


COUNCIL COMMUNICATION

	Number:	19-140	Meeting:	March 25, 2019
	Agenda Item:	29	Roll Call:	19-0479
	Submitted by:	Erin Olson-Douglas, Economic Development Director		

AGENDA HEADING:

Resolution approving an urban renewal development agreement with Merle Hay Investors, LLC for rehabilitation of the existing mall property and repurposing of the Sears site.

SYNOPSIS:

Merle Hay Investors, LLC (Elizabeth Holland, CEO/General Counsel, Abbell Credit Corporation, LLC, 30 North LaSalle Street, Suite 2120, Chicago, IL, 60602-2509) is requesting financial assistance from the City to address the fact that two (2) anchors at Merle Hay Mall have closed. After more than 59 years of continuous operation, Sears and Younkers closed within 45 days of each other.

All of the lease agreements with the smaller in-line stores have requirements for: 1) number of anchors connected to the mall; and 2) co-tenancy within the mall (70%-80% of in-line stores must be occupied). With two (2) anchors now closed, many leases allow tenants to pay less rent, which impacts the financial ability of the mall to make improvements to available space to ensure that co-tenancy requirements are met.

Staff has negotiated final terms of a financial assistance package to allow Merle Hay Investors to renovate existing spaces within the mall for new tenants and to redevelop the existing Sears site to allow for re-tenanting.

FISCAL IMPACT:

Amount: The financial assistance package will consist of semi-annual installments of \$200,000 (up to \$400,000 per year) from the Merle Hay Tax Increment Finance (TIF) District for the remainder of the life of the TIF District (12 years). Total amount is \$4.8 million. The funds will be divided between the two (2) efforts: renovation of the existing mall (Phase A improvements) and redevelopment of the Sears site (Phase B improvements). The first six (6) semi-annual installments would be used for reimbursement of documented project costs to third party providers for the renovation of the existing mall; the 7th and all subsequent semi-annual installments (years 4-12) would be disbursed only if Merle Hay Investors, LLC or a related entity has acquired the Sears building and site. \$37,500 (up to \$75,000 per year) of each such semi-annual payment would be used for reimbursement of documented project costs to third party providers for the renovation of the existing mall, with the balance of \$162,500 (up to \$325,000 per year) required to be used for reimbursement of documented project costs to third party providers for redevelopment of the Sears site.

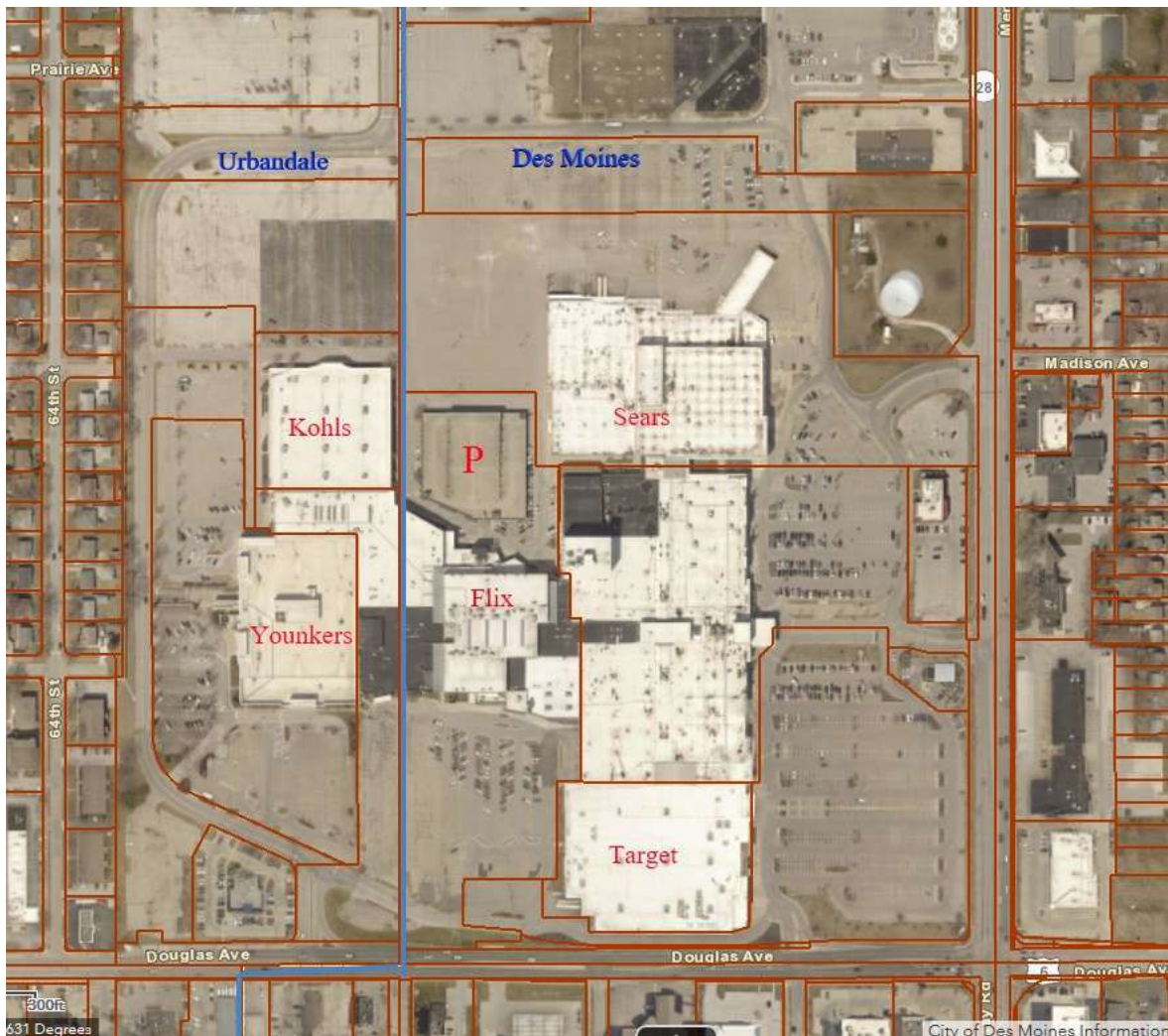
Funding Source: Merle Hay Commercial Area Urban Renewal Area TIF District

