

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-104

SYNOPSIS -

AGENDA:

MARCH 20, 2000

On the March 20, 2000 Council agenda are three roll calls related to the proposed Allied Gateway Campus development project, as follows:

SUBJECT:

ALLIED GATEWAY
CAMPUS
DEVELOPMENT
PROJECT--
WESTERN
GATEWAY

1. Approving and authorizing the City Manager to acquire property under Iowa Code Chapter 6B for the Allied Gateway Campus urban renewal project.
2. Approving the vacation and conveyance of public rights-of-way, including Eleventh Street between Locust and Walnut and Walnut and Mulberry Streets and all alleys and the air rights except those portions necessary for public skywalk bridges and tunneling rights subject to existing public utilities over and under City streets found within the Allied Gateway Campus; and
3. Approving the final Development Agreement between the City and Nationwide Mutual Insurance Company;

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

On February 1, 2000 by Roll Call No. 00-266, Council approved a Preliminary Terms of Agreement which authorized staff to prepare a Development Agreement based on the Preliminary Terms of Agreement and directed various procedural actions including obtaining the necessary environmental studies and land feasibility analysis.

SUBMITTED BY:

RICHARD A. CLARK
DEPUTY CITY
MANAGER

Allied Insurance, a member company of Nationwide Mutual, 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. The project - to be referred to as the Allied Gateway Campus - will be located on a site bounded by Locust, Mulberry, Tenth and Thirteenth Streets except for the half block occupied by the Hotel Fort Des Moines and the adjoining properties (see site map attached to roll call).

Allied Insurance will employ at the site 1,250 persons upon occupancy and will increase employment by 400 new positions within a year. 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.

FISCAL IMPACT -

The project will generate over \$2 million per year in new property taxes in its first ten years. After the tax abatement and economic development grants for the parking garage expire 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 immediate investment in the project is comprised primarily of land write down costs estimated at about \$6 million. These expenses will be funded from currently available TIF revenues and future project generated revenues. In addition, the Greater Des Moines Partnership has been asked to make available funds from its land financing fund to help with these initial expenses. We also anticipate that the Iowa Department of Economic Development (IDED) will make available up to \$1 million for site environmental remediation, if needed.

Other cost incurred by the City will include skywalk bridges and street improvements. These expenses will be addressed as part of the City's ongoing Capital Improvement Program (CIP).

RECOMMENDATION -

- 1. Approve and authorize the City Manager to carryout the needed actions to acquire property under Iowa Code Chapter 6B Condemnation for the Allied Gateway Campus development project.**
- 2. Approve the vacation and conveyance of public rights-of-way within the Allied Gateway Campus with noted exceptions.**

3. Approve the final Development Agreement between the City and Nationwide Mutual Insurance Company and direct the City Manager to carry out the various procedural actions outlined in the Development Agreement.

BACKGROUND -

Allied Insurance, a member of Nationwide Insurance, has been located in downtown Des Moines since 1929. With this development their commitment to the downtown area is strengthened.

The costs related to the redevelopment of existing land uses, combined with the costs of 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 assist Allied in constructing their project in the western Gateway, extensive discussions among representatives of Nationwide Insurance, Polk County, Greater Des Moines Partnership, IDED, and City staff resulted in the proposed Preliminary Terms of Agreement.

From the parameters set in the Preliminary Terms of Agreement, the final Development Agreement has been drafted and agreed to by representatives of Nationwide Mutual Insurance Company. The key features that Nationwide and the City have agreed to undertake for the proposed project are as follows:

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 and a 2,500 space-parking garage adjacent to the new commercial building. By November 1, 2000 they shall submit a development plan and proposed construction schedule for the initial improvements for review by the appropriate City boards and committees and approval by Council.

Nationwide anticipates starting construction by April 1, 2000 with completion by December 31, 2002.

2. 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.

