City’s office building will likely be the final phase of development on the block and adding the framing with the private development in place would be difficult.

The project cost for the parking structure is proposed as follows:

Site work	\$ 1,162,000
Parking Structure Construction Cost	\$15,221,000
Solar panel system	\$ 630,000
Soft Cost:	
Appraisal	\$ 7,500
Environmental Report	\$ 25,000
Legal fees	\$ 60,000
Traffic Study	\$ 12,500
Design	\$ 950,000
Financing	\$ 35,000
Development fees	\$ 100,000
Construction contingency	\$ 600,000
Design Contingency	\$ 270,000
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TOTAL Project Cost	\$19,073,000

The project team selected by the developer includes: Ryan Companies, Neumann Monson, Rich & Associates, Civil Engineering Consultants, Genus Landscape Architects, Modus Engineering, Snyder & Associates, and Terracon.

The redevelopment would be implemented in phases, leading with structured parking and the private development proposed for 219 East Grand, then a mixed-use building along East Locust or East Grand, then a second mixed-use building at the remaining private development parcel (along East Locust or East Grand) and finally development of the City office building along Robert D. Ray Drive. Anticipated timeline for Phase 1 (parking structure) implementation:

January 2016	Historic East Village Neighborhood meetings
January – February 2016	Embassy Suites lease revisions
February – April 2016	Design development, construction documents, and review including: Zoning Board of Adjustment, Plan and Zoning Commission, Urban Design Review Board, Access Advisory Board, City site plan review
March 2016	Master development agreement and lease-purchase agreement

April 2016  
May 2016 – mid-2017

City vacates City Hall for remodeling  
Construction of parking structure

The following is a detailed summary of the development terms that have been negotiated with the development team for the development of the full block:

1. Real Estate Conveyance. The site will be subdivided into four (4) parcels, of which three (3) will be sold in phases for fair market value.
  - a. The value of the entire block between East 2<sup>nd</sup> Street to Robert D. Ray Drive, Grand to Locust will be determined by a third party appraiser. This value will be allocated between the parcels on an equal price per square foot.
2. Phase 1 Garage Development. For the first phase of development, the development team will acquire the center parcel for a 5-story, approximately 535-space public parking structure.
  - a. The parking structure will be constructed by the development team pursuant to a lease-purchase agreement (LPA) with the City.
  - b. The parking structure will be open for public use and the City will take possession in 2<sup>nd</sup> or 3<sup>rd</sup> quarter 2017.
  - c. Duration and funding source recommendations for the LPA will be presented to City Council at a later date.
  - d. The development team will be granted a construction easement allowing access to the balance of the block (except for area identified for Embassy Suites parking) through final completion of the ramp.
  - e. Land cost will be reflected as a down payment on the purchase.
  - f. Current budget estimates construction cost of \$15,221,000. Implementation of the solar panels and canopy structure on the roof is estimated to add \$630,000 to the cost of the parking structure. (The construction cost will be reflected as a Guaranteed Maximum Price in the final development agreement).
  - g. Total project cost is estimated at \$19,073,000 and includes the following costs:
    - i. Appraisal
    - ii. Environmental report
    - iii. Legal fees
    - iv. Traffic study
    - v. Architectural, landscape, and engineering fees (including solar design)
    - vi. Development fee (.5%)
    - vii. Construction contingency
    - viii. Design contingency
3. Phase 2 Office/Apartment Development. The development team will acquire the north or south parcel for the second phase of development.
  - a. Development will include:
    - i. Minimum floor plates of 14,000 gross square feet.
    - ii. Build-out to the Locust or Grand and E. 2<sup>nd</sup> Street frontages.
    - iii. Minimum height of 4-floors.
    - iv. Ground floor uses will be a minimum of 75% retail or restaurant use with residential and/or commercial uses above.
    - v. Upper floor(s) will contain a minimum total of 28,000-square-feet of commercial office space on one (1) of the two (2) development parcels or divided among the development parcels.
    - vi. Durable construction and materials commensurate with projects currently underway and recently executed by the development team at 219 East Grand and 350 East Locust including steel and/or concrete structure and exterior finishes

