

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: July 10, 2017
	Agenda Item No. 26 Roll Call No. <u>17-1165</u> Communication No. <u>17-527</u> Submitted by: Erin Olson-Douglas, Economic Development Director

AGENDA HEADING:

Resolution approving first amendment to the Urban Renewal Development Agreement with 5th and Walnut Parking, LLC, regarding the sale and redevelopment of the Fifth and Walnut Parking Garage.

SYNOPSIS:

On April 3, 2017, the City Council approved an Urban Renewal Development Agreement with 5th and Walnut Parking, LLC, (Justin Mandelbaum, Developer, 4500 Westown Parkway, West Des Moines, Iowa) for an estimated \$110.8 million project that includes: the demolition of the existing parking garage; the construction of a new parking garage fronting 5th Street in the middle of the block with approximately 564 parking stalls; the construction of a movie theater or a hotel with a minimum of 150 guest rooms (the “South Building”) fronting on Court Avenue; and the construction of a building (the “Residential Building”) fronting on Walnut Street with a minimum of 25-stories and 200 apartment units. If the South Building is not a hotel, the Residential Building shall also contain a hotel with a minimum of 84 guest rooms.

The Development Agreement anticipated that the southern extension of the Skywalk Bridge over Walnut Street adjoining the property would be temporarily supported and retained during the demolition of the existing parking garage. The development team has now determined that this is not feasible and an amendment to the agreement is needed to allow the Developer to demolish the southern extension of the Skywalk Bridge over Walnut Street and to construct a temporary pedestrian corridor to reconnect that Skywalk Bridge to the Skywalk Corridor at the Kirkwood building until a permanent extension of the Skywalk Bridge is constructed as part of the Residential Building.

The development team has estimated that a temporary five (5) week closure of the Skywalk Bridge over Walnut Street will be needed for the necessary asbestos abatement procedures to take place, to demolish the southern extension of the Skywalk Bridge over Walnut Street, and to construct and reconnect a temporary pedestrian corridor.

The first amendment also includes an increase to the total number of parking spaces for the new parking garage facility from 564 to 671, an increase of 107 parking spaces. The additional spaces are anticipated to be occupied by an increase in the number of anticipated guest rooms needed for the hotel component of the project, the option to add office space above the theater building, and from parking demands related to other recent developments in the neighborhood. By comparison, the new garage is now anticipated to have 51 more parking stalls than the current City-owned garage at 5th and Walnut. Since the garage had not been fully designed at the time the development agreement was entered into, the agreement provided a formula to adjust the stipulated price of the garage up or down depending on the final number of parking stalls in the garage by \$46,547 per space, bringing the stipulated price of the new garage to \$44.3 million for the 671 stalls. The additional parking stalls provide for a more

financially efficient garage and projections indicate that the Shortfall Loan can be repaid one (1) year earlier, in year 32 of garage operations, if capacity benchmarks and targets are met.

Additional information on the benefits gained from the change in project scope and project timelines are provided below.

FISCAL IMPACT:

Amount: The First Amendment only affects the financial terms related to the Parking Shortfall Loan. All other terms regarding Tax Increment Financing incentives on the tower, garage and theater building remain the same. The Project will 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 \$44,326,475 (up from \$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 \$28.2 million, up from \$26.6 million (NPV of \$19.0, up from \$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:

Benefits gained from increase in project scope:

- Improved Parking Economics - The increase in garage size improves the anticipated economics of the parking garage, with a lower total cost per stall, a faster payback period and an increase in the interest earned by the City on the Shortfall Loan.
- Greater Parking Capacity for Court Avenue Entertainment District - Increases the portion of public parking available.
- Larger Hotel - The additional parking allows for a larger hotel, resulting in additional hotel/motel tax revenue, additional parking revenue and additional property tax revenues.
- Larger Theater Building - The additional parking allows for the option to include Class A office space above the movie theater, which would result in additional parking revenues and property tax revenues.

Project timelines:

- Demolition of the existing parking garage facility must commence by November 2017 and can begin any time after the Developer has the following:
 - A contract with a qualified demolition contractor to complete the demolition
 - An approved demolition plan
 - Financing in place for the demolition costs under the demolition contract
 - Preliminary closing on the land sale has occurred

- The temporary pedestrian pathway between the Skywalk Bridge over Walnut Street and the Kirkwood Apartments must be completed within 120 days of the initial closure of the existing connection between that Skywalk Bridge and the Kirkwood Apartments.
- Construction of the new parking garage must be commenced by April 30, 2018, and completed by October 31, 2019.
- The construction of the Residential Building, which will include the new Skywalk Corridor extending between the two (2) adjoining Skywalk Bridges and the restoration of those Skywalk Bridges must be commenced by October 31, 2019 and completed by September 1, 2022.

