

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

00-484

SYNOPSIS -

AGENDA:

OCTOBER 23, 2000

On the October 23, 2000, Council agenda is a communication recommending the preliminary Terms of Agreement between the City and Kent Mauck for the renovation of the Kenyon Building located at 301 Grand. Kent Mauck is the owner of Mauck and Associates located at 516 Third Street in Des Moines.

SUBJECT:

KENYON BUILDING
- 301 GRAND
AVENUE

Mr. Mauck (hereinafter referred to as Developer) is proposing to rehabilitate the Kenyon Building for use as a first class commercial office building. The building is a two-story structure containing approximately 23,000 square feet of leasable space. The rehabilitation of the Kenyon Building will stabilize a blighted building that has been empty and deteriorating for a number of years.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

The Developer estimates the rehabilitation to cost \$2.2 million and has requested City assistance to meet a financial gap so the project may proceed. City staff is proposing a City development loan in the amount of \$125,000 at a 3 percent interest rate to be repaid by the project, and an economic development grant to be paid in eight annual installments of \$20,000 from tax increment financing (TIF) revenues. The net present value of the economic development grant equates to the present value of the projected tax abatement on the project's eligible value-added improvements under the three-year 100 percent tax exemption schedule. The Developer has agreed to a minimum assessment agreement on the completed project of \$1,320,000, and not to apply for tax abatement on the project. The terms and conditions of the proposed development loan will be finalized during negotiations with the Developer and presented to City Council for approval.

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

FISCAL IMPACT -

The City's development loan in an amount of \$125,000 at a 3 percent interest rate and will be funded from the Economic Development Enterprise Account. Payments will be deferred until the project's second mortgage financing is repaid to the bank. The economic

development grant is to be paid in annual installments of \$20,000 for a period not to exceed the initial term of the lease from Metro Center Urban Renewal Area TIF revenues. The Developer has agreed not to apply for tax abatement on the project. Based on the minimum assessment agreement of \$1,320,000, the project will generate an estimated increase in net new property taxes (after the economic development grant) of \$244,000 over the initial eight-year term of the lease.

RECOMMENDATION -

Direct the City Manager to:

- 1. Prepare a development agreement with Kent Mauck for the renovation of the Kenyon Building based on the general terms of agreement set forth in this communication.**
- 2. Refer this matter to the Urban Renewal Board and any other City Boards and Commissions, as necessary, for their review and comment at the appropriate times.**

BACKGROUND -

Kent Mauck is the owner of Mauck & Associates located at 516 Third Street, Des Moines. He resides at 3822 Greenwood Drive, Des Moines. Mr. Mauck is proposing the rehabilitation of the Kenyon Building located at 301 Grand for commercial office space. The rehabilitation of the Kenyon Building will stabilize a blighted building that has been empty and deteriorating for a number of years.

The total project cost for rehabilitation of the building is estimated at about \$2.2 million. The Developer has been able to secure commercial bank financing from the Iowa Savings Bank for \$1,450,000. The Developer initially requested City assistance in the amount of \$450,000. City staff, the Developer, and the Bank were able to agree to a structure whereby the bank will provide additional second mortgage financing in the amount of \$325,000, provided the City agrees to buy down the interest rate with economic development grant funds. City staff propose an economic development grant to be paid in annual installments of \$20,000 from the Metro Center Urban Renewal Area tax increment revenues over the initial term of the lease or until the second mortgage is repaid, whichever is the shorter term. The economic development grants are equal to the present value of the anticipated tax abatement that the project would be

eligible to receive under the City's urban revitalization three-year 100 percent exemption schedule.

The City will also provide a \$125,000 development loan at a 3 percent interest rate and secured by a third mortgage on the building. Payments on the City development loan will be deferred until the second mortgage is repaid to the bank. The City development loan will be disbursed to the developer at the beginning of construction to assist in the initial stabilization of the building.

Following is a summary of the proposed financing structure:

First Mortgage Loan (80 percent of Cost)	\$ 1,450,000
Second Mortgage Loan	325,000
City Development Loan	125,000
Equity	275,000
Total Project Costs	\$ 2,175,000

The Developer has negotiated a preliminary commitment from RDG Bussard Dikis Architects and related companies to lease the Kenyon Building for an initial term of eight years with additional options thereafter. It is anticipated that the tenant of the building would employ about 40 individuals and be able to grow by at least ten additional employees at the site.

Terms of Agreement

Based on discussions with the Developer and the Iowa Savings Bank, an understanding has been reached on the following general points which will comprise the key features of a proposed agreement as outlined below. These points will be defined in detail as part of a formal development agreement between the City and Kent Mauck.

1. The Developer will undertake the renovation of the Kenyon Building to provide general/professional office space. The total project cost for the renovation of the Kenyon Building will be at least \$2.2 million.
2. The Developer will acquire construction and permanent first mortgage financing in an amount of at least \$1,450,000, and second mortgage financing in an amount of at least \$325,000.

3. The Developer agrees to enter a minimum assessment agreement on the value of the rehabilitated property in an amount of \$1,320,000.

4. The Developer agrees not to apply for tax abatement on the value added improvements resulting from the project.

5. The City will provide an economic development loan to Kent Mauck in an amount of \$125,000 at a 3 percent interest rate and secured by a third mortgage on the project. Payment of the loan will be deferred until the second mortgage financing is repaid in full. The loan will be disbursed to the Developer as part of the early building stabilization and rehabilitation, but only after a loan commitment(s) is secured from a commercial bank in the amounts referenced in paragraph 2 above.

6. The City will provide economic development grants through the Metro Center Urban Renewal Area TIF revenues in the amount of \$20,000 for a period equal to the initial term of the lease (eight years) or until the second mortgage is repaid, whichever is the shorter term.

7. The Developer agrees to apply excess cash flows (gross revenues less normal operating expenses, debt service, and payment of income taxes associated with the project) generated by the project to principal reduction on the second mortgage financing.

8. Other terms and conditions of the development loan will be negotiated with the Developer and presented for Council approval.

The proposed project has been evaluated in accordance with the City's adopted standards for the use of TIF funds. The project meets all the required policy standards, as follows:

- the project is in accordance with the approved district plan;
 - it will result in a significant increase in the taxable value of property within the district;
 - it will create and retain permanent job opportunities in the district;
- and
- the amount of the TIF assistance will be the least amount necessary for the project to proceed and produces an acceptable rate of return to the City.

The project may also be considered for eligibility under the TIF policy, as it will provide a positive impact on the district through its:

- renovation of a blighted building that has been empty and deteriorating for a number of years; and
- influence as a positive catalyst in setting of standards for other rehabilitation of vacant deteriorating buildings in the downtown area.

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