

TO: Mayor and City Council
FROM: Steven L. Schainker, City Manager
DATE: October 13, 2008
SUBJECT: Update on Downtown Catalyst Project

At the September 9, 2008 City Council meeting, Russ McCullough and David Keller presented their proposal to redevelop 328-330 Main Street. At the conclusion of the meeting the Council instructed staff to:

- 1) *ascertain the costs of hiring a consultant to estimate the costs of building a parking ramp as suggested by the developers on Lot X or Lot Y in the Central Business District (CBD) lots.*

The Traffic Engineer has contacted two consulting firms who indicated that they would be interested in providing cost estimates for constructing a parking ramp in the CDB parking lot. Based on these conversations, it appears the cost for these consulting services ranges from \$7,000 to \$14,000. It must be emphasized that these estimates were not meant to be official proposals and were not based on a specific scope of service that must be developed along with a request for proposal (RFP) process. If the Council desires the staff to move ahead with our process for identifying a preferred consultant to develop these parking ramp estimates, a motion supporting this action would be in order along with the commitment of funds from the available balance in the Parking Fund to finance this work.

- 2) *proceed with negotiations on the project as well as explore a better explanation of a destination tenant.*

You will recall that the developers were requesting the following four incentives from the City in order for them to move ahead with the proposed project:

- a \$200,000 no-interest loan to be paid back in one lump sum when the federal tax credits are received by the developers, but in no case longer than two years from the time the City funds are distributed to the developers;
- a shell grant to be drawn upon by the developers on a monthly basis once 330 Main is renovated to help cover the debt service on the improvements until destination location tenants begin to make payments. The monthly payments will be reduced in relation to the amount of space that remains not leased by destination tenants. This grant pool will have a cap of \$200,000 and a maximum timeframe of two years. After this time period, the developer is asking to be released of its obligation to rent to destination tenants;
- a commitment by the City to build a second story onto the CBD parking lot (either Lot X or Lot Y) to create 150 additional parking spaces; and
- \$30,000 of Façade Grant funds (\$15,000 each for 228 and 330 Main Street buildings)

In further researching these proposed incentives, it is the staff's opinion that the City Council cannot guarantee in a Developers Agreement the last two requests (the construction of a parking lot and Façade Grant proceeds).

Parking Improvements

Given the magnitude of costs associated with constructing a parking lot expansion, the preferred strategy to finance this project might require a bond referendum. Hence, there can be no guarantee included in a Developers Agreement that funds will be available to accomplish the project. This commitment to finance the parking improvements is important to the developers if they hope to move ahead and purchase the property for renovation.

Façade Improvements

The City must first review the specific design elements proposed by the developers for both 228 and 330 Main Street before a decision can be made as to whether or not the proposed renovations qualify under the Downtown Façade Grant Program.

Destination Location Tenants

In accordance with the Council's direction, I suggested that the shell grant program be offered to the developers as they attempt to attract such destination tenants as a banquet hall, hotel, theater (movie or performing arts), convention center, or museum.

The developers have emphasized that the definition of a destination tenant should include restaurants and bars. Without food or drink establishments, the developers do not believe that some of the other proposed uses will be feasible. I will need some feedback to determine if the Council is in agreement with their proposed uses to qualify for this incentive.

In response to this new information (that the City might not be able to commit to the construction of a parking ramp or Downtown Façade Grant Program in a timely manner),

the developers have stated that they are willing to proceed with their acquisition of the property (assuming other due diligence items are met), if the City can guarantee that the current Downtown Façade Grant Program (and Tax Abatement Program) will remain available to this property, even if the Program is discontinued or modified for other purposes. They understand that the proposed improvements will have to qualify under the Program and they are willing to follow the current design standards to qualify for the Downtown Façade Grant Program.

Staff, however, does not believe it will be possible for the Council to bind future Councils to grant the tax abatement some time in the future. In order to accomplish the desires of the developers, a separate urban revitalization plan could be established by this Council for 228-330 Main Street at the time the Developers Agreement is finalized in order to ensure that the tax abatement incentive is available.

The developers have indicated that they will hold the property in an “As-Is” status until such time as the City is able to provide sufficient parking to the area, or until the developers determine an alternative use that does not require additional parking and utilizes the façade/abatement programs.

The Council should understand if a tax abatement incentive is pursued by the developers, the need for a shell grant and discussion of what uses would qualify for such an incentive become moot. In addition, the granting of tax abatement by the developers will nullify the use of a TIF approach to garner revenue to help the City pay for the parking ramp.