

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	June 11, 2018
	Agenda Item No.	56
	Roll Call No.	<u>18-1016</u>
	Communication No.	<u>18-294</u>
	Submitted by:	Erin Olson-Douglas, Economic Development Director

AGENDA HEADING:

Approving competitive bid process for sale and redevelopment of two (2) City-owned surface parking lots at 418 East Grand in the Metro Center Urban Renewal Project Area and receipt of redevelopment proposal from Nelson Development 1, LLC and setting date of hearing for July 23, 2018.

SYNOPSIS:

The City owns two (2) surface parking lots on an approximate 1.2-acre site located between Des Moines Street and East Grand Avenue along East 4th Street. Nelson Development 1, LLC (Michael Nelson, President, Nelson Development, 216 6th Avenue, #200, Des Moines, IA 50309) is proposing an estimated \$35.8 million project that would occur over two (2) phases.

The first phase of the project would be to construct a 399-stall parking structure, which would span the entire northern portion of the block including the surface lot at the northeast corner of the block that is currently owned by Capitol Hill Lutheran Church. Nelson Development has entered into a purchase agreement with Capitol Hill Lutheran Church to acquire their surface lot for the development pending approvals of a development agreement with the City. The parking structure would be privately owned, operated and maintained by Nelson Development. The 3-story parking structure would utilize the topography of the site and be built into the hill so that the third story is at grade level on the East 5th Street side.

The second phase of the project would commence after the completion of the parking structure and consists of a 5-story mixed-use building with approximately 36,000 square feet of commercial, retail and office space on the ground floor and second story, and 105 market rate residential apartment units on the upper three (3) stories. A minimum of 10% of the residential uses within the upper three (3) levels of the mixed-use building shall be committed to affordable housing units by keeping rent structures for said units at rates equal to the 65% rent limit as published by the U.S. Department of Housing and Urban Development (HUD) under its HOME Program Rents for Des Moines-West Des Moines, IA Metropolitan Statistical Area (MSA). This rent limit corresponds to individuals who earn 80% of the area median income (AMI). The second phase must exceed applicable Energy Code requirements and participate in Mid-American Energy's Commercial New Construction program.

The proposed development agreement includes project-generated tax increment financing on the garage and the mixed-use building as well as a 20-year parking lease agreement for the public use of 133-ground level parking spaces. Additional details on the proposal and background on the property are included below.

FISCAL IMPACT:

Amount: The financial assistance package consists of the following: The Developer will purchase the two (2) City-owned surface parking lots for \$1,525,000 and receive an economic development forgivable loan of the same amount.

Phase I: 399-stall parking ramp:

- 100% of the project-generated tax increment in years 1-20 estimated at \$2.4 million on a cash basis (\$1.5 million on a net-present-value basis at a 4.5% discount rate).
- The cost of the parking lease for the 133 spaces will be \$215,460 in year one (1) (\$135 per month per stall) and will be subject to annual inflation based on the Consumer Price Index.
- The City will collect all revenues from the public use of the 133 licensed spaces to help offset the annual cost of the parking lease.
- The Office of Economic Development and Traffic and Transportation staff are researching and working through an internal strategy for the operation and enforcement of the public use of the 133 licensed spaces.

Phase II: 5-story mixed-use building:

- The residential portion of the building will be eligible for 10-year declining tax abatement (100% in years one {1} through eight {8}, 60% year nine {9}, and 40% year 10). The financial assistance package would also consist of 100% of the project-generated tax increment in years nine (9) through 16 and 70% in year 17. Total estimated project generated tax increment on the residential portion is estimated at \$1.6 million on a net-present value at a 4.5% discount rate.
- The financial assistance package for the commercial portion of the building is a 15-year declining project-generated tax increment structure with 100% in years one (1) through 10 and 85% years 11 through 15. Total estimated project generated tax increment on the commercial portion is estimated at \$1.9 million on a net-present-value basis at a 4.5% discount rate.
- Total project-generated tax increment on phase two (2) is estimated at \$3.5 million on a net-present value at a 4.5% discount rate, equating to approximately 15% of the project sources.

Funding Source: Land sale proceeds to fund the forgivable loan. Metro Center Tax Increment Finance (TIF) district to fund the development agreement obligations – a specific fund code will be assigned by the Finance Department. Parking Enterprise Fund to fund the parking lease obligations and receipt of parking revenue.

ADDITIONAL INFORMATION:

- The City acquired this vacant property in 2003 for future redevelopment and currently leases the land to Nelson Development for parking for the adjacent office building at 430 East Grand, owned by Nelson Development 10, LLC (previously occupied by Iowa Workforce Development).
- The current lease with Nelson Development requires the surface lots to be open to the public after Monday through Friday work hours and on weekends.
- The license for the 133 ground level parking spaces provides a replacement of the current transient parking and will help promote higher density, higher value uses on surrounding blocks with redevelopment potential.

- The project site is located within the downtown utility undergrounding district and will be required to bury the overhead utilities located along Des Moines Street and East 5th Street.
- The developer has committed to durable construction materials including a steel and concrete structure with exterior finishes utilizing high quality materials such as full dimension brick, concrete and architectural metal panels for the mixed-use building.
- Commencement of construction is planned for August 2018 with completion of Phase II anticipated for July 2021.

PREVIOUS COUNCIL ACTION(S):

Date: March 19, 2018

Roll Call Number: [18-0478](#)

Action: [Authorization](#) to negotiate agreement based on preliminary terms with Nelson Development, LLC for residential and commercial development at 418 E. Grand Avenue. ([Council Communication No. 18-124](#)) Moved by Mandelbaum to 1. Negotiate a minimum of 10% affordable housing units at the 80% or lower average median income. 2. Include an energy efficiency component; and refer to the City Manager for review and recommendation regarding development of a policy for future projects. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: April 24, 2018

Resolution Number: N/A

Action: Motion to approve final design of Phase I by Heiman-Godar. Seconded by Rypma. Motion carried. Yes – 6, No – 0, Absent – 4, Abstain – 0.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Hold hearing for sale of land and vacation of any subsurface encroachments July 23, 2018.
- Urban Design Review Board – Final Design Recommendation on Phase II.

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