

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: July 17, 2017
	Agenda Item No. 3 Roll Call No. [] Communication No. <u>17-542</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.

The first amendment also includes a clause that prior to the start of construction of the new parking garage, that the Developer will demonstrate to the satisfaction of the City Manager that the Developer has paid an amount exceeding one-half of the Developer Fee for the new parking garage, to unrelated parties for professional services for, or directly related to, the design, pricing and financing of the Residential Building and the South Building, exclusive of the costs for the purchase and clearance of the land.

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 million, 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: [17-1165](#) and [17-1166](#)

Action: [First](#) Amendment to Urban Renewal Agreement for Sale of Land for Private Redevelopment with 5th and Walnut Parking LLC regarding the sale and redevelopment of the Fifth and Walnut Parking Garage at 422 Walnut Street. ([Council Communication No. 17-527](#)) Moved by Hensley to continue to a special Council meeting to be held on July 17, 2017 at 4:00 PM. Motion Carried 7-0.

- (A) [Approving](#) private construction contract between the Weitz Company, LLC and 5th and Walnut Parking, LLC for Skywalk Bridge Improvements in Skywalk Bridges 4C-4D (Over Walnut) and 4C-5C (Over 5th), \$137,000. Moved by Hensley to continue to a special Council meeting to be held on July 17, 2017 at 4:00 PM. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: March 14, 2017

Resolution Number: 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:

- Traffic Study
- 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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