

# The McKel Group

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August 20, 2008

Honorable Mayor and  
Honorable Members of the Ames City Council  
City of Ames  
Room 238, City Hall  
515 Clark Ave.  
Ames, IA 50014

Re: Downtown Catalyst Project

Dear Mayor and Council Members:

The McKel Group has a concept that we believe fulfills most of the objectives outlined in the catalyst project that the City Council supported in 2006. The McKel Group is a team of local developers led by owners Russ McCullough and David Keller. We have identified obstacles that have kept the property of 328-330 Main St. from being developed. We believe that these obstacles can be overcome through a cooperative effort of the City and ourselves. We have been working closely with the Main Street Cultural District to understand their desires for the enhancement of the downtown area (see support letter). We have met with Steve Schainker and other City staff to work toward understanding how both the public and private components of the Catalyst project can satisfy our common objectives. From the Catalyst Project a public project arises to satisfy the need for a central outdoor plaza space, pedestrian friendly amenities and parking. We see a private project in the desire to have a destination location for tenants in the buildings at 328-330 Main. A destination location tenant will most likely be an entertainment driven business such as a restaurant/bar, theatre, live music venue or other retail spaces that attract a lot of traffic.

It is great that an end product has been thought through and agreed upon in concept through the process of the Catalyst project. The tougher part is figuring a means to the end. This point is obvious in that we are two years out with still nothing yet physically changed at the Catalyst site.

It did not take long for us to find out why the private sector has not produced a project at the site. There are obstacles and risks too great for a sensible private investor to overcome on his/her own. Our proposal will breakdown these obstacles and put forth a solution for you to consider.

The first obstacle for the catalyst project is the funding of public improvements needed to create the vibrant central plaza that will entice business growth on Main Street. Parking and a public pedestrian space are two catalyst elements that will lead to private businesses growth that will fill empty storefronts and provide existing businesses and property owners' optimism to improve their real estate. The non-monetary returns are clearly embraced by the community. The monetary obstacle facing the City is the budget expenditures with unknown monetary returns that come in the form of more local option sales tax and increases in property tax collections through long-term increases in assessed values.

Our solution for this obstacle is to help pay for some of these public improvements through the increase in our project's property tax. This will be structured through a tax increment financing plan (TIF). We will not be requesting tax abatement that is currently in place, however we do plan on using the existing façade grant part of the program.

We will also help reduce initial and ongoing expenditure for the public improvements by providing public restrooms as part of our building improvements. We foresee these restrooms being located on the lower level of the west side of building such that they can be used by our tenant and the general public. The access to these restrooms will be incorporated into the patio improvements on the west side which we will also pay for. The City's and our property will have cross agreements to facilitate access to the public restrooms and private use of the patio area for a future tenant.

Before getting into more of the obstacles, let us explain more details of the redevelopment of the Livery.

We currently have the property under a contract to buy. There are various contingencies with the contract that need to be cleared by September 14, 2008. The developers believe the building has historic value and plan to substantially transform it back to the appearance it had in the early 1950's (see attached 1957 historic picture).

Our plans are to renovate the buildings using our construction company Quebec Construction, LLC as general contractor. Some recent historic renovation projects our company has done include the Court Center building at 3<sup>rd</sup> and Court Ave. in Des Moines and Iowa House Bed and Breakfast Inn at 405 Hayward in Ames.

At this time we foresee the project being done in three phases. The first phase will consist of coordinating current and future tenants of the buildings and construction of the shell space. With the long term leases currently in effect, phase I will allow time to develop a plan that works for all the tenants involved. Some tenants may be able to stay during construction and some may want or need to move out.

During this phase we will renovate the exterior of both 328 (Livery East building) and 330 (Livery West building) Main. This will include excavating the patio area on the west side of the building to expose its lower level wall as it was historically. At the same time we will structurally reinforce the floor system in Livery West so that an entertainment use can be done on any of the floors. Entertainment use requires a floor/ceiling assembly that supports 100 pounds per square foot (100 psf). Our experience tells us that we will be adding steel columns and beams to reinforce the existing floors. Other major improvements in addition to the structural concerns are adding public restrooms, an elevator or lift, complying with ADA accessibility, adding a sprinkler system, updating electrical, plumbing and adding new HVAC where applicable. We will refer to these improvements as "shell" improvements.

