


COUNCIL COMMUNICATION

	Number:	21-563	Meeting:	December 20, 2021
	Agenda Item:	53	Roll Call:	21-1937
	Submitted by:	Erin Olson-Douglas, Development Services Department Director		

AGENDA HEADING:

Resolution authorizing the City Manager to negotiate a development agreement based on preliminary terms with Merge Urban Development and Drake University for the construction of a \$25 million, 108,000-square-foot mixed-use development at the southeast corner of 25th Street and Carpenter Avenue, across from Drake University.

SYNOPSIS:

Merge Urban Development (Brent Dahlstrom, Partner/CEO, Merge Development Group, 604 Clay Street, Cedar Falls, IA 50613) proposes to construct a 108,000-square-foot mixed-use building east of Drake University, on the northern half of a 2.65-acre block bounded by 24th Street, 25th Street, University Avenue, and Carpenter Avenue. The proposed building will include 120 residential units and approximately 9,800 square feet of commercial space on the ground floor along Carpenter Avenue. This will be Phase 1 of the project that will eventually conclude with the development of the southern half of the block along University Avenue (Phase 2).

The entire block consists of 11 parcels, two (2) of which are owned by U.S. Bank, and one (1) of which is owned by Varsity Cinema, LLC. The balance of the parcels are currently owned by Drake University, and are largely tax-exempt. Merge Urban Development plans to purchase the parcels from Drake, which will make those parcels taxable. The project cost is estimated at \$25 million and would begin construction in fall 2022, with completion expected at the end of 2023.

The Office of Economic Development (OED) has negotiated preliminary terms of a development agreement with Merge Urban Development that provides for project-generated tax increment (TIF) to respond to a financing gap presented by the Developer.

FISCAL IMPACT:

Amount: The project would receive 90% of project-generated tax increment (exclusive of land) for 15 years, which is estimated to be approximately \$5,069,527 (\$3,567,968 net present value {NPV} at 4.5% discount rate). The TIF assistance is estimated to be about 14.01% of total project costs.

Funding Source: Project-generated tax increment from the proposed Carpenter Urban Renewal Plan/TIF District.

Year	Estimated Taxes Received Without Project*	Estimated Taxes Received with Project*	Estimated Incentive Paid	Estimated Net Taxes Received
Sum 10 Years	\$0 (Drake-owned)	\$4,838,603	\$3,200,924	\$1,637,679
Sum 20 Years	\$0 (Drake-owned)	\$10,753,432	\$5,069,527	\$5,683,905
Sum 30 Years	\$0 (Drake-owned)	\$17,945,322	\$5,069,527	\$12,875,795

*Taxes include all property taxing authorities (not just City property taxes).

*Taxes received estimates used the following assumptions: 2.5% growth in re-assessment years; 1.5% growth in other years.

ADDITIONAL INFORMATION:

- The mixed-use project proposes approximately 120 dwelling units, 24 each of five (5) different sizes: studios of 400 square feet; studio plus units of 450 square feet; 1-bedroom units of 550 square feet; 1 bedroom plus units of 650 square feet; and 2-bedroom units of 900 square feet.
- Within the proposed approximately 9,800 square feet of office/retail space, the Developer intends to provide micro-retail units which will support entrepreneurial activity in the area.
- US Bank and the Varsity Theater do not plan to sell their property and will remain on the block.
- The Developer has indicated that during Phase 2 they intend to work with the Varsity Theater owners to maintain a theater within the development, and hopefully support and capitalize on the use with its adjacent buildings.
- The Developer has committed to providing 20% of the residential units (24 units) at an affordable rate of 10% at 80% area median income (AMI) and 10% at 65% AMI. The Developer is also researching DART’s unlimited access pass.
- The Developer has committed to providing four (4) electric vehicle charging stations and to provide conduit to eventually provide more stations if needed. The Developer also committed to providing rooftop solar arrays and will participate in MidAmerican’s Commercial New Construction program.
- The project will not be seeking tax abatement.
- The project was announced on June 24, 2019, at a press conference in front of Old Main. Mayor Pro Tem and Ward 1 Councilmember Bill Gray represented the City.
- The Developer and their design team have engaged with the Drake Neighborhood Association as their concept plans have been developing.
- This property is within one (1) of the City’s two (2) federally designated Opportunity Zones. The Developer will be able to realize some additional benefit by foregoing a portion of federal capital gains tax through investment in this area. The amount will vary by the length of the investment. Currently, the program is set to expire at the end of 2026.

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board – Preliminary and Final Design Review and financial assistance.
- Plan and Zoning Commission – Planned Unit Development (PUD) Rezoning; Comp Plan Amendment; Alley Vacation; Carpenter Urban Renewal Plan.
- City Council – PUD Rezoning; Comp Plan Amendment; Alley Vacation; Creation of new Carpenter Urban Renewal Plan/TIF District; Consideration of Final Terms of Urban Development Agreement.
- City Council – Approval of Certificate of Completion to commence economic development assistance.

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