



# Council Communication

Office of the City Manager

Date	May 19, 2008
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Agenda Item No.	26
Roll Call No.	<u>08-</u>
Communication No.	<u>08-297</u>
Submitted by: Matthew A. Anderson	
Office of Economic Development	

## AGENDA HEADING:

Set date of hearing and related actions to the creation of an urban renewal/ tax increment finance plan for Merle Hay commercial area.

## SYNOPSIS:

Recommend approval of setting the date of public hearing for June 23, 2008 on the creation of a new urban renewal area and tax increment district for the Merle Hay commercial area along Douglas Avenue and Merle Hay Road. The boundaries of this proposed 118-acre urban renewal area generally follow the commercially-zoned land on Douglas Avenue from 54<sup>th</sup> St. westward to the City's boundary at about 62<sup>nd</sup> St. and on Merle Hay Road from about Ovid Ave. northward to Aurora Avenue. A map of the boundaries is included in this communication.

This roll call also directs that additional related actions be undertaken including the required tax increment consultation meeting, publication of the public hearing notice and referral to the Plan and Zoning Commission for review and recommendation on the conformance of the proposed urban renewal plan's land uses with the City's Comprehensive Plan. The action also directs the Urban Design Review Board to review the proposed plan and make its recommendation to the Council.

## FISCAL IMPACT:

The tax increment funding (TIF) for this area will be disbursed on a cash-available basis. All development agreements using TIF assistance will be based on annual payments and the property tax revenues produced by new development. The specific developer agreements must be approved by the City Council. (See the "Additional Information" portion of this communication for the proposed developer agreement previously approved on a preliminary basis.)

Amount: The Council has previously adopted a policy that the City may expend up to 75% of the annual aggregated tax increment revenues generated after January 1, 1996; the unexpended increment revenues will be available for distribution to the various property taxing entities. Based upon estimated TIF revenues from the Merle Hay Commercial Urban Renewal Area, an additional \$105,000 for the first year to \$325,000 in the final year would need to be allocated to other taxing entities from the overall TIF revenues derived from all urban renewal areas to meet this 75%/25% policy. Because the initial TIF cash flow of this urban renewal area will be used almost entirely by the annual financial grant provided to Merle Hay Mall in its first several years, a reduction in TIF use of about \$75,000/annually in other urban renewal area will be required to achieve the 75%/25% policy.

Funding Sources: Cash available from the TIF for twenty years from FY08/09 to FY2028/2029; the estimated net annual cash available to the City ranges from about \$30,000 initially to about \$1,300,000 by FY2028/2029 after payments for the Merle Hay Mall property developments are made.

The creation of an urban renewal area and TIF plan for the commercial development in and around Merle Hay Mall can provide a source of funding for public and private improvements. Public improvements typically include street and sidewalk areas. Financial assistance to commercial properties will be based on improvements that increase the taxable value of the properties.

The Merle Hay Mall owners have requested a \$5.6 million TIF assistance grant which uses 100% of the increment generated by the mall properties for a 15 year period (or about \$400,000/year for 15 years) based on an additional increase of \$10+ million or more in the property assessment.

Based on 2007 assessments, the base (the “frozen”) value of the proposed TIF area will be about \$87 million. The Merle Hay Mall properties comprise about 20% of the assessed value in the proposed TIF district with another three properties totaling an additional 30% of the district’s assessed value. Using some very general estimates, the annual tax increment revenues for this area will be about \$100,000/year using an increase in value of about 3% every two years.