3. Employ 1,250 persons at the site upon occupancy and create 400 new positions within a year of occupying the building.

4. Pay all costs associated with the acquisition, relocation, and demolition of Parcel D up to a maximum of \$5 million.

5. Execute a minimum assessment agreement of \$66 million on the Phase One improvements and land for ten years (\$50 million minimum assessment on the office building and \$16 million minimum assessment on the parking garage).

6. Enter into a separate Parking Agreement with the City and Polk County whereby portions of the Phase One parking garage are made available for public use when the parking is not being used by the company and when requested for special public events. The Parking Agreement has been negotiated and agreed to by Nationwide in substantially the form as attached as Exhibit H to the Development Agreement and will be executed prior to issuance of the certificate of completion;

7. Enter into a standard Skywalk Agreement for the extension of the public skywalk system across the Allied Gateway Campus from Tenth Street to Twelfth Street on Parcels A and to Thirteenth Street, across Parcel C upon the completion of future construction on Parcel C; and requires Allied to provide vertical access on Parcels A, B, C & D when the public skywalk is extended to these blocks. The City is required to provide public skywalk bridges across public rights-of-ways upon the completion of building construction and extension of the public skywalk system.

The City will:

1. Purchase and convey the property identified in the map as the Allied Gateway Campus. To accomplish this, the City will make the necessary urban renewal plan amendments, hold the public hearing to use of condemnation as required by Iowa Code, Chapter 6B; vacate and convey Eleventh Street between Locust-Walnut, Walnut-Mulberry Streets, and all alleys, air rights and tunneling rights over and under City streets found within the Allied Gateway Campus except those portions necessary for public skywalk bridges.

2. Be responsible for the costs of environmental testing and remediation of identified pollutants existing on the site at the time of closing, including the costs of any required ongoing monitoring of pollutants. Prior to June 1, 2000, the City may elect to terminate this Agreement if the estimated costs of remediation as required by state and federal authorities to permit the use of the Allied Gateway Campus as contemplated by this Agreement, exceed \$2.5 million.

If after June 1, 2000, but prior to conveyance of the site to Nationwide, remediation of pollution is discovered after the City has begun acquisition that is estimated to cost more than \$2.5 million, the City may elect not to complete remediation and Nationwide shall have the right to terminate this Development Agreement. In that event, the City and Nationwide shall have no further obligation to the other under the Development Agreement.

The City has entered into contracts for Phase II environmental testing and anticipates receiving initial results from the contractor by mid April 2000. We anticipate IDED will make available up to \$1 million for site environmental remediation, if needed.

3. 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 One building. The Development Agreement requires

that as a condition precedent to the transfer of Parcel A to Nationwide that the City obtain the necessary written commitments from property owners that construction of the skywalk across their property is complete 30 days prior to Nationwide's occupancy of the Phase One building. If the City has not obtained the necessary commitments to extend the Skywalk System, Nationwide may waive the condition or terminate the Development Agreement. If the Agreement is terminated, Nationwide and the City shall each bear the costs they have incurred to the date of termination.

City staff in collaboration with the Greater Des Moines Partnership has been meeting with adjacent property owners to identify alternatives in satisfying this condition. Adjacent property owners are supportive of the Allied Gateway Campus project and have been willing to participate in these efforts and with their continuing cooperation, we intend to have a solution for extending the skywalk to the Allied site before the end of the year.

4. The City will pre-approve the Phase One parking garage for tax abatement in accordance with the urban revitalization ten-year declining exemption schedule. Additionally, the City will provide economic development grants in amounts equal to the property tax liability not abated under the urban revitalization declining exemption schedule. The combined value of tax abatement plus the economic development grant is limited to \$700,000 per year. The net effect is to provide 100 percent tax abatement upon the parking garage for ten years.

5. 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.

