

OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

CITY COUNCIL COMMUNICATION 96-481
NOVEMBER 18, 1996 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
PIONEER HI-BRED CAPITAL SQUARE CORPORATE OFFICE PROJECT	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT A. STRICKER ECONOMIC DEVELOPMENT ADMINISTRATOR

SYNOPSIS —

On the November 18, 1996, Council agenda is a roll call to approve the Loan Agreement and Promissory Note for the economic development forgivable loan proposed for Pioneer Hi-Bred International, Inc. relating to its proposed corporate office expansion at the Capital Square Office Building, 400 Locust Street. On August 19, 1996, by Roll Call No. 96-2920, the City Council adopted the City Manager's recommendations regarding the terms of agreement for the proposed economic development forgivable loan. The Council also directed the Manager to prepare the formal loan agreement for Urban Renewal Board review and Council action.

The City will provide an economic development forgivable loan in the amount of \$848,360 which will be advanced to Pioneer in five (5) equal annual installments of \$169,672 on December 1st of each year beginning in 1999, with the last payment in 2003. The loan will be funded through tax increment financing cash flow.

The proposed addition of up to 275 Pioneer employees to the Capital Square location represents a significant opportunity for the City to diversify the downtown's economy and stabilize its tax base. Pioneer is an important international agri-business corporation. The presence of over 300 Pioneer corporate employees at Capital Square will serve to diversify the predominately finance and insurance economic base of the downtown.

Assessed valuations have recently declined by 13 percent on average in the downtown. This decline has been justified by recent sales of major downtown buildings which were below their assessed value. The Capital Square building is an example of a property that has decreased in value and is in danger of further significant decline. Pioneer's plan to occupy over 100,000 square feet in the building under a long-term lease can prevent a decline in the value of Capital Square and provide stability for the future.

The proposed Pioneer expansion downtown will position the company for continued corporate-wide employment growth through increased flexibility, efficiency, and convenience in its operations. Attached is a letter from Jean A. Linn, Director of Real Estate Management for Pioneer, which discusses the importance of the City's proposed economic development assistance package to Pioneer's ability to create new jobs.

FISCAL IMPACT —

Provided Pioneer satisfies its obligations under the loan agreement, the City will advance \$169,672 on December 1st of each year beginning in 1999, with the last payment in 2003, for a total forgivable loan amount of \$848,360. The loan advances will be funded with tax increment financing cash flow from the Capitol-Center Development Area TIF District. The forgivable loan will not require the issuance of bonds, therefore the City will not incur long-term debt with this project.

RECOMMENDATION —

Approval of the Loan Agreement and Promissory Note between the City and Pioneer Hi-Bred International, Inc. is recommended.

BACKGROUND —

The proposed economic development assistance from the City to Pioneer is provided for under Iowa Code Chapter 15A, and the Capitol-Center Development Area Urban Renewal Project. The proposed forgivable loan would be funded through tax increment financing annual cash flow from the Capitol-Center Development Area TIF district. The forgivable loan will not necessitate the issuance of long-term debt by the City.

Pioneer currently has 30 employees downtown and occupies approximately 23,000 square feet in Capital Square. As a result of the proposed economic development assistance package, Pioneer plans to immediately relocate at least 200 management level employees to downtown Des Moines in the Capital Square office building. In addition, Pioneer anticipates adding another 75 employees, resulting from future business growth, at its Capital Square space. Pioneer officials project that approximately two-thirds of the 305 current, relocated, and future new employees will be compensated at over \$45,000 per year. The remaining one-third will earn on average over \$25,000 per year.

To accommodate the additional 200 relocated employees, and the anticipated 75 new employees from future growth, Pioneer will expand its Capital Square space by approximately 80,000 square feet. This expansion will result in Pioneer entering into a new 15-year lease for 103,592 square feet in Capital Square. Pioneer will undertake leasehold improvements in the expanded space at an estimated cost of \$3.5 million. An additional \$1.5 million cost is estimated for furniture, fixtures and equipment. Parking needs for the Pioneer expansion downtown amount to 230 reserved spaces within close proximity of Capital Square.

Terms of Proposed Economic Development Forgivable Loan

Outlined below is a summary of the key features of the proposed forgivable loan agreement between the City and Pioneer.

