

Meeting Agendas/Info

CITY COUNCIL COMMUNICATION:

ITEM _____

OFFICE OF THE CITY MANAGER CITY OF DES MOINES, IOWA

01-342

SYNOPSIS -

AGENDA:

JUNE 27, 2001

SUBJECT:

EDS CUSTOMER
RELATIONSHIP
MANAGEMENT
EXPANSION -
\$250,000
FORGIVABLE LOAN

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

On May 7, 2001, by Roll Call No. 01-1428, the City Council approved submission of a Community Economic Betterment Account (CEBA) Application in the amount of \$500,000 for Electronic Data Systems (EDS) Customer Relationship Management. One-half of the CEBA (or \$250,000) was to be in the form of a forgivable loan, and one-half was to be in the form of a no-interest loan to be repaid by EDS. The CEBA funds were necessary to facilitate the proposed construction of a new \$39 million, 405,000 square foot customer service and distribution center to be located in the Airport Business Park. The City's CEBA application met all of the legal and regulatory provisions established by the State of Iowa for the CEBA program.

Last week, the State of Iowa approved the CEBA application, but with the added stipulation that the company would need to commit to pay 90 percent of its employees a minimum wage of \$10.16 per hour plus benefits. Since 51 percent of the existing jobs already meet or exceed this wage standard, EDS would need to increase the wages of about 39 percent of its employees. This wage increase, although certainly desirable, would cost the company well over \$1 million per year and would therefore be far more costly than the benefit obtained from the proposed CEBA. For this reason, the company will not utilize the CEBA funds, thus resulting in a shortfall in the proposed economic development funding for the project. With such a large project that impacts so many people, and that is an important part of the Des Moines and Iowa economic base, it is critical that we address this shortfall quickly.

It is recommended that the Council authorize the provision of a \$250,000 economic development forgivable loan to EDS Customer Relationship Management so the project will be retained in the City of Des Moines and Iowa. The forgivable loan will be funded out of the economic development enterprise account on an interim basis to be repaid, with interest, from tax increment financing (TIF) funds generated by the project in the first year after the three-year tax abatement. This will require an amendment to the development agreement with ABC Partners (Richard Margulies). Mr. Margulies

has orally agreed to accept this amendment. EDS has also indicated that if Council approves the forgivable loan, they will proceed immediately with the project.

If this project goes forward in the City of Des Moines, it will retain 960 jobs, pay about \$680,000 in property taxes after the abatement period, and result in a modern facility that renews the EDS commitment to Des Moines and Iowa. In addition, EDS has an annual payroll of \$25,380,000, and an average hourly wage of \$12.59.

FISCAL IMPACT -

The \$250,000 economic development forgivable loan will be funded initially from the City's economic development enterprise account, and then repaid, with interest, from TIF revenues generated by the project in the first year after the end of the three-year abatement period. The EDS project will pay about \$680,000 per year in taxes after abatement, of which about \$625,000 per year will be available for tax increment purposes.

RECOMMENDATION -

It is recommended that Council preliminarily approve a \$250,000 economic development forgivable loan to EDS Customer Relationship Management. Also, it is recommended that Council authorize the City Manager and Corporation Counsel to prepare the necessary contract amendment, urban renewal plan amendment, and urban revitalization plan amendments needed for the project to proceed.

BACKGROUND -

EDS Customer Relationship Management is a wholly owned subsidiary of Electronic Data Systems Corporation and resides primarily at 111 - 10th Street in Des Moines. Including the employees in Des Moines, EDS employs approximately 1,500 people statewide. A recent client loss has forced EDS to evaluate its operational strategy in Des Moines. Options being considered include restructuring its existing operations into a single facility in Des Moines or consolidation with an existing facility in Nova Scotia, Canada.

The Product Fulfillment & Distribution Division of EDS Customer Relationship Management business originated as part of the Meredith Corporation. That component of Meredith was purchased by Neodata; and in 1997, Neodata was purchased by EDS, a Texas based information technology services company. EDS is a global company and is traded on the New York Stock Exchange.

EDS currently occupies approximately 709,000 square feet of owned and leased space in five office and warehouse/distribution facilities in and throughout the Des Moines area. The primary business enterprise is EDS Customer Relationship Management, which provides customer service and product fulfillment services for its clients.

The proposed project has been evaluated in accordance with the City's adopted standards for the use of TIF funds. The project meets all the required policy standards, as follows:

- the project is in accordance with the approved district plan;
 - it will result in a significant increase in the taxable value of property within the district;
 - it will create and retain permanent job opportunities in the district;
and
 - the amount of the TIF assistance will be the least amount necessary for the project to proceed and produce an acceptable rate of return to the City.
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