

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	December 3, 2012
	Agenda Item No.	46AB
	Roll Call No.	<u>12-600</u>
	Communication No.	<u>12-600</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Approving Final Terms of Agreement with Alexander Company for the \$36 million historic renovation of the Younkers Building at 713 Walnut Street, and Approving \$3,000,000 In Community Development Block Grant Disaster Recovery (CDBG-DR) Funds and \$250,000 HOME Investment Partnerships Funding (HOME) Loan with 713 Walnut, LLC for the Development of 120 Housing Units as Part of the Younkers Building Project.

SYNOPSIS:

On June 11, 2012, by Roll Call No. 12-0893, City Council approved preliminary terms of a \$2.9 million Urban Renewal development agreement with the Alexander Company (Joe Alexander, President, 145 East Badger Road, Suite 200, Madison, Wisconsin, 53713) to undertake the historic renovation of the Younkers building, and authorized the City Manager to prepare a final development agreement and contracts for \$3,000,000 in Community Development Block Grant Disaster Recovery (CDBG-DR) funds and \$250,000 in City HOME loan funds for the Younkers Building Project.

Alexander Company proposes to bring the iconic building back into service through an adaptive reuse project consisting of 120 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 and be an essential flagship project for the renovation of Walnut Street.

Since the June 11 Council action, Alexander Company has worked to present a financing structure that will reduce the proposed \$2.9 million City economic development grant to \$2.35 million. This amount may be further reduced with the successful leasing of the former Younkers Tea Room space and favorable treatment of the State Historic Tax Credits.

Construction is anticipated to begin on the project in April 2013 and be completed in June 2014.

FISCAL IMPACT:

Amount: Economic Development Grant not to exceed \$2.35 million payable in annual installments over 10 years, beginning no sooner than December 1, 2015.

\$250,000 of HOME funds administered by Community Development Department.

\$3,000,000 of CDBG-DR funds administered by Community Development Department.

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

HOME Investment Partnership (HOME) Funds, SP036, CDD 049900, FY 2011 Recommended Operating Budget.

The IEDA is administering the Federal Community Development Block Grant Disaster Recovery (CDBG-DR) Funds per a statewide allocation plan approved by the U.S. Department of Housing and Urban Development. Supplement funds have been amended into existing contract # 08-DHR 209 by Roll Call No. 12-349 on August 27, 2012.

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 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.

History

On June 28, 2010, by Roll Call No. 10-1096, City Council authorized the submittal of the Younkers proposal to the Iowa Economic Development Authority (IEDA) for \$3,000,000 of Community Development Block Grant Disaster Recovery (CDBG-DR) funds for development of 140 units of housing, 51% which were to be reserved for individuals and households below 80% of the area median income. The City was notified by IEDA that the Younkers proposal was approved and by Roll Call No. 10-1849 on November 8, 2010, the City of Des Moines approved Major Amendment #4 to CDBG-DR Contract (08-DRH-209) between the City of Des Moines and IEDA to accept the funds.

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. Throughout 2011, the Alexander Company worked to finalize a financing structure for the project. As a result, a number of additional sources were secured and the Alexander Company respectfully requested that the City recommit to the project in June 2012, a commitment that is essential to the \$36 million project moving forward.

The level of financial assistance in the June 2012 revised preliminary terms of agreement was dramatically reduced from that approved in 2010. The revised preliminary terms of agreement was for an economic development grant from tax increment financing 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 FY 2015 from the Metro Center Urban Renewal Area Tax Increment Financing District.

A significant detriment in the process to secure financing for the project has been the anticipation of 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 a project is reduced by the corporate tax rate of 35%. Alexander Company has worked for the past several months on federal legislation efforts to revise the impacts of this ruling, which affects historical restoration projects throughout the nation as well as the Younkers project. It became apparent that legislative review of the matter would not occur until 2013, a timeframe that would not allow for relief until the project had been delayed beyond the required timeframe for use of the historic tax credits that had been awarded.

The Alexander Company determined that Low Income Housing Tax Credits (LIHTC) through the Iowa Finance Authority would be an appropriate vehicle in which to raise equity financing for the project. Because of the large amount of financing needed, coupled with the inability to fall under the per unit/per project cost caps imposed by IFA in the competitive rounds for 9% LIHTC, the developer decided to submit a funding application for LIHTC through IFA's non-competitive 4%, readily available and underutilized bond funds. By Roll Call No. 12-1134 on July 9, 2012, the City Council drafted a letter to the IFA board to support a waiver to the per unit cost caps for the Younkers project, which would provide an ability to utilize the 4% bond funds. This waiver was approved.

CDBG DR, HOME and Tax Increment Finance Assistance

The CDBG-DR loan agreement is structured as a non-receding lien for a period of ten years at which time it is forgiven in full if all the conditions of the funding are met per the requirements of CDBG-DR Contract 08-DRH-209. The conditions primarily deal with restricted rents and income on 51% of the units. The affordability requirements of the CDBG-DR will have minimal impact on the project since the housing now 100% affordable under the 4% Bond Financing, Low Income Housing Tax Credit funding.

The City has allocated a \$250,000 HOME loan which will be repaid in full by the developer at a 1% interest rate over a 20 year period. The HOME funds will require that the project have 10 floating HOME units which will be rented at High/Low Home rents. The Younkers project will consist of 120 residential units; 118 units at 60% of the area median income, and 2 units at 50% of the area median income.

The proposed tax increment finance assistance of \$2.9 million has now been further reduced to \$2.35 million and may be further reduced with the successful leasing of the former Tea Room space and favorable treatment of the State Historic Tax Credits. Additionally, the project will again be eligible for 10 year 100% residential tax abatement under the Second Restated Urban Revitalization Plan approved by Council in December 2011.

The tax increment assistance not to exceed \$2.35 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 \$1,713,000 will serve to fill a potential financing gap should favorable tax treatment of State Historic Tax credits not be achieved as currently shown by Alexander Company's projections.

PREVIOUS COUNCIL ACTION(S):

Date: June 11, 2012

Roll Call Number: [12-0893](#)

Action: [Regarding](#) amended preliminary terms of agreement with The Alexander Company, for redevelopment of the former downtown Younkers Department Store, 813 Walnut Street. ([Council Communication No. 12-260](#)). Moved by Hensley to receive, file and approve amended preliminary terms of agreement as set forth in the accompanying Council Communication and to direct the City Manager to proceed with negotiations of formal agreements with The Alexander Company consistent with such terms. Motion Carried 7-0.

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: November 8, 2010

Roll Call Number: [10-1849](#)

Action: [Major](#) Amendment No. 4 to Community Development Block Grant Housing Disaster Recovery (CDBG-DR) Fund Contract with Iowa Department of Economic Development (IDED) adding funds for Anawim/Hubbell Project in 2200 block of Forest Avenue and Younkers Building/Alexander Company projects. ([Council Communication No. 10-675](#)) Moved by Hensley to approve. 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: July 17, 2012

Resolution Number: N/A

Action: Motion for final approval as submitted by Hearn. Seconded by Rypma. Motion carried.

Board: Urban Design Review Board

Date: June 19, 2012

Resolution Number: N/A

Action: Motion to approve by Allen. Seconded by Clark. Motion carried.

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:

Final execution of development agreement and contracts.

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