

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: April 3, 2017
	Agenda Item No. 47 Roll Call No. <u>17-346</u> Communication No. <u>17-346</u> Submitted by: Erin Olson-Douglas, Economic Development Director

AGENDA HEADING:

Public Hearing regarding the sale of property at 422 Walnut Street containing the 5th and Walnut Parking Garage, for private redevelopment.

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 closed from public access on January 15, 2017. Preliminary terms of an Urban Renewal Development Agreement with 5th and Walnut Parking, LLC (represented by Justin Mandelbaum, Developer, Mandelbaum Properties, 4500 Westown Parkway, West Des Moines, Iowa) 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 site.

In accordance with Iowa Code Section 403.8, notice of an urban renewal competitive process was published in the Des Moines Register on February 14, 2017, inviting competing proposals for the redevelopment of the property. During the competitive process, the City timely received a competitive proposal from Blackbird Investments, LLC (represented by Justin Doyle, Partner, Blackbird Investments, 130 East 3rd Street, Des Moines, IA 50309).

On March 24, 2017, a Council work session was held to review the competitive proposal from Blackbird Investments, L.L.C., and a comparative analysis on both proposals was presented. Staff has reviewed both proposals and recommends proceeding with the proposal from Blackbird Investments, L.L.C., as their proposal provides a greater level of defined benefits to the public, a larger hotel with a smaller percentage of tax increment financing incentives and a shorter timeframe for completion of the entire project.

Listed below are additional details on the Blackbird Investments, L.L.C. proposal and the staff recommendation.

FISCAL IMPACT:

Amount: The proposal with Blackbird Investments, L.L.C., provides that the developer will purchase the site for \$4 million and receive an economic development forgivable loan of the same amount. The project will receive 100% of the available project generated tax increment revenues for 20 years on the residential tower, podium parcel and the parking deck parcel. The project will also receive 90% of the available project generated tax increment revenues for 20 years on the hotel. The tax increment

incentives on the residential tower and the hotel are both capped at the amount paid in year 11, with any excess project generated tax increment revenues being applied to reduce the parking shortfall loan through year 20.

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 \$42,029,969 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 \$28.5 million (NPV of \$20.9 million, discounted at 3.5%). Shortfall loan advances will accrue interest annually at 1%.

The project provides for additional private contributions towards the retirement of the parking shortfall loan. The hotel will contribute \$1 million towards their land purchase, which will be placed in escrow and paid to the City upon the elimination of non-appropriation risk to the bondholders of the parking garage debt. The residential tower will also purchase the podium parcel parking spaces, estimated as 100 of the total 700 spaces for approximately \$6.6 million, which will also be placed in an escrow and paid to the City upon the elimination of non-appropriation risk to the bondholders of the parking garage debt.

Funding Source: Metro Center Tax Increment Financing District

ADDITIONAL INFORMATION:

As previously mentioned, the staff recommendation to proceed with the proposal from Blackbird Investments, L.L.C. was due to a greater level of defined benefits to the public, including but not limited to:

- Tower and hotel financial contributions towards the parking shortfall loan;
- \$4 million land sale is not included in the garage bond financing backed by the City;
- 150 room hotel on Court Avenue versus a minimum 50 room hotel on Walnut;
- The timing for the hotel completion to maximize the Reinvestment District benefits;
- A request for 90% of the project generated tax increment financing revenues over a 20 year period versus 100% for 20 years;
- Financial contributions of up to \$1 million in intersection improvements at 5th and Mulberry and 5th and Court;
- The timeframe for the re-engagement of the street level at Walnut;
- The proposed timelines for the reconstruction of the permanent skywalk; and
- The proposed timelines for completing the construction on the entire block.

Comments from Urban Design Review Board meeting on March 28, 2017:

- Would like to have square-foot details for the street-level commercial space on Walnut in the development agreement;
- Affordable housing component is progressive and addresses issues that need to be addressed by the City;
- The homeownership opportunities from the Blackbird proposal was expressed as being as big of a “game changer” as the theater opportunity;
- Concern about the lost opportunity for a movie-theater on Court Avenue and whether or not a movie-theater could be successful elsewhere downtown;

- Would like to see street level amenity as a requirement for either hotel (Mandelbaum hotel on Walnut or Blackbird hotel on Court);
- Concern with how complicated the HUD 213 financing process is and the ability to utilize this tool;
- Timelines to finish construction of the skywalk and the Walnut Street edge is a critical factor;
- Some members of the board did not feel they had enough time and information to review both proposals to make a recommendation, while other members felt enough information was included in the board packet to make an intentional decision;
- Expressed that the City is in a unique position in that we are getting to ask the question, not what do we get, but what do we want;
- Emphasis on selecting a developer that has the experience and capacity to see the project to fruition and willingness to complete the project within a reasonable timeframe; and
- Challenging decision and an atypical position for the board to be in.

The City Council may elect different actions with this agenda item. Alternatives include accepting either proposal as written or with modifications, continuing the hearing and requesting specific clarifications from staff and the Urban Design Review Board, or rejecting both proposals and providing staff with direction moving forward.

PREVIOUS COUNCIL ACTION(S):

Date: March 20, 2017

Roll Call Number: [17-0536](#)

Action: Items regarding the sale of property at 422 Walnut Street containing the Fifth and Walnut Parking Garage, for private redevelopment: ([Council Communication No. 17-285](#))

- (A) [Resolution](#) receiving competing proposal(s) and continuing hearings on the sale of the property and on the vacation of the alleys in and adjoining 422 Walnut Street, to April 3, 2017 at 5:00 PM. Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: March 28, 2017

Action: Motion to accept the staff recommendation for approval of the proposal by Blackbird Investments by Allen. Seconded by Reynolds. Motion failed upon the vote of Yes – 2, No – 0, Abstain – 4, Absent – 4.

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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