We want to renovate the property so that all of the available space is usable and sustainable into the indefinite future. Currently there are commercial spaces that are not or cannot be used. The entire 2<sup>nd</sup> floor of Livery West (5,000 sf) and the attic area of Livery West (3,000 sf former hay mow) is currently not usable. At the end of phase I, Livery West will have about 18,000 sf ready for new entertainment venues and both Livery East and West will have a historically significant exterior restored. We see three spaces developing in Livery West. One space is the lower level restaurant/bar tenant with a large patio. Its primary orientation will be to the west and south.

Another space is the 1<sup>st</sup> floor Main St. tenant. The third space occupies the 2<sup>nd</sup> floor and attic. We see this space as a live music venue and banquet/conference facility. The floor/ceiling will be opened up on the south end of the space where a stage will be creating a 2-story space vaulted to the open rafters of the pitched roof. Depending on the design and finish, this space alone could hold up to 700 people at capacity. The completed Livery West project may be capable of All three spaces may hold over 1,000 people.

We expect shell improvement costs of \$1,800,000 for renovating and modifying the existing structure during phase I. After shell improvements are made, the building will be ready for tenant finishes, phase II.

Phase II is best described as Livery West finishes. Once tenants have signed a lease for Livery West space, we can begin phase II tenant finishes. Tenant improvements will include design, flooring, interior walls and ceiling, plumbing and electrical fixtures, built-ins, electrical, plumbing and HVAC. We estimate phase II improvements to be \$1,200,000.

It is possible that the two phases will coincide with each other. This is what happened at our project on Court Ave. in Des Moines where we developed five entertainment venues.

An obstacle we face is the timing of phases I and II and the type of tenant desired. As developers, we desire any qualified tenant that is willing and able to pay the rent. The community desires a destination location tenant. Unfortunately, a lender will not loan on a shell without any tenants lined up. Likewise, a tenant will not lease the space in its current condition. So, we are left with the classic chicken and egg dilemma.

Our solution to this issue is for the City to provide a "shell" grant to the developer to hold out for a destination location tenant. After the phase I shell is complete, the owner will be able to make a monthly grant draw for an amount up to what is needed to service the shell rent. As new tenants begin to make payments, the draw amount will decrease accordingly. We will limit the maximum amount of each draw as well as have a lifetime cap (see table 1). Once the space is completely leased, the draws will end. The owner agrees to only lease to destination location (DL) tenants until the grant is completely drawn out (maximum of approximately 2 years, depending on lease-up). If the grant is completely drawn out and none of the space has been leased to a DL tenant, the owner will continue to hold out at least one space for a DL tenant for 10 years but may lease other space to non-DL tenants. If the owner does not appropriately wait for a DL tenant, it will have to payback all of the shell grant money within one year of the breach of the agreement. Remember, if phase I and II coincide, there will not be any need for the shell grant.

You may wonder what risks are left for us to bear? Plenty, we will be signed on to over \$3 million of debt for 25-30 years giving us every incentive to find good quality long term tenants. Our risk also increases by agreeing to limit the pool of tenants to destination location tenants only.

Finally, phase III will entail tenant finishes of Livery East. As long term leases of existing tenants expire and/or existing tenants choose to negotiate new finishes, we will renovate the interior of Livery East. Note that some of Livery East will be incorporated into the shell development. For example, the elevator is planned to be in Livery East at the west wall such that it can serve both buildings.

We will be pursuing federal and state historic tax credits for the project. To do so, we will be working to list the property on the National Register of Historic Places. After preliminary discussions with our historical consultant, we are confident we can get this done. To qualify for the credits, the original building and important historic features will be preserved as much as possible. For example, some of the rail system that brought hay into the livery is still in place and part of the historic fabric that we would look to preserve. The improvements will be approved by the State Historical Preservation Officer (SHPO) and the National Park Service (NPS).

