



Agenda Item:

54

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 10/24/05
611

Communication No.: 05-

Agenda Item Type: Resolution

Roll Call No.:

Submitted by: Richard Clark, Acting City Manager

SUBJECT—

Resolution Approving a Preliminary Agreement with River Point West, LLC for the Redevelopment of the Riverpoint West Area

SYNOPSIS—

Council is requested to approve the Preliminary Terms of Agreement with River Point West, LLC (an affiliate of both Sherman Associates, Inc., George Sherman, President, 233 Park Avenue South, Suite 201, Minneapolis, MN and of Rottlund Homes, Tim Whitten, Executive Vice President, 3065 Centre Pointe Drive, Roseville, MN) to redevelop Riverpoint West. The area is located south of the Central Business District and is generally bounded by Martin Luther King, Jr. Parkway to the north, SW 9th Street to the east and the Raccoon River to the south and west. This Agreement is intended to form the basis upon which a final development agreement is made, which is anticipated to be by April 15, 2006.

FISCAL IMPACT—

The Preliminary Terms of Agreement establishes the framework for the financial obligations that will be defined in the final contract. Approval of the Preliminary Terms of Agreement does not constitute a contractual obligation. Subject to further negotiations and approval of the Final Development Agreement, the City anticipates coordinating \$23.5 million in financial assistance to fund an Economic Development Grant to the Developer for land assemblage, site preparation and infrastructure installation as follows:

\$17.5 million U.S. Department of Housing and Urban Development CDBG Section 108 Loan to be repaid from the projected tax increment finance revenues generated by the project over 20 years with reasonable assumptions on build-out and inflation; secured by a mortgage on the land with the City in first position and ultimately backed by the City's future

CDBG payments. Funds will be utilized primarily for land assemblage. Approximately \$.5 million of the Section 108 Loan will be used to reimburse the Park & Ride System for the conveyance of the City-owned parking lot at the SW corner of Martin Luther King, Jr. Parkway and SW 9th Street.

\$4 million	City-issued General Obligation Bonds to be repaid from the projected tax increment finance revenues generated by the project over 20 years with reasonable assumptions on build-out and inflation.
\$2 million	U.S. Department of Housing and Urban Development Brownfield Economic Development Initiative (BEDI) Grant; the 2001 application will need to be amended and reprogrammed for this project.

It is anticipated that not more than 75% of the Net Present Value of the projected tax increment finance revenue generated by the project over 20 years will be used to repay the Section 108 Loan and General Obligation Bonds. The Developer will be required to demonstrate to the City's satisfaction in the Final Development Agreement that repayment can be achieved based on the projected assessed values correlated with the build-out schedule and in consideration of the value of urban revitalization tax abatement. The City has proposed 5-year 100% tax abatement for residential development throughout the downtown. Should the City Council decide to amend the current 10-year 100% tax abatement schedule for downtown housing, the Developer acknowledges that residential development in Riverpoint West will be consistent with the new schedule applied throughout the downtown.

The City will sell the City-owned parking lot at the SW corner of Martin Luther King, Jr. Parkway and SW 9th Street to the Developer at fair market value. This amount is anticipated to exceed the \$.5 million needed to reimburse the Park & Ride System. Consequently, the City will provide a Supplemental Economic Development Grant to the Developer in an amount equal to the difference between the fair market value of the land and the amount required to repay the parking fund to remove the land from the Park & Ride System.

RECOMMENDATION—

Approval of preliminary agreement.. Council must approve the Final Development Agreement, which will constitute approval of the project.

BACKGROUND—

On July 25, 2005 by Roll Call No. 05-1832, the City Council expressed its strong support for redevelopment of the Riverpoint West area as proposed by River Point West, LLC. It also authorized the City Manager to negotiate Preliminary Terms of Agreement regarding up to \$21 million of City-funded assistance (Section 108 Loan and G.O. Bonds), to amend the 2001 BEDI application for a \$2 million grant to be used in Riverpoint West, and to make a preliminary application to the U.S. Department of Housing and Urban Development for a Section 108 Loan.

The Preliminary Terms of Agreement involves redevelopment of approximately 125 developable acres in Riverpoint West, which is generally bounded by Martin Luther King, Jr. Parkway to the north, SW 9th Street to the east and the Raccoon River to the south and west. The agreement excludes the TCE/DICO Superfund site, the Mid American Energy substation, Hubbell's exiting and proposed flex space

development along SW 9th Street south of Murphy Street, MTA and City-owned land associated with flood protection and other infrastructure.

River Point West, LLC intends to develop approximately 642 housing units, 384,000 sf of commercial space and other improvements. About one-half of the commercial space (192,000 sf) is anticipated to be comprised of retail and the balance (192,000 sf) for office uses. At least 400 jobs will be created. The initial market value of the project is estimated at \$165 million with a build-out period of six years.

Goals

It is the City's intent to achieve the following goals, which will be used to guide policy and investment decisions.

1. Invest in the project to the extent that tax revenues generated from it are self-sustaining.
2. Ensure the developer's commitment.
3. Minimize the City's debt financing and its risk.
4. Obtain acceptable security to repay the Section 108 Loan.
5. Participate in any savings from the pro forma in the amounts paid to unrelated parties for property acquisition, remediation of environmental hazards and construction of improvements.
6. Develop a contingency plan if the market does not respond or there is non-performance.

