


COUNCIL COMMUNICATION

	Number:	20-261	Meeting:	June 8, 2020
	Agenda Item:	33	Roll Call:	20-0914
	Submitted by:	Erin Olson-Douglas, Economic Development Director		

AGENDA HEADING:

Resolution approving Preliminary Terms for sale of City-owned property and Urban Renewal Economic Development Agreement with The District Developers, LLC, for the phased, master planned redevelopment of 11 blocks of property within the Market District.

SYNOPSIS:

The Office of Economic Development (OED) has negotiated preliminary terms of an Urban Renewal Development Agreement with The District Developers, LLC, a consortium consisting of JSC Properties and MidAmerican Energy, (Paul Hayes, Managing Member, 350 E. Locust Street, Suite 309 Des Moines, IA 50309) for project generated tax increment financing (TIF) to assist with the extraordinary development costs related to the redevelopment of an 11 block, 39-acre industrial area, generally located around East 4th and E. Market Streets.

This redevelopment is proposed to be a high quality, dense urban neighborhood with a mix of uses that will include housing, office, retail, hotel, and entertainment, and is one (1) of the largest redevelopment projects proposed within the City of Des Moines with an estimated construction cost anticipated to be in excess of \$750 million. When fully developed, the Market District will transform an old industrial part of the City and provide a new urban neighborhood destination, reconstruct substandard public infrastructure such as streets and public sidewalks, bring transit services to the area, better connect development with the remainder of the Historic East Village, add new residential offerings that will include an affordable housing component, increase employment offerings to foster growth in the regional economy, and increase the City's property tax base. There are additional blocks on the riverfront that are owned by MidAmerican Energy where there is future potential for an 8-acre green space to be constructed, but is outside of the scope of this agreement.

The land proposed for redevelopment is currently assessed at \$677,000, with many of the properties currently being tax exempt, including six (6) blocks currently owned by the City. MidAmerican Energy and JSC Properties, LLC are the owners of the remaining blocks proposed for redevelopment under this proposal. New projected taxable valuation upon full building is estimated at \$245,000,000 to be added through development on the project over the next 10-15 years. However, significant environmental remediation, building demolition, and infrastructure work is needed before vertical construction can begin. The Developer's early cost projections to ready the properties for redevelopment are in excess of \$30 million.

The District Developers, LLC's intent is to serve as the master Developer. They will prepare the properties, once acquired, for redevelopment by demolishing the existing buildings, conducting necessary environmental remediation, and bringing additional developers and businesses to invest in the area on the developable sites. The master Developer will also be responsible for reconstructing

public streets and utilities necessary to serve the redevelopment. The City will be responsible for reconstructing segments of public streets that serve as gateways into the district through the Capital Improvement Projects (CIP) budget.

The project is anticipated to begin with site preparation on properties already under control of the Developer and infrastructure work throughout the district in the spring of 2021. Additional details on the preliminary terms are provided in the fiscal impact and additional information sections below.

FISCAL IMPACT:

Amount: The proposed terms provide for project generated tax increment on the building valuations, exclusive of land, at 90% for a 20-year term. Since most of the properties within this agreement are currently tax-exempt today, the current assessed valuation is only \$677,000. While a project of this scale is estimated to take 10-15 years to fully build out, projections show that a future assessed valuation could exceed \$245,000,000.

The project is anticipated to generate \$55 million in new revenue to the City over 20 years, which includes the land sale revenue and TIF increment generated by the redevelopment.

Funding Source: Project generated tax increment via an economic development grant within the Metro Center Urban Renewal Area.

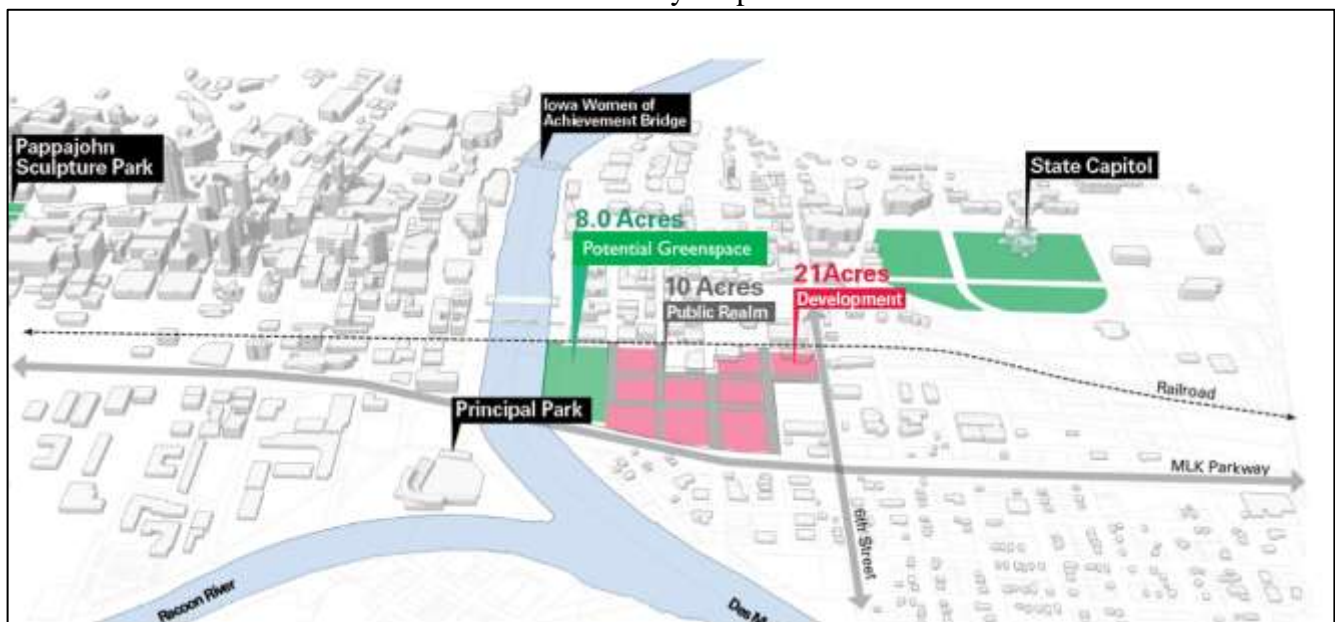
ADDITIONAL INFORMATION:

