

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: June 11, 2012
	Agenda Item No. 32 Roll Call No. <u>12-0893</u> Communication No. <u>12-260</u> Submitted by: Terrance N. Vorbrich, Acting Economic Development Administrator

AGENDA HEADING:

Approving Revised Preliminary Terms of Agreement with the Alexander Company for the historic renovation of the vacant building at 713 Walnut Street (former Younkers Building), and if all requirements are met, authorizing the City Manager to proceed with actions to prepare final development agreement and prepare contracts for Community Development Block Grant Disaster Recovery (CDBG-DR) funds and City HOME funds for approval at the first City Council meeting in August.

SYNOPSIS:

On October 25, 2010, by Roll Call No. 10-1782, City Council approved preliminary terms of an Urban Renewal development agreement with The Alexander Company (Joe Alexander, President, 145 East Badger Road, Suite 200, Madison, WI, 53713) to undertake the historic renovation of the Younkers building at 713 Walnut Street. Alexander Company proposed to bring the iconic building back into service through an adaptive reuse project consisting of a mix of market rate and affordable housing units, first floor and skywalk level retail space, and restoration of the former Younkers Tea Room space. The project will remove approximately 188,000 square feet of vacant space from the downtown building inventory.

On October 25, 2010, by Roll Call No. 10-1782, City Council approved a \$6.8 million financial assistance package for the Younkers project to be paid annually over 10 years from tax increment revenues generated in the Metro Center Urban Renewal Area. This assistance was to support project costs associated with the first and second floor retail spaces until this space could be leased, at which point the assistance would be offset in part by the commercial rents collected. Additionally, the residential portion of the project would have received 10 year 100% tax abatement.

In 2011, a significant drop in property valuation in the Metro Center Urban Renewal Area and the sunset of the 10 year 100% residential tax abatement program required that the original preliminary terms of agreement for the Younkers project be re-evaluated. In addition, the difficult real estate financing climate, along with the size, cost and complexity of the Younkers project, made securing construction and permanent financing very difficult for the Developer. Throughout 2011, the Alexander Company worked to finalize a financing structure for the project. As a result, a number of additional sources have been secured and the Alexander Company is respectfully requesting that the City recommit to the project, a commitment that is essential to the \$35 million project moving forward.

The level of financial assistance in the revised preliminary terms of agreement has been dramatically reduced from that approved in 2010. The revised preliminary terms of agreement is for an economic

development grant not to exceed \$2.9 million (reduced from \$6.8 million approved in 2010) to be paid in annual installments over 10 years beginning in Fiscal Year 2015 from the Metro Center Urban Renewal Area Tax Increment Financing District. The proposed assistance of \$2.9 million may be further reduced and potentially eliminated altogether, with (1) the successful leasing of the former Tea Room space, and (2) the ability to successfully structure an investor commitment for the State & Federal Historic tax credits. Additionally, the housing component of the project will be eligible for 10 year 100% residential tax abatement. The Developer must have all financing committed to the project by August 1, 2012 and begin project construction by November 1, 2012.

Fiscal Impact:

Amount: Economic Development Grant not to exceed \$2.9 million payable in annual installments over 10 years, beginning no sooner than December 1, 2014

Funding Source: Metro Center Urban Renewal Area Tax Increment Financing District Revenues

ADDITIONAL INFORMATION:

The Alexander Company has undertaken more than 250 projects over the past 25 years. The company has a nationally recognized history of successfully developing, financing, constructing and managing large historic building renovation projects. They have received accolades including the Urban Land Institute's Best Reuse of an Existing Building Award, and won the Downtown Madison, Inc. Vitality of Downtown Award eight (8) times. Their National Park Seminary project in Washington D.C. received the Washington Post's top honor for Best Community Impact, and also received the Charles Edson Award for Best Affordable Housing Project and the National Housing & Rehabilitation Association's Timmy Award for Best Historic Project.

The Younkers renovation project is currently estimated at \$35 million, and will consist of 120 residential units; 48 units at market rate, 59 units at 60% of the area median income, and 13 units at 50% of the area median income. The first floor will be renovated for commercial/retail use, as will the former Tea Room space. The project is anticipated to begin construction by October 2012. With the redevelopment project being initiated in 2012, the Alexander Company will be able to actively participate in the Walnut Street renovation study and utilize its recommendations for the first floor commercial space.

