



Agenda Item:

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## COUNCIL COMMUNICATION City Manager's Office

### GENERAL INFORMATION

Agenda Date: 07/26/04  
04-360

Communication No.:

Agenda Item Type: Resolution  
No.:

Roll Call

Submitted by: Richard Clark, Deputy City Manager

### SUBJECT—

Revised preliminary terms of agreement with Neighborhood Investment Corporation (Robert Mickle, President, 1620 Pleasant Street, Des Moines, Iowa 50309) for the redevelopment of the proposed East Village Square Development in the vicinity of 400 East Fourth Street.

### SYNOPSIS—

This action accepts and approves the revised preliminary terms of agreement with Neighborhood Investment Corporation (the "Developer") for the construction of a mixed-income residential building on the former Dewey Ford Showroom site.

Neighborhood Investment Corporation (NIC) has offices at 1620 Pleasant. Robert Mickle is the President of NIC.

### FISCAL IMPACT—

The structure of the proposed City subsidy is:

#### Direct Investment:

1. Mixed-income Rental Development \$1,810,000 Upfront Cash Investment (deferred repayment loan from excess cash flow and/or excess proceeds on future resale)
2. Land \$496,386 Upfront Cash Investment (deferred repayment loan from excess cash flow)

The upfront subsidy will be advanced upon issuance of the certificate of completion. The land write-down grant will be advanced upon construction closing. The \$1.81 million upfront subsidy amount for the rental housing portion of the project has increased from \$450,000 as was initially identified in the November 21, 2003 preliminary agreement. This increase is attributed primarily to rising construction cost estimates.

Indirect Investment:

3. Provision of adjoining parking \$700,000 up front cost to acquire Dewey Fast Lube site and construct a City parking lot with about 43 parking spaces. Alternatively, City may subsidize the provision of the parking by a third party.

**RECOMMENDATION—**

Approval.

**BACKGROUND—**

The project has been significantly reconfigured from the original proposal and the amount of the project subsidy has increased as a result of increased construction costs. However, the construction of a condominium project with street level commercial remains as a potential future phase of the overall project. Also, the inclusion of work/live units on the street level of the apartment building will allow the possibility of a more suitable commercial/retail character on the street level, although not as desirable as the original proposal which called for exclusive commercial/retail use on the street level. Nonetheless, the addition of over 100 rental units in the heart of the East Village will add to the vitality and viability of the emerging East Village Neighborhood. As the resident population in the neighborhood increases, retail uses become far more feasible in the future.

On November 21, 2004, by Roll Call 03-2651, the Council approved preliminary terms of agreement for the project. Because construction costs have increased dramatically since initial project conception, and new market tax credits are not a potential source of funds, it was necessary to reconfigure the project. Following is a summary of the major project changes that will be incorporated into the development agreement should Council approve the preliminary agreement:

1. As an alternative to having commercial retail space on the first floor of the apartment building, the developer is proposing that the first floor of the apartment building be designed as live/work lofts. These spaces could be leased to individuals who wanted to operate a small business from their home. Although the primary use is residential, the in-home commercial use would preserve some of the original project objective.
2. The site for the condo project along Locust Street is configured to accommodate a 5-story condominium building with commercial/retail on the first floor. It is essential that the apartment building to the north utilize the necessary fire retardant materials so that the building separation complies with building code without unnecessarily limiting the condo structure. This appears to be feasible. The condo project will be built during Phase II of the project.