ADDITIONAL INFORMATION:

- Merle Hay Mall is an approximately 975,000-square-foot enclosed mall, sitting on 75-acres in the northwest area of Des Moines. The mall is located at the intersection of Merle Hay Road and Douglas Avenue, which is one (1) of the busiest intersections in Iowa at 47,000 vehicles per day. It is a regional asset and is one (1) of two (2) designated regional nodes in Plan DSM, the City's Comprehensive Plan.
- Current Development Agreements - The mall receives up to a maximum of \$400,000 per year in TIF dollars for improvements made to the streetscape facing Merle Hay Road (Phase 1) and for the improvements associated with Flix (Phase 2). There is an existing minimum assessment agreement of \$18,686,000 on District/Parcel No. 100/09472-001-012.
 - July 14, 2008, Roll Call No. 08-1243: Merle Hay Mall – streetscape improvements – up to a maximum of \$400,000 for 15 years.
 - June 24, 2013, Roll Call No. 13-1030: Merle Hay Mall Phase 2 – demolition of southern parking garage, renovation of 2-level portion of western concourse (Flix) – up to a maximum of \$400,000 for four (4) years, beginning in 2026 (after Phase 1 payments conclude).
- Status of TIF District - The Merle Hay Mall Urban Renewal Area has generated \$22.7 million in tax increment valuations since its inception in 2010. Approximately \$9 million of the existing increment (or 40%) is needed to pay existing urban renewal obligations within the area. Outstanding obligations of the urban renewal area include: Merle Hay Mall Phase 1 (up to a maximum of \$3 million remaining over the next 7.5-years), 3801, LLC (approximately \$316,000 remaining over the next 9.5-years), and Merle Hay Mall Phase 2 (up to \$1.6 million – adding an additional four {4} years of payments after the conclusion of payments on Merle Hay Mall Phase 1 agreement). Any proposed semi-annual installment would be subject to the availability of tax increment in that fiscal year from the TIF District, after payment of the installments due on the three (3) prior agreements.
- Rehabilitation and aggregation of tenant spaces (Phase A improvements) - Merle Hay Investors, LLC has reported tenant interest from a variety of retailers, restaurateurs, and entertainment purveyors who would rent renovated spaces within the existing mall. Additionally, Drake Head Start and a swim school have expressed interest in locating in the Merle Hay Mall. Due to the age of the building, improvements required for these tenants are more extensive than typical tenant improvements, often requiring significant updates to the HVAC, electrical and plumbing systems, demising walls, etc. to make them more efficient and functional. In some cases, existing tenants are being relocated to allow for aggregation of space for larger users. The City incentives could be used only for reimbursement of the documented project costs paid to third party providers for the redevelopment of the in-line tenant space.
- Redevelopment of Sears site (Phase B improvements) - Polk County has approved a loan agreement with Merle Hay Mall to allow the purchase of Sears for up to \$2 million. Terms are 1% interest over 15-years. Merle Hay Mall has proposed a plan that shows renovation of the existing building and three (3) new mid-sized anchor tenants within a portion of the Sears building that would potentially offer furniture, home furnishings and pet supplies. There has