PREVIOUS COUNCIL ACTION(S):

Date: April 3, 2017

Roll Call Number: [17-0622](#), [17-0623](#), [17-0624](#), [17-0625](#), [17-0626](#), [17-0627](#), [17-0628](#), [17-0630](#), [17-0631](#)

Action: Items regarding the sale of property at 422 Walnut Street, containing the Fifth and Walnut Parking Garage, for private redevelopment: ([Council Communication No. 17-346](#))

- (A) [Communication](#) from the City Plan and Zoning Commission, regarding the vacation of the alleys in and adjoining 422 Walnut Street. Moved by Hensley to receive and file the report and recommendation of the City Plan and Zoning Commission. Motion Carried 7-0.
- (B) [Closing](#) the hearing on vacation of portions of the east/west alleys lying within 422 Walnut Street and approving same. Moved by Hensley to adopt. Motion Carried 7-0.
- (C) [First](#) consideration of ordinance vacating portions of the east/west alleys lying within 422 Walnut Street. Moved by Hensley that this ordinance be considered and given first vote for passage. Motion Carried 7-0.
 - (1) [Final](#) consideration of ordinance above (waiver requested by the Legal Department), six affirmative votes required for passage. Moved by Hensley that the rule requiring that an ordinance must be considered and voted on for passage at two Council meetings prior to the meeting at which it is to be finally passed be suspended, that the ordinance be placed upon its final passage and that the ordinance do now pass, [#15,575](#). Motion Carried 7-0.
- (D) [Closing](#) the hearing on vacation of the west 6.5 feet of the north/south alley lying east of and adjoining 422 Walnut Street, and approving same. Moved by Hensley to adopt. Motion Carried 7-0.
- (E) [First](#) consideration of ordinance above. Moved by Hensley that this ordinance be considered and given first vote for passage. Motion Carried 7-0.
 - (1) [Final](#) consideration of ordinance above (waiver requested by the Legal Department), six affirmative votes required for passage. Moved by Hensley that the rule requiring that an ordinance must be considered and voted on for passage at two Council meetings prior to the

meeting at which it is to be finally passed be suspended, that the ordinance be placed upon its final passage and that the ordinance do now pass, [#15,576](#). Motion Carried 7-0.

(F) WITHDRAWN.

(G) [Resolution](#) extending the 3-year deadline under the Skywalk Ordinance for replacement of the Skywalk Corridor in the Fifth and Walnut Parking Garage until August 19, 2028. Moved by Hensley to adopt, with the amendment that the extension is only for an additional 2 years, until September 1, 2022, with any further extension to be subject to further approval by the City Council. Motion Carried 7-0.

(H) [Resolution](#) closing hearing and approving Urban Renewal Development Agreement for Sale of Land for Private Redevelopment with 5th and Walnut Parking LLC for sale and redevelopment of the Fifth and Walnut Parking Garage at 422 Walnut Street. Moved by Hensley to adopt, subject to the Agreement being first amended by April 12, 2017 to incorporate a number of changes, and with the final Agreement to be subject to approval by the City Manager and the Legal Department to confirm that these changes have been appropriately incorporated into the Agreement. The changes are: 1. Construction of the garage shall be completed by October 31, 2019. 2. Construction must be commenced on the proposed theater building or a 150 room hotel on the southern parcel by October 31, 2019. If the south parcel is developed with a hotel, then the assistance for the hotel shall be limited to 90% of Project TIF, and the Developer must pay \$1 million to the City in partial repayment of the \$4 million Forgivable Economic Development Loan. 3. Construction must be commenced on the residential building on the northern parcel by October 31, 2019. If a hotel is constructed on Court Avenue, then the residential building on Walnut Street can be devoted entirely to apartments. 4. If a hotel is not constructed on the Court Avenue frontage, then the residential building on Walnut Street shall contain a hotel with at least 84 lodging rooms. 5. Other amendments negotiated by the City Manager are consistent with the principle terms of the Agreement as summarized in the roll call, and the first four amendments above. And to direct the City Manager to schedule a work session to consider appropriate policies and procedures regarding the sale of City-owned real estate for private redevelopment. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: March 14, 2017

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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