- JSC Properties, LLC has a successful track record of high-quality development in the East Village and has constructed nearly 230,000 square feet in developed building area with an estimated construction value of over \$80 million spread between four (4) projects since 2014.
- JSC Properties has a history of interest in the Market District, and in conjunction with MidAmerican Energy, approached the City with a request to jointly submit a proposal to utilize a portion of property in the Market District as the home for the new federal courthouse in 2016. While the riverfront site at 101 Locust Street was ultimately selected for the courthouse, the opportunity for redevelopment of the largely industrial and under-utilized area was evident.
- Proposed high quality, urban mixed-use development that could span the range of uses from residential, office, hotel, retail and/or entertainment is envisioned on the property. In conjunction with a potential 8-acre riverfront park, could help create a substantial new destination within the region.
- On November 4, 2019, by Roll Call No. 19-1761, the City Council approved the Market District of the East Village Master Plan, which contemplates the significant redevelopment of the area that is proximate to the downtown riverfront and the heart of the East Village Neighborhood. Staff will continue to work with the Developer to ensure that the redevelopment respects the planning and vision outlined in the master plan.

- The City has allocated the funding needed to build the next phase of the Municipal Services Center, that will allow the Public Works Department to relocate entirely out of the district into a modern and efficient workspace.
- The City-owned land will be sold at the appraised fair market value, less the costs to perform building demolition and remediate environmental contaminants on the sites. The Developer will need to furnish three (3) bids for this scope of work, and the City will provide an environmental credit on the value of the land equivalent to the lowest of the three (3) bids.
- As a component of this agreement, the Developer has the sole purchase option on the City-owned land to be conveyed, which will be sold in phases and as demand warrants. To provide additional protection to the City, future phases of the land sale will be completed after performance benchmarks have been met with the satisfactory installation of infrastructure to support the redevelopment within Phase I. The Developer has agreed to a land sale price escalator of 2% annually commencing in the year following the Public Works Department's relocation to the Municipal Services Center Phase II.
- The Developer has opted to forgo allowance of residential tax abatement on projects that are built within the boundaries of this agreement.
- The proposed project-generated TIF assistance in the form of an economic development grant will aid in reducing the project construction cost gap on what is anticipated to be dense, high-quality urban redevelopment.
- To allow the area to redevelop with the population densities contemplated, many of the existing public streets will need to be reconstructed with new urban cross sections with new public sidewalk. Staff and the Developer have mutually agreed upon which streets and public utilities will be constructed by each entity. A traffic impact study is currently underway to help determine what additional roadway improvements and traffic control devices will be needed, and where on-street bike facilities should go.
- Many of the public streets will feature bioswale planting areas to help cleanse stormwater runoff and recharge the groundwater. City staff will work with the Developer on the creation of private maintenance agreements for bioswales and other unique streetscape amenities proposed for the district.
- City staff have met with representatives with Des Moines Area Regional Transit (DART) on the possibility of adding future bus transit service to the area when demand warrants.
- To support regional affordable housing needs, housing development in this area will include recommendations from the recent Des Moines Regional Workforce Housing Strategy.
- The redevelopment parcels shall be at least three (3) stories in height, and shall be constructed of steel, concrete, mass timber, or other approved construction type. Wood-framed construction will be prohibited except for small accessory buildings necessary to serve the redevelopment parcels.

- Developers will be required to provide parking to support the demands of corresponding development. The public shall have access to a minimum of half of the private parking provided during evenings, weekends, and holidays. The City will have the ability to secure a full-time lease of up to 20% of the parking spaces built on these blocks.
- Developers constructing projects within the boundaries of this agreement will be required to utilize MidAmerican Energy's Commercial New Construction Energy Efficiency Program and will work with an approved energy consultant prior to construction to determine a percentage of energy performance above the minimum applicable code that is achievable for the project. The incorporation of additional sustainability measures on redevelopment projects is strongly encouraged.
- Land sale and Urban Renewal Economic Development Agreement will be in compliance with Iowa Code Section 403.8(2).

Vicinity Map

**PREVIOUS COUNCIL ACTION(S):**

Date: December 16, 2019

Roll Call Number: [19-2061](#)

Action: [Receive](#) and file proposal from JSC Properties, LLC to redevelop the City-owned properties located within the Market District, and directing staff to negotiate details of a redevelopment proposal. ([Council Communication No. 19-554](#)) Moved by Gatto to adopt. Motion Carried 6-0. Mayor Cownie abstains from voting based on an appearance of a conflict of interest.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Board and Commission reviews will be needed for right-of-way vacation and conveyance, approval of financial incentives, conceptual development plans, specific project design review, and other items necessary to accommodate the development.
- The City will execute a development agreement which requires the Developer to submit design plans and evidence of financing to the Council prior to approval of the property transfer.
- Final approval of an Urban Renewal Economic Development Agreement by the City Council.
- City-initiated rezoning of properties within the bounds of this agreement.
- Conveyance of City-owned property, subject to meeting performance benchmarks outlined in the Urban Renewal Economic Development Agreement.

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