The Office of Economic Development and the Community Development Department have worked with the Alexander Company closely over the last year to be able to present revised preliminary terms of agreement to City Council, prepare to develop a contract for committed CDBG-DR funds and determine the ability to recommend City HOME funds to the project. On May 3, 2012, City Council re-committed CDBG-DR funds for the project, indicating that the funds may be re-assigned to another project if all terms could not be met by August 1, 2012.

The tax increment assistance not to exceed \$2.9 million will be organized as follows:

1.) Not to exceed \$637,000 will serve as a backstop for the former Tea Room space until leased by a commercial tenant. This amount is based on an amount of \$63,700 per year for 10 years. Leasing of the space during the 10 year period will eliminate this portion of the tax increment assistance and end the City's obligation.

2.) Not to exceed \$2,200,000 will serve to fill the financing gap currently shown by Alexander Company that may be reduced or eliminated with a successful historic tax credit structure.

Alexander Company anticipates a reduction in the net value of the State Historic Tax Credits, based on a 2011 4th Circuit Appeals Court ruling that sided with the IRS position that an investment in exchange for a tax credit certificate was a disguised sale of property, resulting in taxable income to the seller of the certificate. The result is that the benefit of the state historic tax credit certificate to the project is reduced by the corporate tax rate of 35%. The 4th Circuit Appeals Court ruling impacts historical restoration projects throughout the nation. Alexander Company is working on federal legislation to revise the impacts of this ruling, thereby eliminating the \$2.2 million gap. Alexander Company has committed to diligently pursue a legislative resolve to this issue and anticipates that being accomplished prior to the certification of project costs anticipated occurring in 2014.

A detailed list of project sources follows:

Sources

First Mortgage	\$8,838,063
4% Low Income Housing Tax Credit Equity	\$6,238,379
Federal Historic Tax Credit Equity (20% basis)	\$5,400,004
State Historic Tax Credit Equity	\$4,700,491
Brownfield-Grayfield Tax Credit Equity	\$ 500,000
Enterprise Zone Credits	\$1,050,888
State Sales Tax Rebate	\$ 120,000
HOME Funds	\$ 250,000
CDBG-DR Funds	\$3,000,000
Seller Note	\$ 500,000
Deferred Developer Fee	\$1,500,000
City Assistance	<u>\$2,837,000*</u>

TOTAL: **\$34,934,825**

Developer equity is estimated to be 30% of the total project; State of Iowa assistance is estimated at 26% and City of Des Moines assistance is estimated at 9%, possibly less.

* To be reduced or eliminated with successful historic tax credit structure or change in federal legislation and successful leasing of Tea Room space.

PREVIOUS COUNCIL ACTION(S):

Date: October 25, 2010

Roll Call Number: [10-1782](#)

Action: [Preliminary](#) terms of agreement with The Alexander Company for redevelopment of the former downtown Younkers Department Store at 713 Walnut Street. ([Council Communication No. 10-623](#)) Moved by Hensley to receive, file and approve preliminary terms of agreement set forth in the Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with The Alexander Company consistent with the terms set forth in the Council Communication. Motion Carried 7-0.

Date: June 28, 2010

Roll Call Number: [10-1096](#)

Action: Submittal of Multi-Family New Construction Applications for Community Development Block Grant Disaster Recovery (CDBG-DR) funds to the Iowa Department of Economic Development (IDED) for the following: ([Council Communication No. 10-391](#))

B) [Redevelopment](#) of 140 rental units at 713 Walnut (Former Younkers Building), \$3,060,000. Moved by Griess to approve. Motion Carried 7-0.

Date: December 8, 2008

Roll Call Number: [08-2161](#)

Action: [Communication](#) from the Office of Economic Development seeking authorization to negotiate with New Market Investors, LLC for the possible redevelopment of the former Younkers Building, 713 Walnut Street ([Council Communication No. 08-728](#)) Moved by Hensley to receive, file and authorize the City Manager to negotiate with New Market Investors, LLC as set forth in the accompanying Council Communication and to direct the City Manager to engage the State of Iowa, Polk County, the local business community and other stakeholders to gauge their interest in assisting with the redevelopment of the property. Motion carried 7-0.

BOARD/COMMISSION ACTION(S):

Board: Urban Design Review Board

Date: February 15, 2011

Resolution Number: N/A

Action: No action taken. Board requested that Low Income Housing Tax Credits be evaluated for the projected to potentially reduce the amount of City tax increment assistance needed

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board to review and make recommendation to Council on the project conceptual design plans and proposed financial assistance package;
- Finalization of City Development Agreement, contract for CDBG-DR funds, contract for City HOME funds for review and approval by City Council

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