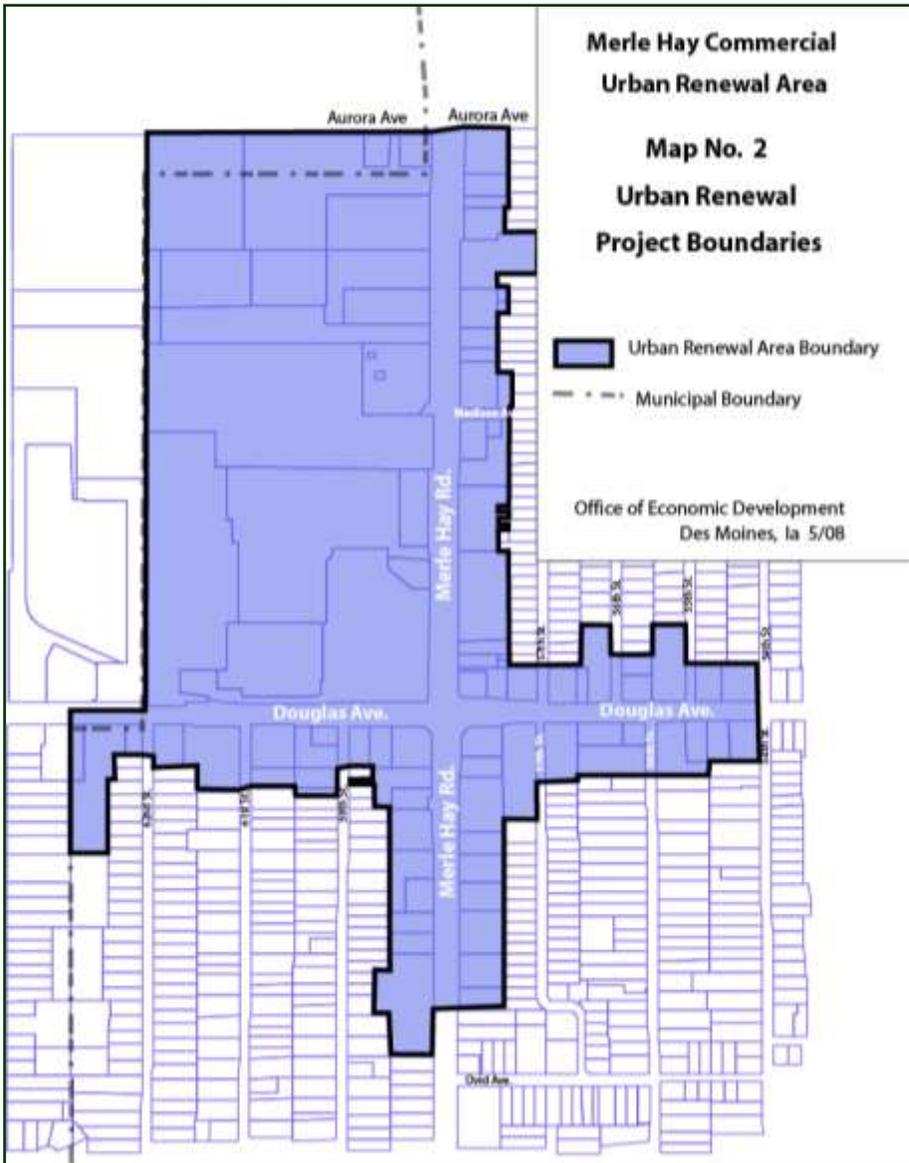
However, if one or more of the larger properties in the TIF area has a significant assessment decrease, this area could go “negative” in which the overall district drops below its “frozen” assessment base in its

early years which could lead to having no increment available for any public or private project.

**ADDITIONAL INFORMATION:**

The proposed area for the urban renewal plan and tax increment finance district is shown on this map with the proposed boundary generally following the C-2 and C-4 commercial zoning in the area.

As part of the strategy to revive the Merle Hay area, the City believes TIF funding of some general streetscape improvements (replacement of streetlight poles with street, curb and sidewalk improvements) will help to improve the overall appearance and benefit the public in accessing the area in addition to



the proposed assistance to Merle Hay Mall property. These public improvements will occur over time on an extended basis given the cash-available basis of the area and the use of the TIF for Merle Hay Mall. Other funding sources for these public improvements will also be sought.

Clearly, the economic health of Merle Hay Mall impacts Des Moines. It is the largest mall in Polk County (totaling about 1.2 million square feet in Des Moines and Urbandale) and serves as the major retail center for NW Des Moines and surrounding areas.

Due to its age and changing market and shopping patterns, the assessed value of the Merle Hay Mall in Des Moines has decreased significantly in the past several years from about \$29 million in 2005 to about \$16.5 million in 2007. The City has received a proposal to improve the mall property; the creation of an urban renewal/tax increment finance plan is recommended to assist in improving this area.