An obstacle related to historic tax credit financing is the timing of payments. The tax credit proceeds are part of the equity required for our lender. The first payment comes within about six months after the completion of the project. The solution to this issue that we used with the City of Des Moines was a short-term loan that was paid back when the federal tax credits funded (see table 1). The length of this loan will be from the start of phase I construction to the funding of the tax credits (most likely 1-2 years).

**Table 1**

1. TIF	Phase I written dev. Agreement for increase Assessment Phase II written dev. Agreement for increase Assessment owner/tenants pay full tax with no abatement helps fund parking ramp and plaza improvements	\$1,800,000 \$1,200,000
2. Façade Grant	granted after phase I façade completed for each building	\$ 30,000
3. Shell Grant	drawn as needed for vacant shell space, max \$200k draws begin after shell is complete, max of \$15k per month draws reduce pro-rata as space is leased up owner can only rent to a destination location tenant	\$ 200,000
4. Bridge Loan	drawn at start of phase I, paid at historic credit funding no payments, no interest during term	\$ 200,000

We have support from the Main Street Cultural District and Steve Schainker. We now need to find out if you can support the catalyst project under the terms we have put together in this proposal. We are not asking for something we do not need. In fact, we are not asking for much more than enough to fill the gap between improvements to area and future tenants.

There are a lot of details in this letter and many more to work out. We would like to meet with you individually, if possible, before meeting collectively at a city council meeting. In any event we need to know if you can support the project the way we have it outlined. Our contingency expires in September and we are not confident that an extension will be easy to get from the seller. Thank you for your consideration.

Sincerely,



Russ K. McCullough, Ph.D. David A. Keller, CPA

Attachments: 1. current main st. picture 2. current SW corner picture 3. 1957 NW picture 4. conceptual renovated building views 5. conceptual plaza and parking ramp views by City Staff 6. MSCD support letter