- utilizing high quality materials such as full dimension brick, concrete, and metal panels.
- b. Economic development grant to include:
    - i. 70% TIF grant years 1-8, 60% years 9-10, 50% years 11-15 or residential tax abatement as provided by the City's Urban Revitalization Plan.
    - ii. Any additional financial gap resulting from the development exceeding the minimum standards required by the agreement will be subject to further negotiation for TIF incentives.
    - iii. Land cost rebate at the later of land conveyance or closing of construction financing.
  - c. Schedule
    - i. The development team will complete preliminary design review with the City's Urban Design Review Board within 9-months of gaining a Certificate of Occupancy (CO) for the parking structure.
    - ii. The development team will begin construction within 18-months of gaining a CO for use of the parking structure.
    - iii. A 1-year option to extend the development rights for the second phase will be allowed at a cost that utilizes the following calculation: 75 parking spaces times current monthly parking rate times 12 months.
4. Phase 3 Office/Apartment Development. The development team will acquire the remaining north or south parcel for the third phase of development.
- a. Development will include:
    - i. Minimum floor plates of gross 14,000 square feet.
    - ii. Build-out to the Locust or Grand and E. 2<sup>nd</sup> Street frontages.
    - iii. Minimum height of 4-floors.
    - iv. Ground floor uses will be a minimum of 75% retail or restaurant use with residential and/or commercial uses above.
    - v. Upper floor(s) will contain a minimum total of 28,000-square-feet of commercial office space, less any amount provided in the first phase building.
    - vi. Durable construction and materials commensurate with projects currently underway and recently executed by the development team at 219 East Grand and 350 East Locust including steel and/or concrete structure and exterior finishes utilizing high quality materials such as full dimension brick, concrete, and metal panels.
  - b. Economic development grant to include:
    - i. 70% TIF grant years 1-8, 60% years 9-10, 50% years 11-15, or residential tax abatement as provided by the City's Urban Revitalization Plan.
    - ii. Any additional financial gap resulting from the development exceeding the minimum standards required by the agreement will be subject to further negotiation for TIF incentives.
    - iii. Land cost rebate at the later of land conveyance or closing of construction financing.
  - c. Schedule
    - i. The second phase of development must have been be timely commenced and diligently pursued to completion.
    - ii. The development team will complete preliminary design review with the City's Urban Design Review Board within 9 months of gaining a CO for the second phase of development.
    - iii. The development team will begin construction within 18 months of gaining a CO for use of the second phase of development.

- iv. A 1-year option to extend the development rights will be allowed using the following calculation (number of spaces available for remaining office development times current monthly market parking rate times 12-months). If office space is completed in phase 2, the following calculation will be used (45 dwelling units times .67 [parking ratio for urban housing] times current monthly parking rate times 12-months)
- 5. Parking. A total of 150 parking spaces will be made available by City to office tenants of Phases 2 and/or 3 development at market parking rates. (If not prohibited by the developer's use of tax-exempt financing for the garage).
- 6. Remedies.
  - a. The City has designed the garage capacity to accommodate a combined total of 28,000 gross square feet of commercial space in the Phase 2 and Phase 3 Developments, in reliance upon the developer team's representation that such commercial space will be completed. In the event the development team seeks City approval that will result in less than 30,000-square-feet of commercial space being constructed in the Phase 2 and Phase 3 Developments, the development team shall reimburse the City for lost parking revenues.
  - b. The City has undertaken the construction of the garage in anticipation that the Phase 2 and 3 Improvements will be timely constructed creating a demand for the additional parking provided by the construction of the garage. If the City purchases the garage before the Phase 2 and 3 developments are both under construction, the City may retain a portion of the purchase price for the garage as security for the timely completion of each such phase not then under construction.
- 7. Stormwater Management. Development team will implement underground stormwater infrastructure for development of the north and south parcels at the time of construction of the parking structure. Should development of either or both parcels not proceed, the City will assume ownership of this infrastructure.
- 8. Finalization of Agreement. Acquisitions subject to State Urban Renewal laws, process for sale of all private redevelopment parcels is anticipated to be complete by mid-2016.

#### **PREVIOUS COUNCIL ACTION(S):**

Date: September 14, 2015

Roll Call Number: [15-1520](#)

Action: [Preliminary](#) terms of agreement with 219 East Grand, LLC for a mixed use project at 219 E. Grand Avenue. ([Council Communication No. 15-496](#)) Moved by Hensley to receive, file and approve the preliminary terms of agreement as set forth in Council Communication No. 15-496 and to direct the City Manager to proceed with the negotiation of a formal agreement with 219 East Grand, LLC, consistent with the terms set forth in Council Communication No. 15-496. Motion Carried 7-0.

Date: June 22, 2015

Roll Call Number: [15-1088](#)

Action: [Regarding](#) development of the City-owned parking lot, east of City Hall. ([Council Communication No. 15-318](#)) Moved by Gatto to adopt. Motion Carried 7-0.

Date: May 18, 2015

Roll Call Number: [15-0870](#)

Action: [Regarding](#) development of the City-owned parking lot, east of City Hall (continued from May 4<sup>th</sup>). ([Council Communication No. 15-250](#)) Moved by Gatto to receive and file. Motion Carried 7-0.

Date: May 4, 2015

Roll Call Number: [15-0770](#)

Action: [Regarding](#) development of the City-owned parking lot, east of City Hall. ([Council Communication No. 15-234](#)) Moved by Gatto to adopt; refer to the City Manager for additional information regarding how a developer would be selected for this project and bring it back to Council on May 18<sup>th</sup>.

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

Board: Urban Design Review Board

Date: August 18, 2015

Resolution: None

Action: Motion to approve the preliminary plans as presented per comments by Reynolds. Seconded by MacRae. Motion carried. Yes – 7, No – 0, Absent – 2, Abstain – 1.

#### **ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- State of Iowa Urban Renewal land disposition processes will apply to this site.
- Council consideration of a lease-purchase agreement for the parking structure. Public Hearings as required by State law; process to be determined upon identification of funding source(s).
- Council consideration of final terms of a master agreement for redevelopment of this site.
- Urban Design Review Board review and recommendation regarding final project design and financial assistance.
- Site plan review by Plan and Zoning Commission site plan review per the D-R design guidelines.
- Board of Adjustment consideration of a request for an exception to the 55-foot height limit imposed on commercial development by the Capitol Dominance Overlay District.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the first floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to [cityclerk@dmgov.org](mailto:cityclerk@dmgov.org).