City of Des Moines Incentives:

The City of Des Moines will provide an economic development assistance package to Pioneer in the form of a forgivable loan as follows:

- The City will provide an economic development forgivable loan in the amount of \$848,360 which will be advanced to Pioneer in five (5) equal annual installments of \$169,672 on December 1st of each year beginning in 1999, with the last payment in 2003. The loan will be funded through tax increment financing cash flow. The loan will be forgiven after ten (10) years ending on Feb. 1, 2008, eliminating any obligation to make repayment, provided Pioneer has satisfied certain obligations as described below.
- Parking for 230 vehicles will be made available for lease to Pioneer employees in the Court Avenue Parking Garage (and other City garages) on a first-come, first-serve basis. The spaces will be leased at the standard monthly rates.

Pioneer Obligations:

As consideration for the economic development assistance package provided by the City, Pioneer shall assume the following obligations which must be satisfied for the proposed loan to be forgiven. In the event Pioneer defaults on its obligations, as provided in the proposed loan agreement, the loan must be

repaid, together with interest at seven percent per annum from the date of each advancement, within 120 days following declaration of default.

- Pioneer will enter into a lease for a minimum of 100,000 square feet of net leasable space within the Capital Square office building for a minimum term of ten (10) years, beginning on or before September 1, 1997 to at least February 1, 2008.
- Pioneer shall employ at least two-hundred thirty (230) full-time employees to work at the Capital Square offices at all times over a ten (10) year period ending on February 1, 2008. Prior to November 1st of each year, Pioneer must submit written certification to the City that it is in compliance with the terms of the loan agreement and other documentation, including but not limited to, an updated "Employer Job Summary," an updated listing of current employment by job title.
- Pioneer shall make leasehold improvements to its Capital Square space at a minimum cost of \$2.5 million. The leasehold improvements must be completed by February 1, 1998, and available for lawful occupancy. An architect's certification and other evidence satisfactory to the City must be submitted to show payment of at least \$2.5 million for costs incurred from construction of the improvements. The Certificate of Completion will be issued upon completion of the leasehold improvements.

Urban Renewal Board Recommendation

The Urban Renewal Board reviewed the proposed economic development forgivable loan for the Pioneer Corporate Office expansion at Capital Square at its meeting on November 12, 1996, and recommended approval.



PIONEER HI-BRED INTERNATIONAL, INC.

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November 7, 1996

The Honorable Mayor and
Members of the City Council
City of Des Moines
400 East First Street
Des Moines, Iowa 50309

RE: Proposed Economic Development Assistance for Pioneer Hi-Bred International, Inc.

Dear Mayor and Members of the City Council:

This letter will confirm discussions we have had with the City in connection with the proposed Economic Development assistance to Pioneer Hi-Bred International, Inc. ("Pioneer").

Pioneer is an international company conducting business in approximately 65 countries. Pioneer maintains its headquarters in the central Iowa area with offices in the cities of Des Moines, Urbandale, West Des Moines and Johnston.

Supporting Pioneer's business activities on an international scale requires considerable human resources, including management level support. As Pioneer has grown, and management level employees have been added, those employees have been located on an as-needed basis in separate offices in the cities of Des Moines, Urbandale, West Des Moines and Johnston.

As you can imagine, dispersal of management level employee offices throughout four different communities presents logistical problems and hinders potential growth and expansion of Pioneer's operations. Moreover, such dispersal does not result in the highest efficiency, flexibility or convenience Pioneer would like to achieve to position itself for desired expansion.

In an effort to foster continued growth of Pioneer operations and to increase competitiveness, Pioneer desires to consolidate a majority of its administrative management level employees, here in central Iowa, in the Capital Square Building in downtown Des Moines.

In anticipation and as a direct result of proposed economic development assistance from the City, Pioneer has entered into a new Lease in the Capital Square Building, in downtown Des

Moines, for at least 103,000 square feet of space for a term of 15 years. Pioneer will relocate at least 200 employees to Capital Square, in downtown Des Moines, from other central Iowa locations within approximately ninety (90) days of completion of leasehold improvements, which completion shall take place by February 1, 1998. In addition, there are 30 employees presently in Capital Square, thus yielding an initial total of 230 employees.

As a result of the proposed economic development assistance, Pioneer intends to continually add employees to Capital Square as required by expected business growth. It is anticipated that new jobs created as a result of Pioneer's expanded operations will be located at Capital Square until the leased area has reached full capacity of approximately 305 total employees.

Enhanced efficiency will result from consolidation of employees at the downtown Des Moines site. As a result, Pioneer's global competitiveness will create new opportunities for the Iowa economy and export potential will be enhanced. Pioneer's expected growth and expanded operations will generate new income and the need for additional employees in the future. Pioneer plans to concentrate this central Iowa employee growth in downtown Des Moines and the Des Moines metropolitan area.

Very truly yours,

REAL ESTATE MANAGEMENT



Jean A. Linn

Director

/js

c Richard Clark
Eugene Olson