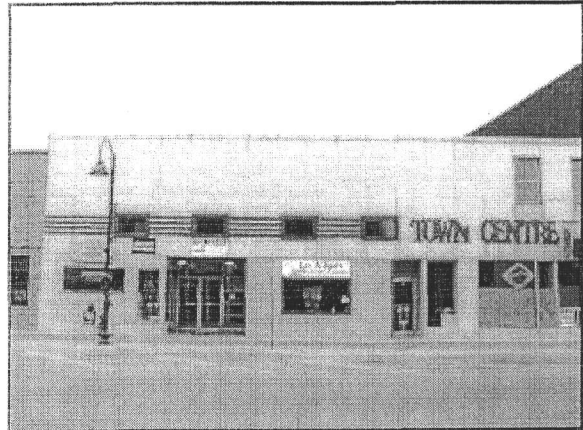
Photo sheet

330 Main St Ames, IA 50010

Primary Photo



Additional Photo

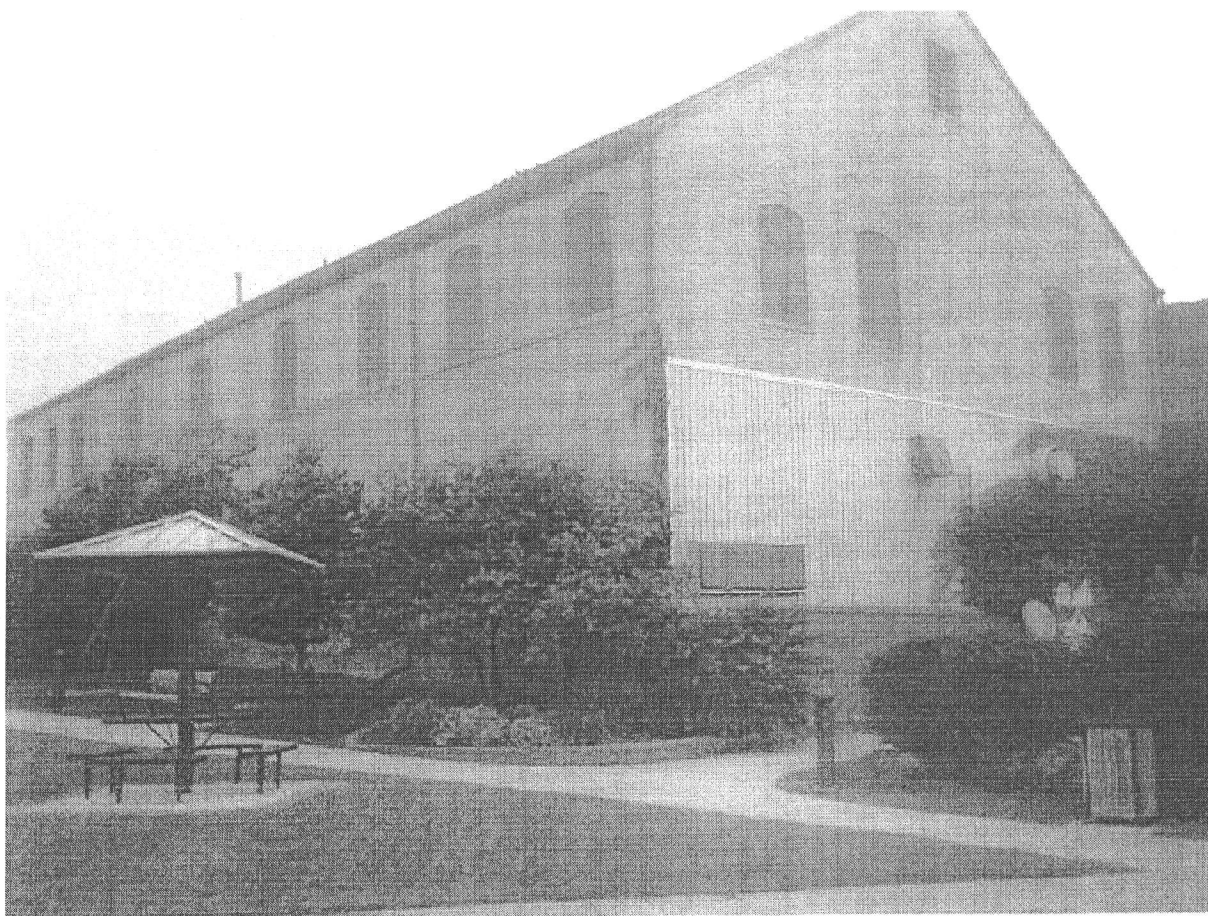


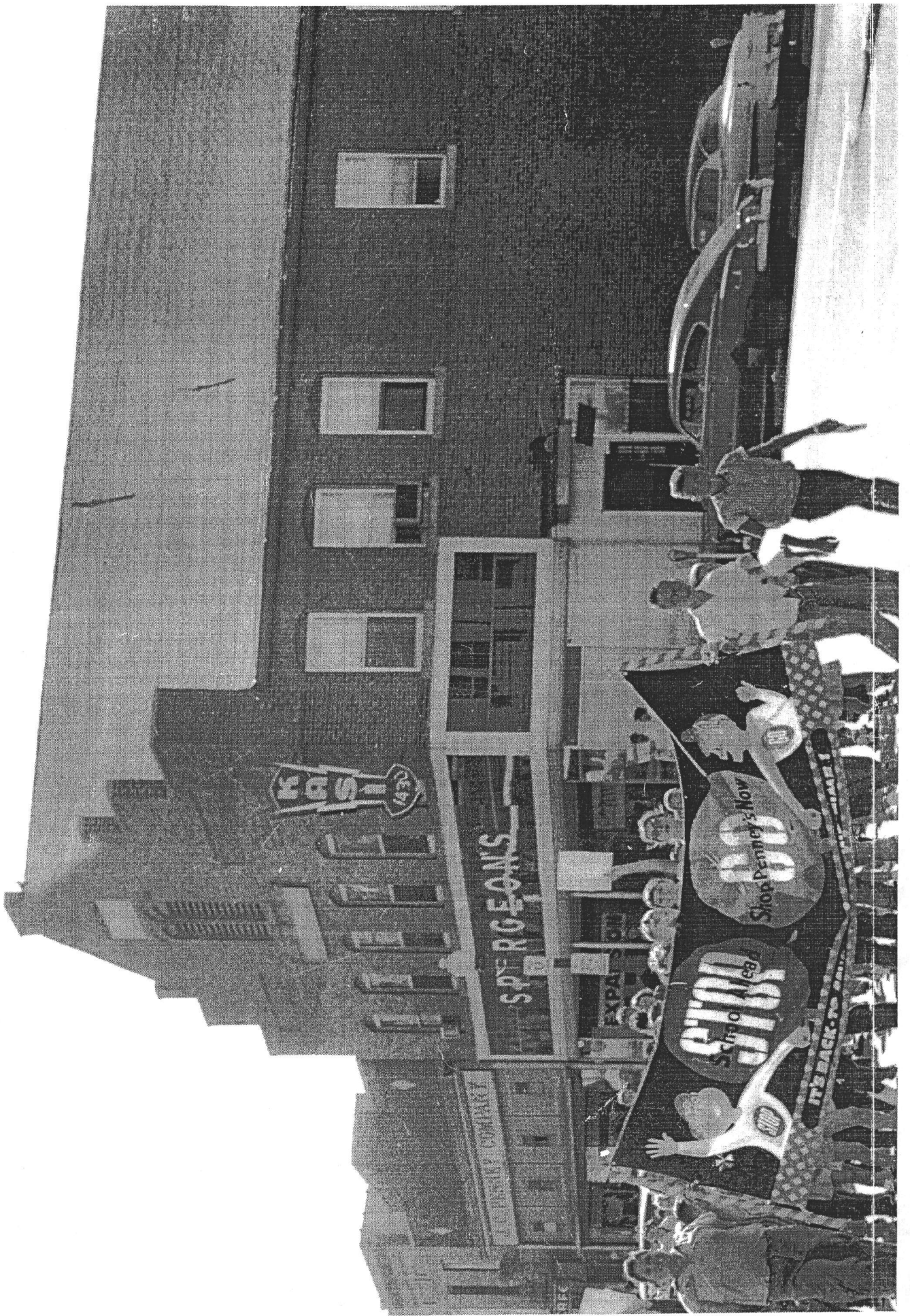
Additional Photo



Additional Photo







# Main Street

CULTURAL DISTRICT

■ ■ ■ ■ Ames, Iowa ■ ■ ■ ■

312 Main Street, Suite 201

Ames, IA 50010

August 21, 2008

Mayor and City Council  
City of Ames  
515 Clark Ave  
Ames, IA 50010

Dear Mayor Campbell and City Council,

It has been three years since the Charrette was conducted, and we are excited to be finally moving forward with the project. In September 2005, you hired urban designers and economic developers from the Charrette Center Town Design to conduct a workshop to identify needs for downtown. Upon completion of the workshop, the Main Street Cultural District (MSCD) proposed a new location for the project morphing it into the Downtown Ames Catalyst Project. A survey was distributed that showed the MSCD supported the project and thus, the City Council agreed to support the proposed Town Centre location for the Catalyst Project.

Objectives, desires and criteria of the proposed project and site included (see Downtown Ames Catalyst Project brochure published by the MSCD):

#### City Council Objectives:

- Initiate downtown and commercial revitalization.
- Identify an exciting, bold, and attainable project designed to spur additional development downtown
- Generate wide public support and civic pride furthering the goal of creating one community in Ames

#### Community Desires

- Pedestrian-friendly
- Increased housing opportunities
- New plazas, parks and meeting places
- Partnerships of public buildings with other uses

#### MSCD Programming Criteria

- Retained and increased retail space
- Outdoor open space for special events
- Indoor events space

The Main Street Cultural District believes this project will accomplish the objectives set forth by City Council as well as meet the MSCD's criteria while most importantly fulfilling the desires of the community.

The developers plan to use existing city and state building improvement funds to revitalize the building. The impact of the Catalyst project will create interest in other developers and spur additional development. The project will also generate public support by creating meeting space(s) for as many as 700 people and enhancing Tom Evans Park for better use by the community. The developers plan to work with the current tenants during Phase I of the renovations to make the transition as smooth as possible. While we may not retain the current

■ ■ ■ ■ [MainStreetCulturalDistrict.com](http://MainStreetCulturalDistrict.com) ■ ■ ■ ■

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retail space, the attractive entertainment venues and restaurants will be a very positive community draw and will significantly complement the downtown "mix." So, we clearly see the benefits in the restoration of this building.