6. Nationwide anticipates that to accommodate its continued growth it will need to construct additional office buildings and parking, referred to as Phase Two Improvements. The Phase Two Improvements are anticipated to contain approximately 250,000 square feet to be constructed on Parcel C, and a structured parking facility containing approximately 1,500 parking spaces to be constructed on Parcel D. Nationwide has agreed that the anticipated Phase Two Improvements will not be eligible for any exemption from taxation or other City provided incentive for the value added to the Allied Gateway Campus.

7. For Nationwide to remain entitled to receive the annual installments of the economic development grant, they must comply with the following conditions: (a) payment of property taxes on the Allied Gateway Campus, (b) maintain the initial improvements (office building and parking garage) in substantial compliance with the development plans and if damaged by fire or casualty, repair the improvements to compliance with the approved development agreement, (c) the improvements must continue to be occupied by Nationwide, its affiliates and related businesses, and (d) not be in breach of the Parking Agreement. If Nationwide is not in compliance with any of these conditions, the City shall have no obligation to pay any economic development grant installments that come due prior to Nationwide returning to full compliance.

8. The Allied Gateway Campus must within one year of issuance of a certificate of completion, be the principal place of employment for not less than 1,650 fulltime employees of Nationwide, affiliates or related businesses, and comply with the hourly wage requirements set forth in the Enterprise Zone Agreement between Nationwide, the City and the State of Iowa. This

employment requirement remains in affect for ten years after the required employment level is met. If Nationwide is not in compliance with these employment requirements on December 31 of any given year, then the City may reduce the amount of all installments due in the following calendar year on the economic development grant based on the following schedule:

if employment is below 75 percent of the total employment requirement there shall be a reduction of the entire amount of such installment,

if employment is at least 75 percent but under 90 percent, there shall be a reduction of 25 percent of such installment,

if employment is at least 90 percent, there shall be no reduction

After ten years, if Nationwide was ever in noncompliance under the employment requirements, then the City will reduce the amount of each remaining installment of the economic development grant by the average percentage of noncompliance (e.g., If on average Nationwide maintained 86 percent of the employment requirement during the ten years the employment requirements were in effect, then the installments on the economic development grant during the remaining years would be reduced to 86 percent of the full amount otherwise due.)

9. Each installment of the economic development grants shall be paid solely from the tax increment revenues levied on the Allied Gateway Campus. The obligations of the City under the Development Agreement shall not constitute a general obligation of the City. So long as Nationwide is not in default under the Development Agreement and the City is obligated to make installments of the economic development grants in accordance with the Development Agreement, the City shall not repeal the urban renewal area designation or the tax increment financing district designation.

10. 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. If the application is not approved by the State of Iowa within 60 days of the date of execution of the Development Agreement, Nationwide has the right to terminate the agreement.

11. The City will proceed expeditiously to complete the Western Gateway Plan by November 1, 2000, and initiate key elements of the Gateway project including the acquisition and improvement of the Masonic Temple Building and the AIB Building, and the timely completion of landscaping prior to the occupancy of the Allied Gateway Campus by Nationwide.

12. The City will complete the Martin Luther King, Jr. Parkway and the Eleventh Street intersection by December 2003.

Polk County will provide an Economic Development Grant of \$10 million to reduce the capital costs associated with the Phase One parking garage. If Nationwide has not entered into a development agreement with Polk County within 15 business days of the execution of the City's Development Agreement, Nationwide may at its election terminate the agreement.

On February 1, 2000, Council directed the City Manager to obtain land feasibility analysis of the City's costs related to the Allied Gateway Campus. The Allied Gateway Campus is comprised of 30 different parcels, which will require appraisals.

The appraisals received to date suggest that the net cost of acquisition and related activities (after sale of land to Nationwide for \$10 million) will result in a net land write down of as much as \$6 million. The increase in cost from the preliminary estimates are attributed to leasehold interests held by tenants who have invested in specialized technological improvements to their leased properties. Acquisition costs may also increase due to claims of severance damages by companies not directly located within the proposed development site, but with leasehold interests, specifically parking leases, in the development site. City staff is working with the Gateway Project Manager, The Greater Des Moines Partnership and

affected company representatives to identify parking alternatives and solutions to possible severance damage claims.

