

# COUNCIL COMMUNICATION

	Number:	<b>22-225</b>	Meeting:	<b>May 9, 2022</b>
	Agenda Item:	<b>37</b>	Roll Call:	<b>22-0700</b>
	Submitted by:	<b>Erin Olson-Douglas, Development Services Department Director</b>		

## AGENDA HEADING:

Resolution approving preliminary terms of an Urban Renewal Development Agreement with 106 SW 7th Street, LLC for the phased historic renovation and conversion of the existing 4-story warehouse building at 106 SW 7th Street into office space and renovation and conversion of the existing 2-story warehouse building at 113 SW 8th Street for commercial space.

## SYNOPSIS:

106 SW 7th Street, LLC (Tim Rypma of Rypma Properties, Managing Member, 519 ½ East Grand Avenue, Des Moines, IA 50309) is proposing a \$24.3 million project that will occur over two (2) phases. The first phase is a historically compatible renovation and conversion of the existing 4-story, approximately 46,816-square-foot warehouse building located at 106 SW 7th Street into Class A commercial office space that will include ancillary site improvements such as landscaping and parking lot refurbishment. The second proposed phase is to renovate and convert the existing 2-story 19,520-square-foot warehouse building located at 113 SW 8th Street to commercial space that is conducive for restaurant, tavern, or entertainment uses.

The Office of Economic Development has negotiated preliminary terms of an urban renewal development agreement with 106 SW 7th Street, LLC, which provides for tax increment financing (TIF) to respond to a financing gap on the project, as presented by the development team and vetted by city staff. Additional details on the preliminary terms are provided in the fiscal impact section below.

## FISCAL IMPACT:

Amount: The financial terms propose an economic development grant for 20 years at a declining schedule for both phases. The first phase at 106 SW 7th Street is proposed to receive tax increment financing (TIF) incentives generated from the increment on the building valuations (exclusive of land) with a schedule of 95% in years 1-16, 90% in years 17-20, with a capped maximum amount of assistance at \$3.7 million on a net present value basis. The phase one (1) incentive is approximately \$6.5 million on a cash basis (\$3,700,000 on a net present value {NPV} at a 4.5% discount rate). The second phase is proposed to receive TIF incentives generated from the building valuation (exclusive of land) with a schedule of 95% in years 1-16 and 90% in years 17-20, with a capped maximum amount of assistance at \$975,000 (NPV). The phase two (2) incentive is approximately \$1.65 million on a cash basis (\$975,000 on a NPV at a 4.5% discount rate). Cumulatively, the TIF represents 19.8% of total project costs.

The project is not eligible to receive commercial tax abatement. The total current assessed value for both buildings and associated land is \$2,396,000. Upon completion of both phases of the project, the

projected assessed total value is estimated at \$13,183,280. A minimum assessment agreement will be a component of the development agreement for the Phase I office project to ensure that the projected assessed value will be achieved without the ability for the owner to protest the assessment below the agreed upon amount for the duration of the development agreement.

Year	Estimated Taxes Received without Projects*	Estimated Taxes Received with Projects**	Estimated TIF Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$1,072,524	\$5,873,388	\$3,794,959	\$2,078,429
Sum 20 Years	\$2,379,768	\$12,863,334	\$8,332,437	\$4,530,897
Sum 30 Years	\$3,973,100	\$21,136,503	\$8,332,437	\$12,804,066

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

\*\*Taxes received estimates used the following assumptions: 2.5% growth in re-assessment years, 1.5% growth in non-re-assessment years.

Building and Land Valuation Assumptions at Completion of Construction:

\$ 9,363,200 Phase I Building Assessment (106 SW 7th Street)  
 \$2,518,080 Phase II Building Assessment (113 SW 8th Street)  
 \$ 1,302,000 Land Assessment (cumulative)