Other adjacent smaller commercial developments followed as the mall grew in the 1960s and 1970s. Today, many of these developments are nearing the end of their economic viability which is reflected in the increasing vacancies and frequent tenant changes.

#### Proposed Urban Renewal Area:

##### Duration

The urban renewal plan and tax increment designation will extend for a period of twenty years following the initial TIF certification. The purpose of designating this retail/commercial corridor as an urban renewal area is to encourage retail and commercial development. The concurrent TIF designation provides a funding source to assist public and private projects.

##### Development Requirements in the Urban Renewal Plan

The Merle Hay Urban Renewal Plan contains several development requirements that must be met by projects in order to qualify for use of TIF. These conditions are contained in Section II.C (General Development Requirements) of the Plan. In addition, all development projects in this urban renewal area requesting TIF assistance are required to undergo review and recommendation from the Urban Design Review Board.

##### Development Agreements

On March 10, 2008, the Council approved the preliminary terms of agreement with the owners of Merle Hay Mall for a development grant of 100% of the project's net tax increment generation, up to \$400,000 annually for up to a total of \$5,600,000, is requested on a cash-available basis; the value of the grant is based on a minimum assessment agreement of an additional \$10,000,000. The payments may extend slightly over 15 tax years due to timing of the TIF receipts. The Council also directed that the agreement, in addition to the standard terms and conditions, shall also require the following:

1. The developer shall enter into a binding agreement for a minimum \$10 million increase in property assessment for at least 15 years.
2. This project design reviewed as early as possible by the Urban Design Review Board before undertaking exterior renovations. The developer shall address the Merle Hay Road and Douglas Ave. frontages with streetscape improvements as part of its improvements plan. These improvements are to be located on the mall's private property and are not right-of-way streetscape improvements.
3. The developer shall provide written evidence of permanent financing.
4. Verification of at least \$14.1 million in expenditures for the capital and tenant improvements and tenant allowances (from January 1, 2007 to December 31, 2009) by the developer.

**PREVIOUS COUNCIL ACTION(S):**

Date: March 10, 2008

Roll Call Number: 08- 431

Action: [Regarding](#) preliminary terms of agreement with Merle Hay Mall for proposed redevelopment for use of proposed tax increment revenues. ([Council Communication No. 08-135](#)) Moved by Vlassis to receive and file the communication and to authorize the City Manager to negotiate a final development agreement with the owners of the Merle Hay Mall in general accordance with the communication. Motion Carried 7-0.

Date: February 11, 2008

Roll Call Number: 08- 245

Action: [From](#) William Lillis and Daniel Manning, regarding proposed Merle Hay Mall Redevelopment and Tax Increment Financing (TIF) District. ([Council Communication No. 08-075](#)) Moved by Vlassis to receive and file the communication, direct staff to prepare a proposed urban renewal and tax increment financing plan for the Merle Hay area; and authorize the City Manager to negotiate a development agreement with the owners of Merle Hay Mall property for future City Council action. Motion Carried 7-0.

Date: January 22, 2007

Roll Call Number: 07- 144

Action: [From](#) William J. Lillis, representing Merle Hay Mall and Bankers Trust, regarding a Tax Increment Financing (TIF) District in the Merle Hay and Douglas Avenue area. Moved by Vlassis to receive and file comments and refer to the City Manager for review and recommendation. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S):**

Date: April 29, 2008

Roll Call Number: N/A

Action: The Urban Design Review Board reviewed and recommended approval of the proposed exterior improvements to Merle Hay Mall (3850 Merle Hay Road).

(The Merle Hay Neighborhood Association has also reviewed the proposed improvements and indicated their concurrence with the proposed changes.)

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Urban Design Review Board to review and make recommendation on the proposed urban renewal plan. (6/17/08)

Plan and Zoning Commission to review and make recommendation on the urban renewal plan's conformance with the City's Comprehensive Plan. (6-19-08)

The City Council to open Public Hearing on Merle Hay Commercial Area Urban Renewal Plan (6-23-08)

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