

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b>	March 20, 2017
	<b>Agenda Item No.</b>	<b>60</b>
	<b>Roll Call No.</b>	<b><u>17-285</u></b>
	<b>Communication No.</b>	<b><u>17-285</u></b>
	<b>Submitted by:</b>	<b>Erin Olson-Douglas, Economic Development Director</b>

**AGENDA HEADING:**

Resolution approving Urban Renewal Agreement for Sale of Land for Private Redevelopment with 5th and Walnut Parking, LLC.

**SYNOPSIS:**

The City owns a 620 space parking structure on an approximate 1.3-acre site located between Walnut Street and Court Avenue, bounded by a City alley on the east and 5th Avenue on the west. The existing garage is beyond its useful life and was closed from public access on January 15, 2017. On July 13, 2015, the City Council received communication from the City Manager regarding interest from Mandelbaum Properties (Justin Mandelbaum, Developer, 4500 Westown Parkway, West Des Moines, Iowa) in purchasing and redeveloping the 5th and Walnut City-owned site. At this time, the City Council directed staff to seek other redevelopment proposals for the site until September 11, 2015. No competing proposals were received. On September 14, 2015, the City Council selected Mandelbaum Properties as the preferred developer to purchase and redevelop the City-owned property at 5th and Walnut. Preliminary terms of an Urban Renewal Development Agreement were approved by the City Council on April 25, 2016. On February 13, 2017, the City Council approved a resolution to begin the competitive process for the sale and redevelopment of the 5th and Walnut Parking Garage.

Updated projections from Mandelbaum Properties proposes an estimated \$110.8 million project consisting of 200 market rate residential units, and a hotel with a ground level lobby and a minimum of 50 lodging rooms. The residential building is anticipated to have 32 stories (but required to have at least 25 stories) fronting on Walnut Street. In addition, project plans call for a 2-story, 9-screen upscale urban movie theater fronting Court Avenue on the southern portion of the property. Total project costs also include the demolition of the existing parking facility, demolition of a portion of the existing skywalk connections, construction of new skywalk connections, and the construction of a new privately-owned and operated 564 stall parking garage that will be used by the residents of the project, theater goers, hotel guests, as well as the general public. The new parking garage will be located in the center of the property, between the residential building and the movie theater building, fronting 5th Street. The development agreement calls for the parking garage to be constructed first, and either the theater building or the residential building to be constructed second.

Staff has negotiated a development agreement for this developer-initiated proposal. Additional details on the final terms of the Urban Renewal Development Agreement are below.

**FISCAL IMPACT:**

Amount: The developer will purchase the existing site for \$4 million and receive an economic development forgivable loan of the same amount. The Project will qualify for urban renewal construction period tax abatement. The Project will also qualify for 10-year declining residential tax abatement and will otherwise receive 100% of the available project generated tax increment revenues for 20 years on the residential and hotel tower, commercial theater, and parking facility. Any tax increment generated by the residential and hotel tower building or the theater building after year 11 for each respective building, above the amount returned in year 11, shall be applied to reduce the balance of the parking shortfall loan. The estimated net present value (NPV) of the project generated tax increment incentives are \$4.3 million on the residential and hotel tower component (discounted at 4.5%), \$2 million on the commercial theater component (discounted at 4.5%), and \$3.4 million on the parking garage component (discounted at 3.5%).

The Project will also receive an economic development loan designated as the “Parking Shortfall Loan” to be advanced in semi-annual installments over 20 years commencing on the substantial completion of the parking garage. The semi-annual advances are equal to the installments required to fully amortize the Developer’s first mortgage loan having a principal value of \$39,345,946 at a market rate of interest, reduced by the net operating income of the parking garage. Total Parking Shortfall Loan advances in the first 20 years of operations for the garage are estimated at \$26.6 million (NPV of \$17.9 million, discounted at 3.5%). Shortfall loan advances will accrue interest annually at 1% (with the exception of the proportionate share of interest attributable to the land purchase in the first 20 years) and will be repaid with 80% net operating cash flows beginning in year 21 of the garage. Upon full repayment of the Developer’s first mortgage, the City shall forgive a portion of the Parking Shortfall Loan equal to \$6,826,779 of the principal together with the accrued interest on that portion in recognition of up-front extraordinary development costs being incurred by the Project.

Funding Source: Metro Center Tax Increment Financing District

**ADDITIONAL INFORMATION:**

- This proposed redevelopment addresses a major missing component in the downtown, a movie theater. The operator's preliminary proposal includes a minimum 3-screen upscale movie theater.
- The proposed operator, Main Street Theatres (William Barstow, Omaha) successfully started and has operated the Aksarben Cinema in Omaha for five (5) plus years with over 500,000 customers per year.
- The addition of high-rise rental housing will provide for a missing component in the housing market as well as inserting a dramatic new addition to the skyline.
- The proposed private ownership of the parking garage will bring both the land and the facility onto the tax rolls and eliminate the City’s financial obligation to own, operate and maintain the parking garage in the future.
- The new 564 stall parking garage will have 250 spaces allocated for residential parking and an estimated 314 parking stalls for additional public parking needs. The City’s parking study indicates a significant projected demand for public parking at the site.
- This site is located in the Iowa Convention and Entertainment Reinvestment District, located generally between the proposed Events Center Hotel and the 4th & Court project containing the Hy-Vee project. This proposed project will be a sales tax generator with its entertainment and

dining components. Staff will pursue adding this project to the District, which could accelerate and shorten the 20-year payout of the State of Iowa's commitment.

- Demolition of the existing garage is expected to begin in May/June 2017.

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

Date: February 13, 2017

Roll Call Number: [17-0233](#)

Action: [Approving](#) competitive bid process for sale and redevelopment of the Fifth and Walnut Parking Garage in the Metro Center Urban Renewal Project Area and receipt of redevelopment proposal from 5th and Walnut Parking, LLC and setting date of hearing for March 20, 2017. ([Council Communication No. 17-073](#)) Moved by Hensley to adopt. Motion Carried 6-1. Absent: Cownie.

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

Board: Urban Design Review Board

Date: March 14, 2017

Resolution Number: N/A

Action: Motion to approve as presented by Reynolds. Seconded by Rypma. Motion carried. Yes – 8, No – 0, Absent – 2, Abstain – 0.

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

- Preliminary Design Review – Urban Design Review Board
- Walnut Streetscape Design
- Site plan and zoning review – Plan and Zoning Commission
- Board of Adjustment – Building Height Exceeding 200 feet
- Final Design Recommendation – Urban Design Review Board

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