3. It is necessary that the condo site be delineated as a separate parcel that could be sold and developed separately from the apartment site. In addition, unless the developer elects to precede with the condominium project by December 31, 2004, the site for the condominium (and associated parking requirements as outlined below) shall be sold to the City at the same price paid by the developer. The City and the developer may, by mutual consent, agree to sell the property to the City before December 31, 2004.
4. The project as originally proposed included parking below both the apartment building and the condominium. The developer has determined that the parking below the apartment building is prohibitively expensive, at a cost of about \$1.5 million. In order to provide this parking, the developer is proposing that the courtyard behind the apartment building be used for parking (about 30 spaces) at a cost of about \$45,000. In addition, the Dewey Fast Lube on Grand Avenue adjacent to site could be acquired and used for surface parking (about 43 spaces). The cost of acquiring this site and constructing the parking lot is estimated by the developer at about \$700,000. It is proposed that the City acquire and construct the parking lot on this property and then enter into an agreement with the developer to lease parking for the apartment project
5. It is essential that the future condominium project have convenient parking. The best arrangement would be below the building, although a single level of parking could be added on the parking lot at the Dewey Lube site. It is recommended that both parking options be provided. This will necessitate that access to the condominium building from Grand Avenue be provided.

#### **PRELIMINARY TERMS OF AGREEMENT—**

Based on continued discussions with the Developer, revised preliminary terms of agreement have been reached for the mixed-income rental component of the project. The following general points comprise the key features that will be defined in detail as part of a formal Development Agreement between the City and the Developer.

#### **City Responsibilities:**

The following funding estimates are “not to exceed” numbers subject to final financial submissions (cash flow, source and use, underlying assumptions) and final design review.

- City or Neighborhood Improvement Corporation (not to be confused with Neighborhood Investment Corporation, the Developer) will acquire the Dewey Fast Lube property, demolish the building, pave the parking lot, and lease the spaces to the Developer or make available spaces to tenants at a prevailing market rate. The City will also make available spaces to tenants for daytime parking in the City-owned lot on the northwest corner of East Grand and East 4<sup>th</sup> at the prevailing market rate. Tenants may park for free after 5:00 pm in the City-owned lot on the northeast corner of East Grand and East 4<sup>th</sup> or in the lot on the northwest corner of East Grand and East 4<sup>th</sup>. Due to urban renewal constraints, the City lease will not be a long-term lease but the City will pledge assistance identifying needed parking spaces after the expiration of the lease.

- City will advance an economic development loan in the amount of \$1,810,000 for the residential component of the project. The City's funds shall be released upon issuance of a certificate of completion. As partial consideration for receipt of the loan, payment of a portion of annual cash flow and net proceeds is addressed under Developer Responsibilities.
- City will advance a deferred-payment loan in the amount of \$496,386 for the purchase of land for the apartment component of the project.
- City to grant ten-year 100 percent tax abatement on the incremental value of the apartments.

**Developer Responsibilities:**

- The Developer shall construct at least 100 apartment units as a component of a mixed-income development located on the former Dewey Ford Showroom site on the west side of East Fourth Street between East Locust and East Grand.
- The Developer is responsible for all land acquisition.
- At least 40 percent of the units shall be affordable to persons at or below 60 percent of area median income.
- The units on the ground level shall be live-work units or walk-up units.
- The total project cost shall be at least \$14 million.
- Until the project is sold to an unrelated party, Developer shall make annual payments to the City. The percentage of the annual net cash flow to be received by the City shall be negotiated as a term of the formal Development Agreement. At a minimum, the City's land subsidy amount of \$496,386 will be repaid from excess cash flow on a priority basis immediately after the HUD and NFC mortgages.
- Upon any sale of the project to an unrelated party, the City shall receive a portion of the net proceeds of sale. The percentage of the net proceeds to be distributed the City shall be negotiated as a term of the formal Development Agreement.
- The Developer shall apply for tax credits through the Iowa Department of Economic Development Enterprise Zone Program.
- The project shall comply with the Eastern Gateway "Area 1" Design Guidelines and Developer shall execute an appropriate declaration of covenants.
- The project may be assigned only upon Council approval.

- The final design of the project must be submitted for review by the neighborhood association and the Urban Design Review Board prior to action by the City Council on the final development agreement.

All terms and conditions of the City's financial participation incorporated in a formal Development Agreement are subject to final review and approval by City Council