also been discussion of moving existing tenants to the Sears site. Rehabilitation of the interior and exterior of the building and the site is necessary to accommodate new tenants.

- Energy efficiency - The proposed development agreement requires that mall ownership participate in the Energy Star benchmarking process, with a subsequent commitment to an energy efficiency improvement plan that aligns with the duration of the assistance for Phase A improvements. The grant for the Sears portion (Phase B improvements) requires participation in the Commercial New Construction program (or equivalent) through MidAmerican Energy and requires commitment to energy efficiency improvements aligned with the duration of the assistance.
- Des Moines Area Regional Transit Authority (DART) - The proposed development agreement requires that on or before August 23, 2019, mall ownership will cause DART to provide bus service to a bus stop that is close to and conveniently accessed from one (1) of the public entrances into the public corridors within Merle Hay Mall.
- The proposed development agreement requires the following for the existing mall (Phase A improvements):
 - Minimum assessment for remaining portion of mall (District/Parcel No. 100/09472-002-002)
 - Agreement from lender(s) on application of funds
- The proposed development agreement requires that the release of funds for renovation of the Sears site (Phase B improvements) will require at least the following:
 - Acquisition of Sears property
 - Utilization of all of Polk County's loan for repurposing of Sears if acquisition cost is less than \$2 million
 - Submittal of documented project costs for the redevelopment of the Sears building
 - Approved master plan of the entire redevelopment property owned by Merle Hay Investors, Merle Hay Mall, Merle Hay Partners, and other related entities, including new uses, such as office, hotel, housing, entertainment and recreational uses, and new tenants, with emphasis on pedestrian connections, transit access, and stormwater improvements for both existing and new development
 - Approved conceptual development plan for Sears site
 - 75,000 square feet of the ground floor of the Sears building must be occupied by lease-paying tenant(s) approved by the City by 2022
 - Minimum assessment agreement for Sears site (District/Parcel No. 100/09472-004-001)
 - Agreement from lender(s) on application of funds
 - Subject to availability of funds, application to the State's Brownfield/Grayfield tax credit program in 2019 (and beyond until funds are allocated)
 - Payments would be based on availability of funds in the Merle Hay TIF District
- Jurisdiction of mall property - The mall property is in both Urbandale and Des Moines (see map below). Sears, Target, Younkers, and Kohl's are currently under separate ownership. Younkers and Kohl's are in Urbandale, and Sears, Target, and the remainder of the mall are within the City of Des Moines.

**PREVIOUS COUNCIL ACTION(S):**

Date: January 28, 2019

Roll Call Number: [19-0151](#)

Action: [Authorizing](#) the City Manager to negotiate a Development Agreement based on preliminary terms with Merle Hay Investors, LLC for rehabilitation of existing mall property and repurposing of the Sears site. ([Council Communication No. 19-038](#)) Moved by Gray to approve the preliminary terms of agreement as identified, and to authorize and direct the City Manager or the City Manager's designee to negotiate a final agreement for the renovation of the existing spaces within the mall for new tenants and to redevelop the existing Sears site to allow for re-tenanting, for consideration by the City Council at a later date. Motion Carried 6-1. Nays: Westergaard.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: February 19, 2019

Resolution Number: N/A

Action: Motion to recommend approval of the second amendment to the urban renewal plan by Heiman-Godar. Seconded by Weisenbach. Motion carried. Yes – 6, No – 0, Abstain – 0, Absent – 4.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Should mall ownership buy the Sears site:

- Approval of Master Plan – Urban Design Review Board and City Council
- Approval of Conceptual Development Plan – Urban Design Review Board and City Council
- Approval of Minimum Assessment Agreement

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