



Agenda Item:

68

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 05/17/04
No.: 04-246
Agenda Item Type: Resolution
No.:

Communication

Roll Call

Submitted by: Richard Clark, Deputy City Manager

SUBJECT—

Resolution regarding the Court Avenue Project as proposed by Court Avenue Partners, (Jim Hubbell and Harry Bookey)

SYNOPSIS—

On the May 17, 2004, City Council agenda is a roll call to receive and file and to direct the City Manager to proceed with the renegotiation with Court Avenue Partners as outlined herein for presentation on June 7, 2004. If Council approves the revised preliminary terms of agreement on June 7, staff will proceed to prepare a new contract and revised public offering for the project.

FISCAL IMPACT—

The terms and conditions presented at the June 7, 2004 Council meeting will contain the parameters of the City's financial participation in the redevelopment project.

RECOMMENDATION—

Approval

BACKGROUND—

On November 21, 2003 by Roll Calls 03-554 and 03-556, the City Council approved an Urban Renewal Agreement and TIF funding for a mixed-use project between 3rd and 5th Street south of Court Avenue as well as the preliminary terms of agreement for the redevelopment of the upper floors of Spaghetti Works. The Developer for the project is Court Avenue Partners II, L.P. (a joint venture of BH Equities—Harry Bookey, President, 400 Locust, Suite 790, Des Moines and Hubbell Realty—James Hubbell III, President, 6900 Westown Parkway, West Des Moines.)

The project as approved contained the following components:

1. **40 new condominium units** (located along 4th Street north of the existing Baggage Claim Building and south of the proposed apartment building)
2. **104 new apartment units** in two buildings (located on the southwest & southeast corners of 4th and Court)
3. **17,000 square feet of commercial** located on the first floor of the two apartment buildings
4. **Rehabilitation of the upper 3 stories of Spaghetti Works** into 51 mixed-income apartments
5. **Rehabilitation of the ground floor of the Generations and Nacho Mamas** buildings into entertainment venues.
6. **Phase II apartment building** containing 52 new apartment units and approximately 8500 square feet of commercial located on the southwest corner of 5th and Court

The City incentives included:

1. **40 condominium units** = \$1,154,706 upfront subsidy
2. **104 new residential units** = \$726,333 upfront subsidy, \$1,484,944 ongoing subsidy (net present value)
3. **17,000 s.f. commercial** = \$1,236,206 upfront subsidy
4. **Spaghetti Works Rehabilitation** = \$674,288 ongoing subsidy (npv)
5. **Entertainment Venues** = \$62,886 upfront subsidy, \$1,505,288 ongoing subsidy (npv); this component not included in Urban Renewal Agreement
6. **Phase II Apartments/Commercial** = \$763,951 upfront subsidy and \$1,426,651 ongoing subsidy (cash value) for apartment component and \$462,589 upfront subsidy and \$361,000 ongoing subsidy (cash value) for commercial component.

City Funding Summary:

Phase I: **\$4,461,345 in TIF funds**
 \$1,597,245 upfront
 \$2,864,100 ongoing cash injection (npv = \$1,484,944)

Phase II: **\$2,399,191 in TIF funds**
 \$611,540 upfront
 \$1,787,651 ongoing cash injection

IFA Action:

As with many large housing project, a key component of the project financing for the 104 new apartment units and the rehabilitation of the Spaghetti Works building was Low Income Housing Tax Credits (LIHTC). Court Avenue Partners applied for credits as well as State of Iowa HOME funds for both of these projects in November 2003. In March, tax credits were awarded for the rehabilitation of Spaghetti Works but not for the construction of the two new apartment buildings. The loss of these credits created a major funding gap. Although LIHTCs were awarded to Spaghetti Works, the project received a significantly reduced HOME award, which created a large funding gap for that project component as well.

Project Reconfiguration:

The loss of low income tax credits for the two new apartments buildings, as well as the reduction in HOME funds in the amount of \$1.25 million (or more), necessitates a complete review of the project in order to determine an approach that will allow the project to proceed. More specifically, the developer is proposing the following changes in the overall development plan:

1. **40 new condominium units** (located along 4th Street north of the existing Baggage Claim Building and south of the proposed apartment building)
2. **52 new apartment units** in one building (located on the southwest corner of 4th and Court)
3. **29 new condominium units** (located along 4th Street north of the existing Rock Island Depot and south of a new commercial redevelopment opportunity with Court Avenue frontage)
4. **8,000 square feet of commercial** located on the first floor of the apartment building
5. **Rehabilitation of the upper 3 stories of Spaghetti Works** into 52 mixed-income apartments
6. **Rehabilitation of the ground floor of the Generations** building into entertainment venues

Several additional action are being considered:

- The developer has indicated they will inject additional equity into the project;
- The number of housing units in the first and second phases will be reduced from a total of 248 units to 173 units and a third future phase will be eliminated. The amount of land required for the project will be being correspondingly reduced;
- In addition to the actions outlined above, the City will need to inject additional dollars into the project to make up for the loss of tax credits and HOME dollars;
- The City will replace funds allocated to the project by the Court Avenue Housing Fund in the amount of \$1 million with funds in a like amount previously allocated by Council to the Kirkwood Hotel housing project. (Subject to the Court Avenue Housing Fund assuming the City funding obligation for the Kirkwood Hotel project).
- The City will retain a portion of the site (south side of Court Avenue between 4th and 5th Streets) in order to accommodate future commercial development opportunities; and
- The overall development will be reconfigured (see attached diagram).

Although the changes outlined above are significant, the project will still provide a dramatic infusion of new residents within a diverse offering of affordable rental units, market rate rental

units, condominium units, and housing in both new buildings as well as a historically significant structure. The project also continues to include highly attractive restaurant and entertainment venues. In addition, the proposed plan allows for more commercial along Court Avenue, which contributes to the vitality of the district.