The Main Street Cultural District would like to express its overwhelming support for this project and ask that you grant the requests of the developers, Russ McCullough and David Keller, to ensure the sale of the building by September 15, 2008 and the success of the restoration.

Sincerely,

A handwritten signature in black ink that reads "Tim COBLE". The signature is written in a cursive style with a large, sweeping flourish over the word "COBLE".

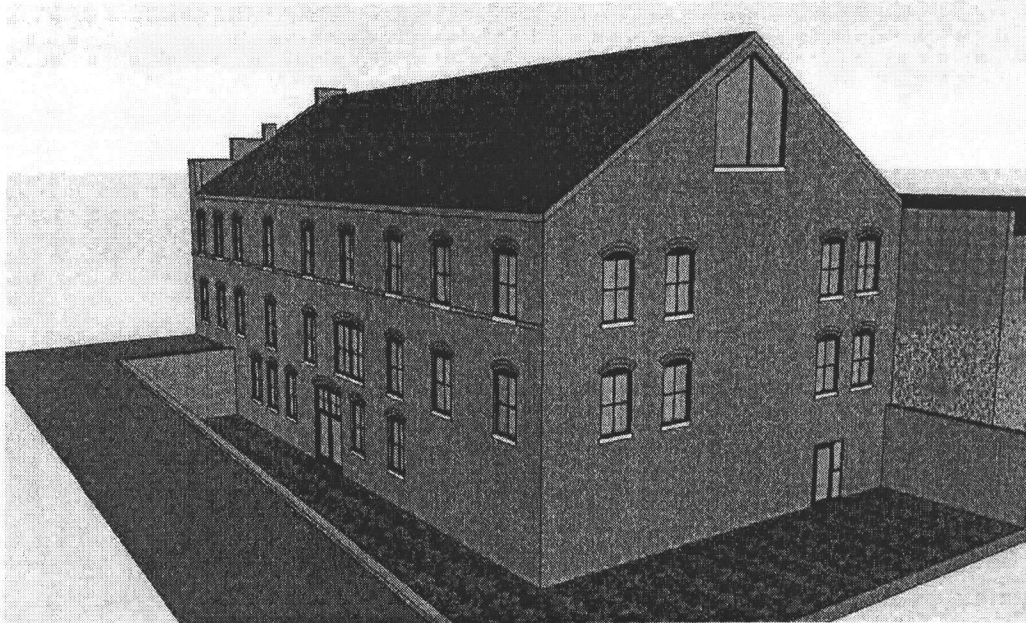
Tim Coble  
Acting President  
Main Street Cultural District

Cc: Jeff Benson

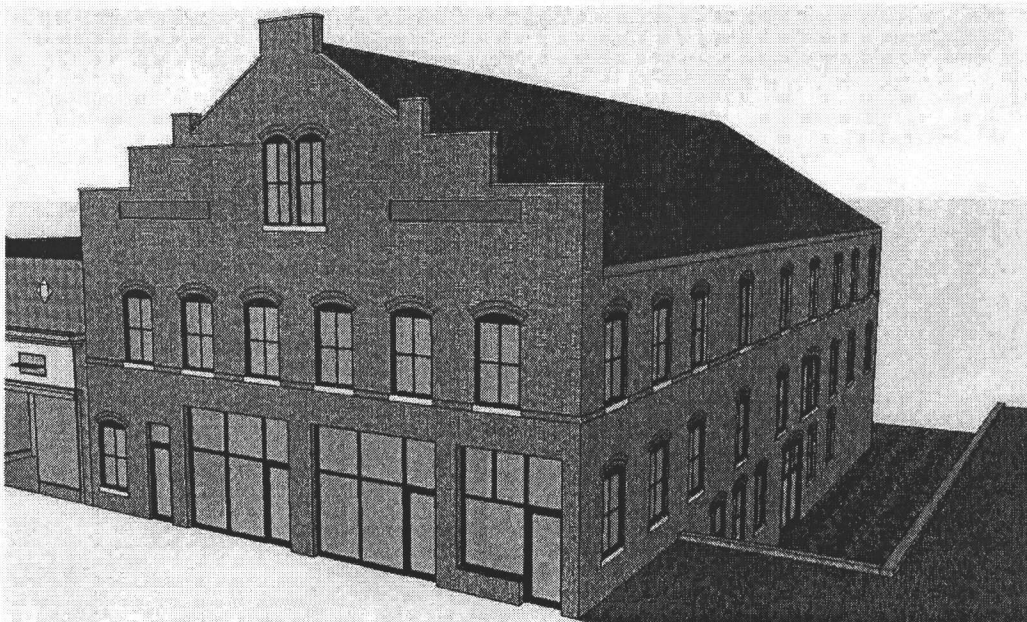
Roseland  
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ARCHITECTS PC

