



**CITY COUNCIL
COMMUNICATION:
N:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

00-037

SYNOPSIS -

AGENDA:

FEBRUARY 1, 2000

SUBJECT:

ALLIED
INSURANCE
CAMPUS --
WESTERN
GATEWAY

Nationwide Mutual Insurance Company is proposing construction of a new "Allied Insurance Campus" in downtown Des Moines. The City, in conjunction with Polk County and the Greater Des Moines Partnership, has identified a 5½ block site for the project along the south side of the Western Gateway between 10th and 13th Streets south of Locust (see attached map). Eleventh Street between Locust and Mulberry would be closed. The first phase of the project calls for Nationwide to construct a 500,000 square foot office building and a 2500 space parking garage at a cost of about \$137 million.

Allied currently employs about 650 people downtown. Allied (Nationwide) will employ at least 1,650 people at the new facility, which includes 400 new jobs in the State of Iowa. The first phase will have an assessed value of \$66 million.

TYPE:

The decision to locate the Allied Insurance Campus along the western Gateway is vitally important to the City, County, and State. Downtown Des Moines is one of the strongest economic generators in the State of Iowa. However, the high cost of land and structured parking in the downtown area make it increasingly difficult to compete for new development such as the Allied project. We are proposing an incentive package that relies on significant participation by Polk County, the State of Iowa, and the City of Des Moines in order to address these competitive disadvantages. The major elements of the proposed incentive package are outlined as follows:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY:

ERIC ANDERSON
CITY MANAGER

- The City will assemble and sell the land to Nationwide at a price of up to \$15 million; the City will provide a land write-down estimated at \$5 million which will be funded from currently available Tax Increment Financing (TIF) revenues and future project generated revenues.
- The City will provide economic development grants over a 20-year period to help offset the cost of the structured parking. These grants will have a net present value of up to \$14.9 million, and will be funded from tax increment revenues generated by the project.
- Tax abatement will not be available on the office building. Tax abatement/rebate will be available for ten years on the parking garage.

- The County will provide an economic development grant of \$10 million to help offset the cost of the parking garage.
- The State of Iowa will provide benefits through the Enterprise Zone program, which includes tax credits estimated at about \$9 million, and sales tax rebate on construction materials estimated at about \$1.8 million.

FISCAL IMPACT -

Because there is no tax abatement on the office building, the project will generate over \$2 million per year in new property taxes over the first ten years. After the tax abatement/rebate on the parking garage expires in year ten, the project will generate over \$2.7 million per year in new taxes. (These numbers do not take into account any increase in assessed values over the minimum assessment amounts). Therefore, the project generated tax increment revenues will be more than sufficient to pay the City's economic development grants for the parking garage which are estimated to be about \$1.3 million per year for 20 years.

The City's up front investment in the project will be comprised primarily of land write-down expenses that are estimated at about \$5 million. These expenses will be funded from currently available TIF revenues, and future project generated revenues. In addition, it is anticipated that the Greater Des Moines Partnership will make available funds from its land financing facility to help the City fund these initial expenses without resorting to General Obligation (GO) bonds as a source of funding. We also anticipate that the Iowa Department of Economic Development will make available up to \$1.5 million for site environmental remediation, if needed.

Other costs incurred by the City will include skywalk bridges over public property and street improvements. These expenses can be addressed as part of the City's ongoing Capital Improvement Program.

RECOMMENDATION -

- 1. Approve the Preliminary Terms of Agreement with Nationwide and Polk County.**
- 2. Direct the City Manager and Corporation Counsel to prepare a development agreement based on the Preliminary Terms of Agreement.**
- 3. Direct the City Manager to carryout the various procedural actions outlined in the Preliminary Terms of Agreement, including obtaining the necessary environmental studies and land feasibility analysis up to a cost of \$195,000.**

BACKGROUND -

Nationwide Mutual Insurance has announced a \$137 million proposal to construct a new 500,000 square foot home office and 2,500 space-parking garage in the City's western Gateway area. Allied Insurance, a member of Nationwide Insurance, has been located in downtown Des Moines since 1929 and with this development strengthens their commitment to the downtown area. The project - to be referred to as the Allied Gateway Campus - is proposed to be located on a site bounded by Locust, Mulberry, 10th and 13th Streets except for the half block occupied by the Hotel Fort Des Moines and the adjoining properties (see attached site map). Allied Insurance will employ at the site 1,250 persons upon occupancy and will grow employment by 400 new positions within a year of occupancy. The Allied Gateway Campus will provide the company space to continue its growth and anticipates the construction of substantial additional office space and structured parking to serve its growth needs. Construction is scheduled to begin mid-year 2001 and be completed in 2003.

The costs related to the redevelopment of existing land uses within the Gateway area combined with the costs of constructing structured parking facilities substantially increases the capital investment to develop in the City's downtown area. To compensate for these higher costs, it is necessary for the City to assist development through the exercise of urban renewal authority, land write-downs, tax abatements, and economic development grants.

