



Agenda Item:

044

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 06/07/04
No.: 04-293
Agenda Item Type: Resolution
No.:

Communication

Roll Call

Submitted by: Richard Clark, Deputy City Manager

SUBJECT—

Resolution to approve preliminary terms of agreement with Court Avenue Partners for the proposed Court Avenue housing project and to direct the City Manager to negotiate a contract consistent with the preliminary terms.

SYNOPSIS—

On November 21, 2003 by Roll Call 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. 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.)

On May 17, 2004 by Roll Call 04-1081, the Council directed the City Manager to proceed with the renegotiation of the project with Court Avenue Partners and to return to Council with preliminary terms of agreement for the revised project on June 7, 2004.

FISCAL IMPACT—

Following is a summary of the fiscal impact of the revised project.

Upfront Subsidy

Ongoing Subsidy

Total City Subsidy	\$5,300,530	\$1,016,257 (npv =
\$609,929)		
Minus Previous Capital Outlays(\$1,537,500)		
Revenue	from	Land
(\$1,537,500)		Sale
<hr/>		
Additional Cash Needed	\$2,225,530	\$1,016,257

The source of the City’s upfront additional subsidy for the project will be TIF dollars available primarily in FY06 and FY07.

The project as approved by Council contained a second phase. This Phase II has been eliminated from the project and therefore the City’s funding obligation of \$611,540 upfront and \$1,787,651 ongoing is eliminated.

RECOMMENDATION—

Approval

BACKGROUND—

On November 21, 2003 by Roll Call 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. 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.)

Previously Approved Project

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 (terms contained in preliminary terms of agreement, not Urban Renewal Agreement)
5. **Rehabilitation of the ground floor of the Generations and Nacho Mamas** buildings into entertainment venues (This component not included in Urban Renewal Agreement)
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) (terms contained in preliminary terms of agreement, not Urban Renewal Agreement)
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 projects, 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 (\$150,000 of \$750,000 requested), which created a large funding gap for that project component as well.

Revised Project

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 southeast 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. **6,500 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 (funding adjustments noted in separate Council Communication outlining preliminary terms of agreement)
6. **Development of entertainment/restaurant venues.** The ground floor of the Generations building will be rehabilitated as an entertainment venue and a new restaurant will be constructed in the ground floor of the apartment building. Although these are integral and essential components of the Court Avenue Project, the expected City financial participation will be included in a separate contract. The detailed terms and conditions of the City's economic development assistance is being finalized with the business operator and will be brought before Council in conjunction with the revised contract for the Court Avenue project. The rent projections for the apartments are based on a total project that includes high-finish restaurant and entertainment venues. Without these venues, the rent rates for the apartments will decrease and a larger subsidy will be required.

Preliminary Terms of Agreement:

Although the changes to the project 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.

- The City will provide the Developer with economic development grants as described below. This communication does not detail the City's participation in the rehabilitation of Spaghetti Works or in the entertainment/restaurant venues. The City's financial participation in the rehabilitation of the Spaghetti Works building is described in a separate council communication. The City's participation in the entertainment/restaurant venues will be outlined in a contract to be presented to Council at some future date.

This summary assumes that Court Avenue Partners will not purchase the City-owned parcel south of Court Avenue between 4th and 5th Streets formerly occupied by the Wells Fargo Drive-Thru Bank. If the purchase parcel is reconfigured, this numbers will also change.

4 th and Court Residential Development	\$1,033,833 Upfront Subsidy \$609,929 Ongoing Subsidy*
4 th and Court Commercial Development	\$536,489 Upfront Subsidy
Condominium Development—E of 4th	\$1,284,159 Upfront Subsidy
Condominium Development—W of 4 th	\$583,549 Upfront Subsidy
General Development Requirements	\$1,537,500 Land Write-Down

(Required Upfront)

\$100,000 Archeology
\$225,000 Infrastructure Costs

* net present value (npv) of ongoing cash injection of \$1,016,257 discounted at 4 percent to determine the npv.

- City will grant ten year/100 percent tax abatement for the residential redevelopment.
- The City will process the Developer's application for the State Enterprise Zone Housing Program.

Developer Responsibilities:

- The Developer will construct the following:
 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 southeast 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. **6,500 square feet of commercial** located on the first floor of the apartment building
- A minimum assessment agreement will be required.
- The Developer shall apply for tax credits through the Iowa Department of Economic Development Enterprise Zone Program.
- The project shall comply with the design guidelines for the Court Avenue Historic Area, Capitol Center West Urban Revitalization Area D; and Developer shall execute an appropriate declaration of covenants.
- The project may be assigned only upon Council approval.

Our intention is to utilize the funding previously committed to the Kirkwood for this project. (Court Avenue Housing Fund monies would replace the City's participation in the Kirkwood.) Staff is still reviewing this option. The Urban Renewal Agreement will outline the total City participation.