# Main Street Livery Restoration (Revised Views)

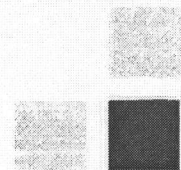
PRELIMINARY VIEWS – PAGE 1: REVISED 8/12/08



PRELIMINARY BACK VIEW



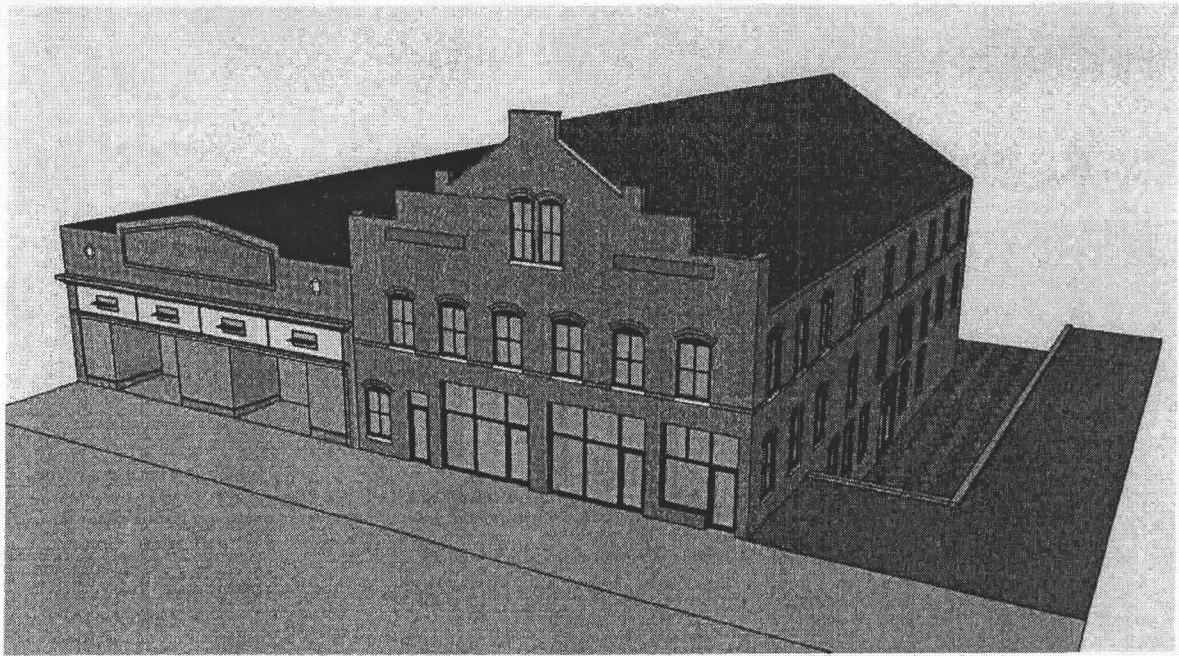
PRELIMINARY FRONT VIEW



Roseland  
Mackey  
Harris  
ARCHITECTS PC

# Main Street Livery Restoration (Revised Views)

PRELIMINARY VIEWS - PAGE 3: REVISED 8/12/08



PRELIMINARY MAIN STREET VIEW

