

# COUNCIL COMMUNICATION

	Number:	<b>21-167</b>	Meeting:	<b>April 5, 2021</b>
	Agenda Item:	<b>19</b>	Roll Call:	<b>21-0542</b>
	Submitted by:	<b>Erin Olson-Douglas, Development Services Department Director</b>		

## AGENDA HEADING:

Resolution approving final terms of an Urban Renewal Development Agreement with McKinley Manor, LLC (d/b/a Percy's Landing Senior, LP), for the renovation of the 18,904-square-foot vacant school building located at 1801 McKinley Avenue for purpose of converting into a 20-unit senior housing development.

## SYNOPSIS:

Percy's Landing Senior, LP (JB Conlin, Officer, Conlin Properties, 3721 SW 61st Street, Suite A, Des Moines, IA 50321), is proposing a \$4.5 million renovation to the currently vacant former Percy Hoak Elementary School building located at 1801 McKinley Avenue, to utilize the building for 20 new senior housing apartment units on a project to be known as Percy's Landing. The project is seeking housing tax credits from the Iowa Finance Authority (IFA) and is not likely to move forward without receipt of the tax credits and urban renewal assistance proposed with this agreement. The applicant intends to make their housing tax credit application in May of 2021, with an award for the upcoming tax credit allocation expected in September 2021. If awarded during this next cycle, the project is intended to start construction in the spring of 2022 with completion anticipated in the summer of 2023.

The Office of Economic Development has negotiated final terms of an Urban Renewal Development Agreement with McKinley Manor, LLC, which provides for Tax Increment Financing (TIF) to assist with responding to a financing gap as presented by the development team. The financing gap on the project is largely related to the significant asbestos remediation necessary to reoccupy the building, and the scope of work required to convert the building to a residential use. Additional details on the final terms are provided below.

## FISCAL IMPACT:

Amount: The final terms propose a non-project generated economic development grant of approximately \$30,000 paid annually from the Fleur Drive Commercial TIF District over a 6-year period (totaling \$180,000), and an overlapping 10-year, 100% project generated economic development grant estimated at \$327,940. The estimated cumulative value of the assistance is \$507,940 on a cash value basis, or \$377,588 on a net present value (NPV) basis at a 4.5% discount rate. If the project is delayed due to not receiving a housing tax credit award during this application cycle, the project-generated economic development grant will be reduced from what is indicated above, as TIF assistance will lapse when the TIF district and Urban Renewal Plan are scheduled to expire in 2034. The project is not located in an area eligible to receive residential tax abatement. The TIF assistance represents 8.4% of the total project costs.

Year	Estimated Taxes Received without Project*	Estimated Taxes Received with Project*	Estimated Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$176,240	\$424,178	\$402,558	\$21,620
Sum 20 Years	\$380,424	\$1,058,286	\$507,940	\$550,346
Sum 30 Years	\$605,887	\$1,831,166	\$507,940	\$1,323,226

\*Taxes include all property taxing authorities (not just City property tax dollars).

\*Taxes received estimates used the following assumption (2.5% growth in reassessment years, 1.5% growth in non-reassessment years).

\*Building and land valuation assumptions at completion of construction:

\$838,060 building valuation

\$355,000 land assessment

Funding Source: Tax increment from the Fleur Drive Commercial Urban Renewal Area and from increment generated by the project.

#### **ADDITIONAL INFORMATION:**

- The former Percy Hoak Elementary School was built in 1960 and served as a public school until it was shuttered in the early 1980's and eventually sold. The building served as the home of the Society of Italian Americans/Stemma D' Italia lodge until it was sold to Conlin Properties in 2013. The building has predominantly sat vacant since that time, with several other redevelopment proposals contemplated over the past decade, but none have moved forward.
- The conversion of the building into 20 apartment units for senior housing will include a community room along with 2 (two) studio apartments, 13 bedroom apartments, and 5 (five) 2-1-bedroom apartments, each equipped with a full set of appliances to include in-unit laundry. The current assessed building valuation is \$24,000. Reinvestment in the building will increase the property's valuation and put a vacant building that's fallen into disrepair into productive use once again.
- The Developer has sought pricing estimates for demolition including required asbestos remediation work, which is estimated to cost \$450,000. This significant expense on a smaller multi-family project, in conjunction with other necessary improvement to convert the building to residential and bring up to building code have presented a construction cost gap on the project that is intended to be partially addressed with the TIF economic development grant.
- The site is proximate and walkable to commercial services such as a grocery store, pharmacies, restaurants, and other retailers. Transit service is provided on Fleur Drive, with several stops adjacent to the commercial shopping plaza located at Fleur Drive and McKinley Avenue.
- The Developer shall meet or exceed the applicable Energy Code requirements and shall participate in Mid-American Energy's Commercial New Construction program. The final program verification report shall be provided to the City prior to issuance of the initial financial assistance payment. The Developer has enlisted the Weidt Group to provide an energy audit for the project.

- The development agreement will require the Developer to install electrical conduit to at least four (4) parking spaces to be ready to supply power to electric vehicle (EV) charging stations as future demand warrants.
- The project will be seeking participation in the IFA's Housing Tax Credit program, using a competitive 9% tax credit. Per program requirements, the Developer will be required to ensure that 40% or more of the units in the project will be occupied by individuals or families whose income is 60% or less than the area median gross income (AMI) and the unit is rent-restricted.
- The site is large enough to accommodate future phases of additional development on the vacant land north of the school building. While specifics on additional projects are proposed or known at this time and are not under the scope of this agreement, the RX1 zoning designation makes residential and lighter-intensity commercial uses possible.

#### Vicinity Map



#### **PREVIOUS COUNCIL ACTION(S):**

Date: November 23, 2020

Roll Call Number: [20-1885](#)

Action: [Preliminary](#) terms of an Urban Renewal Development Agreement with Percy's Landing Senior, LP, for the renovation of the 18,904 square-foot vacant school building located at 1801 McKinley Avenue for purposes of converting to a 21-unit senior housing development. ([Council Communication No. 20-507](#)) Moved by Gatto to approve the preliminary terms of agreement as set forth in the accompanying Council Communication, and to direct the City Manager or his designee to negotiate final terms of agreement for future consideration by the City Council. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S):**

Board: Urban Design Review Board

Date: January 5, 2021

Resolution Number: N/A

Action: Motion to recommend approval of the financial assistance as presented by Clark. Seconded by Morgan-Huggins. Motion carried. Yes – 8, No – 0, Abstain – 0, Absent – 1. Motion to recommend approval of the final design noting Board comments regarding the site development and reduction of pavement and continued park improvements; and that staff provide an update as the project is developed as how future phases could be incorporated by Morgan-Huggins. Seconded by Hanley. Motion carried. Yes – 8, No – 0, Abstain – 0, Absent – 1.

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Issuance of Certificate of Completion upon construction of the project being satisfactorily finished.

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