Roles

River Point West, LLC will be responsible for obtaining project financing for land assemblage, demolition, environmental remediation, geo-technical work, conducting and/or arranging for infrastructure installation, financing costs and taxes; selling pad-ready sites to housing developers and commercial end-users; and managing the redevelopment project. Sherman Associates, Inc. has stated that it will buy pad-ready residential and commercial sites from River Point West, LLC. Rottlund Homes has indicated that it will buy pad-ready residential sites from River Point West, LLC.

The City of Des Moines, Iowa will be responsible for assisting with project financing; facilitating infrastructure installation and land acquisition in the commercial area to be financed with proceeds of the Economic Development Grant (described in Fiscal Impact); applying for State and Federal grants; processing State of Iowa Enterprise Zone Program applications; potentially using its eminent domain authority to complete the assembly of the project area; permitting and other regulatory compliance.

Responsibilities

River Point West, LLC has requested that the City enter into the Final Development Agreement by April 15, 2006. The unique aspect of the Preliminary Terms of Agreement is that it is performance-based. The Developer and the City each shall perform certain actions in chronological order so as to prompt the next level of commitment. Actions are as follows.

A. Prior to Entering into the Final Development Agreement

Developer's Accomplishments: Complete the Master Plan, including site and building design guidelines, generate pro formas from the Master Plan including land and commercial development financing strategies, and submit letters of commitment from Sherman Associates, Inc. and Rottlund Homes as to their intent to purchase pad-ready sites.

City's Accomplishments: Review and reach agreement on the Master Plan, including site and building design guidelines, as well as the pro formas and development financing strategies, work with a consultant to assist it in analyzing and structuring the deal and identifying other financing

options, submit the Section 108 Loan and amended BEDI grant applications, and seek additional funding from all potential sources for construction of a pedestrian bridge across the Raccoon River to Gray's Lake. The pedestrian bridge shall be considered a separate project and part of the City's overall trail development efforts.

B. When Entering into the Final Development Agreement

All of the build-out obligations shall correlate with the pro formas used to determine the project tax increment finance (TIF) generation and the maximum allowed amount of the Section 108 Loan.

Developer's Accomplishments: Identify all financing and develop a contingency plan jointly with the City if not all of the funding is obtained, submit a written strategy design to address cost containment, obtain updated letters of commitment from developers who intend to buy pad-ready sites, provide an organizational chart that demonstrates how the project will be managed, and develop a project schedule with the City to determine the sequencing of actions.

C. After Entering into the Final Development Agreement

Developer's Accomplishments: Obtain all project financing, assemble sites, conduct site preparation and develop residential and commercial uses according to the project schedule.

City's Accomplishments: Execute the Section 108 Loan Agreement and draw down funds over two or more years, enter into the BEDI Grant Agreement, sell \$1 million of General Obligation Bonds each year for four years commencing in FY06/07 and perform other duties as noted under the "Roles" section of this communication.

Key Provisions of the Agreement

1. The project will be self-sustaining. City financing (Section 108 Loan and G.O. Bonds) is not anticipated to exceed 75% of the Net Present Value of the projected tax increment finance revenues generated by the project over 20 years with reasonable assumptions on build-out and inflation. Based on the pro formas submitted to date, the project can sustain the \$21.5 million investment of City funds described in Fiscal Impact.
2. The Developer acknowledges that he will agree to a reduction in the current 10-year 100% tax abatement schedule consistent with the new schedule applied throughout the downtown.
3. Every effort will be made to minimize the risk related to the use of CDBG funds as a source of loan repayment. The City and the Developer will develop a contingency plan if cash flow to repay the Section 108 Loan does not occur as quickly as projected. The City may consider borrowing funds from the balance of the Metro Center Urban Renewal TIF district to address cash flow issues.
4. The City's financial participation will be structured as an Economic Development Grant to limit the amount of local funds to be invested in the project.
5. The City's debt financing and risk will be minimized to the extent possible. The Section 108 Loan and G.O. Bonds will be drawn down and released in several installments according to a defined project schedule with performance benchmarks.

6. The City will obtain reasonable security for the Section 108 Loan by maintaining a first position in the mortgage on the land. The City's financial interest will be removed as the individual parcels are developed.
7. The Section 108 Loan will not negatively impact the City's debt capacity. Repayment of this loan will be structured as non-recourse debt, subject to annual appropriation of TIF funds.
8. Other than tax abatement, no other City incentives will be provided to the project related to the residential and commercial development.
9. The City will ensure that quality development is built regardless if the property is sold. All property that the Developer acquires will be subject to covenants that are in compliance with the Metro Center Urban Renewal Plan and approved Master Plan. Covenants shall have priority over all other liens and encumbrances and shall survive any sale or transfer of the property.
10. The Developer will use its best efforts to assemble land by voluntary acquisition. The City may exercise its powers of eminent domain if necessary for the successful redevelopment of the project.
11. Any savings from the pro forma shall reduce the City's Economic Development Grant.

Redevelopment of Riverpoint West will transform a heavy industrial brownfield site into a thriving mixed-use neighborhood that adds significant vitality to the downtown area. This project can enhance the success of downtown initiatives by providing housing for its workers and new consumers as well as by offering support services. It will contribute to the long-term economic viability of the Central Business District and serve as an effective model of smart growth and effective public/private cooperation.