City staff is restricted in their contacts with property owners and tenants under the state's condemnation law until Council approves the project initiation and ten days after purchase offers are made to property owners. Some property owners have waived the no contact provision in the law allowing staff to discuss how the process might work, if approved, and garner information on number of tenants for relocation. Given our limited contact to date, staff has estimated that of the parcels proposed for acquisition approximately 25 are occupied by commercial tenants and three parcels house approximately 85 residential dwellings.

City staff has assembled a multi-departmental relocation team to work with all commercial uses and residential tenants. The relocation team will be actively involved in the dissemination of information on relocation benefits, process and procedures as well as, identification of alternative commercial and residential sites within the City. The team's goals are to ease feelings of apprehension surrounding new development and to retain as many affected businesses within the City as possible.

The services provided by the team can be divided into three categories-acquisition, relocation, and site selection assistance. Property and business owners will be given the name and phone number of the contact for each area, as well as the name and number of the right-of-way staff person coordinating the acquisition process.

Historical Remediation

A number of buildings within the proposed Allied Gateway Campus were originally constructed prior to 1940 and are of interest to historic or architectural surveys. These buildings are an important part of the City's local heritage and as such need to be documented. City staff are proposing several steps to mitigate the impact of demolition of structures built prior to 1940 by following the Iowa Historic Property Study: Commercial Building Guidelines. This may include, but is not limited to, archival photography of the building that embrace exterior and interior views, line drawings of the building's site map and floor plans, and a narrative report describing the commercial building today, historical background, construction

history and significance of the building's value to understanding local development. Identification of significant architectural pieces may be salvaged as a means to further mitigate the impact of demolition.

Wallace Publishing Building

The Wallace Publishing Company Building is located at 1101 Walnut Street, which is within the Allied Gateway Campus. The Wallace Publishing Company Building is a local landmark due to its association with the Wallace family. Efforts to preserve the building by moving it to an alternative site were investigated by the Greater Des Moines Partnership and the City's Engineering Department. A national contractor, International Chimnet Corporation, was hired to evaluate whether the building could be moved and, if so, at what cost. The building has a 24' X 84' addition that is not part of the original structure. Assuming the addition is removed, and the original portion of the building is moved to a yet undetermined site in the area, cost estimates are expected to exceed \$4.3 million. If the building were to be moved the contractor estimates it would require approximately eight months to complete the move (four months for pre-move design and engineering activities and four months to move the building).

It is staff's recommendation that the building not be moved due to the high costs. Staff further recommends that every step be taken to document the historical and architectural significance of the building upon the community. These activities would follow the guidelines provided by the Iowa Historic Property Study, as discussed previously. In addition, staff has discussed with the Wallace House Foundation, the establishment of a historical room located in the main public library, that would display information on the Wallace family, their impacts upon the community, as well as be a display area for historical documentation on other historical and architectural significant buildings no longer in existence due to natural causes or new development.

Board Actions

The Urban Renewal Board, at its the March 14, 2000 meeting, endorsed the general terms of the proposed agreement between the City and Nationwide Mutual Insurance Co. which proposes use of tax increment funds for the acquisition of land and economic development grants for the Allied Gateway Campus

development.

The Planning and Zoning Commission at its March 16, 2000 meeting, recommended approval of vacation and conveyance of the Eleventh Street rights-of-way between Locust-Mulberry Streets, the alley rights-of-way in the blocks comprising the Allied Gateway Campus, and air rights over Twelfth Street between Locust-Mulberry Streets and over Walnut Street between Thirteenth Street and the east border of Parcel B; and a tunneling easement under Twelfth Street between Locust and Mulberry Streets and under Walnut Street between Thirteenth Street and the east border of Parcel B.