

 <p style="text-align: center;"><b>Council</b> <b>Communication</b> Office of the City Manager</p>	<b>Date:</b>	September 12, 2016
	<b>Agenda Item No.</b>	<b>52</b>
	<b>Roll Call No.</b>	<b><u>16-1529</u></b>
	<b>Communication No.</b>	<b><u>16-519</u></b>
	<b>Submitted by:</b>	<b>Scott E. Sanders, City Manager</b>

**AGENDA HEADING:**

Approval of Forbearance Agreement between City of Des Moines and Teachout Properties, LLC.

**SYNOPSIS:**

Recommendation to approve a Forbearance Agreement with Teachout Properties, LLC relating to the two (2) City development loans that assisted in the renovations to 500 East Locust (locally referred to as the Teachout Building) and 504 East Locust (locally referred to as the Hohberger Building).

**FISCAL IMPACT:**

Amount: City development loan for 500 E. Locust outstanding principal balance \$282,500  
City development loan for 504 E. Locust outstanding principal balance \$400,000

Funding Source: The City development loans were funded one-half by the City from Metro Center Urban Renewal Area tax increment revenues and one-half by the Des Moines Development Corporation, with full repayment coming to the City.

**ADDITIONAL INFORMATION:**

In April 1999, Teachout Properties, LLC (Kirk V. Blunck Estate principal member, Doreen Blunck, Executor) herein after referred to as Developer, undertook a \$1.2 million renovation of the then blighted and vacant commercial building located at 500 East Locust (locally known as the Teachout Building). To finance the project the Developer provided \$200,000 in equity, Iowa State Bank loaned the Developer \$675,000 secured by a first mortgage on the property, and the City approved by Roll Call #99-1071 a \$300,000, zero (0) interest loan secured by a mortgage on 500 E. Locust that is subordinate to the Iowa State Bank mortgage. The City loan was not personally guaranteed by Mr. Blunck.

In September 1999, the Developer undertook a \$1.7 million renovation of the adjacent blighted and vacant commercial building located at 504 East Locust (locally known as the Hohberger Building). To finance this project the Developer provided \$250,000 in equity; Iowa State Bank loaned the Developer \$960,000 secured by a first mortgage on the property, and the City approved by Roll Call 99-3038, a \$400,000, zero (0) interest loan secured by a mortgage on 504 E. Locust that is subordinate to the Iowa State Bank mortgage. The City loan was not personally guaranteed by Mr. Blunck.

Both of the City loans were structured with no payments during the first four (4) years of each loan, with the loans to mature 10 years from the date of funding. In May 2003, by Roll Call No. 03-1182, the

City approved an amendment to the payment terms of the 500 East Locust Loan. In December 2008 the loan to 500 E Locust matured and became due and payable, and in November 2009 the loan to 504 E. Locust matured and became due and payable. In April 2010, the City declared both loans in default thereby activating a default rate of interest provision in both loans, which then began to accrue interest on the outstanding loan balances at the rate of 12% per annum. During the term of the loans, and after declaring the loans in default City staff met on numerous occasions with the Developer in unsuccessful attempts to restructure the City loans.

Following the passing of Mr. Blunck, City staff began working with the Attorneys for the Kirk V. Blunck Estate and have negotiated a forbearance agreement that stipulates terms between the City and the Developer for repaying the City loans. During the forbearance period, which begins with City Council approval and ends December 31, 2017, the Developer agrees to cross-collateralize the City promissory notes with mortgages on the properties, make monthly payments of \$1,500 beginning April 2016, and diligently pursue the sale of the properties in a commercially reasonable manner that maximizes the sales price of the two (2) properties. In consideration for the cross-collateralization of the City promissory notes, which places the City in an improved collateral position and opportunity to have the loans paid in full, the City agrees to reduce the default interest rate effective April 2010 to April 1, 2016 to 6% per annum and then effective April 1, 2016 reduce the default interest rate to 2% per annum. Upon expiration or termination of the forbearance period, the agreement of the City to forbear will automatically terminate and the default interest rate will immediately return to 12%.

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

Date: May 19, 2003

Roll Call Number: 03-1182

Action: Amendment to Development Agreement with Teachout Properties, L.L.C. for renovations to Teachout Building, 500 E. Locust. ([Council Communication No. 03-228](#)) Moved by Hensley to adopt. Motion Carried 6-1.

Date: September 27, 1999

Roll Call Number: 99-3038

Action: Loan Agreement and Related Documents for Interest-Free Loan to Teachout Properties, L.L.C., for the renovation and redevelopment of the Hohberger Building, located at 504 E. Locust St - \$1.7 million. (Council Communication No. 99-419) Moved by Brooks to adopt. Motion Carried 7-0.

Date: April 5, 1999

Roll Call Number: 99-1017

Action: Economic Development Loan Agreement and related documents for interest-free loan, \$300,000 to Teachout Properties, L.C.C. (Kirk Blunck) for renovation and redevelopment of the Teachout Building-Eastern Gateway Project, ([Council Communication No. 99-156](#)). Moved by Hensley to adopt. City Manager to report on funds expended to date on Gateway, both East and West. Motion Carried 6-1. Absent: McPherson.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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