To induce Nationwide to construct their project in the western Gateway, extensive discussions among representatives of Nationwide Insurance, Polk County, Greater Des Moines Partnership, State of Iowa Department of Economic Development and City staff, resulted in the proposed Preliminary Terms of Agreement. This document will serve as the basic structure for the drafting of a final development agreement. The following general points outline the key features that Nationwide, the City and County would agree to undertake for the proposed project to move forward:

Nationwide will:

1. Construct a new 500,000 square foot home office in the city's western Gateway area as their first phase of development;
2. Employ 1,250 persons at the site and create 400 new positions within a year of occupying the building;
3. Construct a 2,500 space parking garage adjacent to the new

commercial building;

4. Make a minimum capital investment of \$137 million in the first phase of the Allied Gateway Campus, including the payment of up to \$10 million to acquire Parcels A, B & C of the proposed site;
5. Pay all costs associated with the acquisition, relocation, and demolition of Parcel D up to a maximum of \$5 million.
6. Enter into a minimum assessment agreement of \$66 million on the Phase One improvements and land for ten years;
7. Design the Phase I parking garage to make mutually agreeable accommodations for the Hotel Ft. Des Moines vehicle drop-off/turnaround and adequate separation between it and the hotel;
8. Make portions of the Phase I parking garage available for public use during hours when the parking is not being used by the company;
9. Enter into a standard Skywalk Agreement.

The City will:

1. Promptly commence the public processes necessary for the assemblage and conveyance of the area identified in the attached map as the Allied Gateway Campus. These actions include, but are not limited to, amendments to the urban renewal plan to reflect parcels for acquisition and extension of the plan's expiration date, resolution for acquisition of property and relocation of existing uses, vacation of public rights-of-way and amendments to the Skywalk District and Plan. Acquire the site and convey the property, the public rights-of-way, including 11th Street between Locust and Walnut and Walnut and Mulberry and all air rights and tunneling rights over and under city streets found within the Allied Gateway Campus except those portions necessary for public skywalk bridges. The City shall be responsible of remediating identified pollutants to an acceptable level.
2. The City will diligently pursue, within the limits of the skywalk ordinance, the extension of the public skywalk system to the site before Nationwide's occupancy of the Phase I building. This will require the cooperation of the property owners to extend the skywalk system about 1½ blocks from the existing skywalk system to the new Allied office building.
3. The City will approve the Phase I parking garage for tax abatement in accordance with the urban revitalization ten-year declining exemption schedule. Additionally, the City would provide under a tax rebate agreement, economic development grants that effectively rebate 100 percent of the property taxes upon the parking garage for ten years.
4. The City will provide annual Economic Development Grants to the project in an amount not to exceed \$14.9 million (Net Present Value). The \$14.9 million will be reduced by the amount of any economic development grants paid to Nationwide based on tax increment revenues paid on new values resulting during construction. The economic

development grants are necessary to reduce the capital costs associated with the parking garage. The amount of the grants may be less if the actual costs of the garage are less than \$12,000 per space (excluding land). The grants will be disbursed to the Company in 20 annual installments upon the company's certification that it is not in default under the development agreement.

5. The City will assist Nationwide in the timely preparation, submission and processing of all necessary applications to obtain local and state approvals for a finding of eligibility and benefits under the State of Iowa Enterprise Zone program.

6. The City will proceed expeditiously to implement key elements of the Gateway project including the acquisition and improvement of the Masonic Temple Building and the old American Institute of Business (AIB) Building, and the timely completion of landscaping.

7. The City will complete the Martin Luther King, Jr. Parkway by December 2003.

Polk County will:

1. Provide an Economic Development Grant of \$10 million to reduce the capital costs associated with the Phase I parking garage.

All parties promise to participate in good faith efforts and in a timely manner to complete the drafting of a final development agreement containing the above described project parameters and terms and conditions.

Economic Impacts of the Proposed Expansion

David Swenson, Department of Economics, Iowa State University, using an input-output model of the Polk County economy made estimates of the expected impacts of the proposed project. An input-output model is an accounting of the industrial economic characteristics within a region and the value of their linkages with each other and with households. The following table reflects the findings of his analysis.

Economic Impact to Polk County of 400 New Insurance Industry Jobs					
	Direct	Indirect	Induced	Total	M
Total Output	57,266,144	12,472,460	18,203,004	87,941,614	
Total Personal Income	17,912,136	6,107,332	6,852,704	30,872,172	
Jobs	400.0	212	280	892	

The research suggests that the total output multiplier is 1.54. This means that for every \$1 of sales by the firm, an additional \$.54 in sales are sustained in the rest of the Polk County economy. The personal income multiplier of 1.72 means that for every \$1 in personal income paid by the firm to its employees, an additional \$.72 in personal income is generated

either from the supply of inputs (indirect) or household goods (induced).

Finally, the job multiplier of 2.23 indicates that for every job in the direct firm, 1.23 jobs are sustained in the regional economy. The jobs multiplier is relatively high for two reasons: first, the pay in this industry is comparatively high thereby stimulating robust local household purchases, and second, the insurance industry has very strong linkages with other firms and institutions in the region.

Effects on Local Government Revenues in Polk County

When the level of commercial activity changes in an area, it also has an impact on the provision of public goods and services. It is possible to translate changes in regional incomes into changes in local government receipts. Local governments generate their revenues from property taxes, other taxes (like the recently passed local option sales tax), charges and fees, special assessments, and from state and federal government assistance.

The input-output model also estimates the impacts on local government considering the economic growth of 400 new jobs. (Note: The model does not estimate the direct fiscal impacts resulting to the City from the new office and parking structures.) Accordingly, the 400 new jobs and the associated estimate of likely residential labor force growth for both the City and for Polk County have been distributed initially in accordance to residential probabilities established over the past decade. The analysis assumes that 57 percent of the direct and indirect job growth (minus in-commuters) will accrue to the City -- the remainder of the growth goes to the rest of Polk County.

Given those changes in the number of resident employed persons and, concomitantly, the incomes associated with those changes, we then estimated the probable growth in local government revenues. General revenues to the City are estimated at \$665,631, general revenues to all other local governments in Polk County are \$2.112 million, and local government receipts that would materialize from 400 new insurance jobs in the City would be \$2.78 million per year.

Attachment