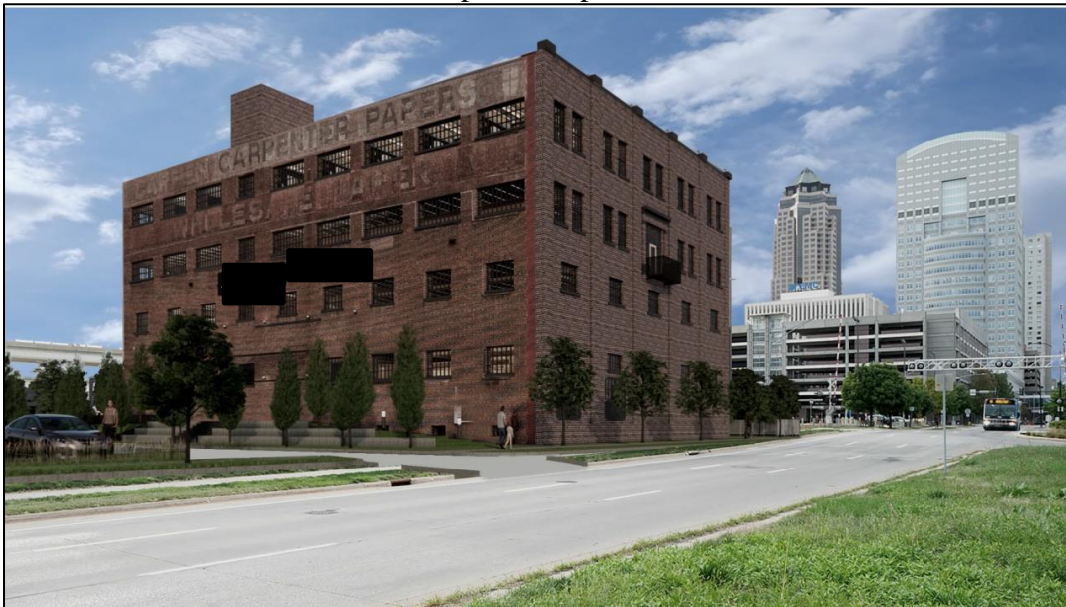
Funding Source: Tax increment generated by the project in the Metro Center Urban Renewal Area.

#### **ADDITIONAL INFORMATION:**

- The development team is seeking federal and state historic tax credits and is working with the State Historic Preservation Office (SHPO) on design requirements for the historic renovation of the Carpenter Paper Warehouse at 106 SW 7th Street. The building was originally constructed in 1917 and used as offices and warehouse space for the company until 1987. The building was subsequently purchased by EMC Insurance Company and was used for document storage space until recent years. EMC has recently announced the intent to sell the Carpenter Paper Warehouse and the adjacent 2-story Lortex, Inc. warehouse building that was originally constructed in 1970.
- The buildings were once part of a significant warehousing and industrial area on the south end of downtown, that was adjacent to rail lines that serviced many warehouses and manufacturing plants that were in the area. The Carpenter Paper Warehouse also abutted the former SW 7th Street viaduct with the entrances to the company office located on the third floor with direct access from the viaduct, which has since been demolished.
- The project will be an adaptive reuse of otherwise lightly used warehouse space, putting the visible property into a more productive use. It is anticipated that this project could spur additional interest in the development of adjoining surface parking lots in the surrounding area.
- The project will utilize Mid-American Energy's Commercial New Construction Energy Efficiency Program for both phases of the project and the developer is currently researching energy efficiency options for the buildings.
- The developer has agreed to include electric vehicle charging stations in both phases of the project and will make onsite parking electric vehicle charging ready to the extent possible by installing the necessary conduit in both phases.

- The developer has agreed to explore compliance with the 2021 Energy Conservation Code as they continue to finalize the design of the project.
- The developer has agreed to installation of all-electric heat equipment in the commercial office building at 106 SW 7th Street or agrees to documentation explaining Developer’s decision and rationale for not installing said equipment to the satisfaction of the City’s Development Services Director.
- The developer is also exploring a potential partnership with Des Moines Area Regional Transit (DART) in their Unlimited Access Partner program for potential tenant(s) within the office building portion of the project.
- The City’s Engineering Department has requested the installation of a new 10-foot-wide sidewalk segment along the north side of Martin Luther King Jr. Parkway adjoining this development.

Conceptual Renderings  
Phase I- Carpenter Paper Warehouse



Phase II- Lortex Building



**PREVIOUS COUNCIL ACTION(S): NONE**

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

- Urban Design Review Board – phase one (1) and two (2): financial assistance recommendations and phase one (1) design recommendations
- City Council – final terms of Urban Renewal Development Agreement
- Urban Design Review Board – phase two (2) design recommendations

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