



**Council
Communication**
Office of the City Manager

Date

May 8, 2006

Agenda Item No. 57

Roll Call No. 06-

Communication No. 06-269

Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Regarding the expansion of the Nationwide/Allied Gateway Campus south of Locust Street between 10th and 13th Streets, and the extension of the Skywalk System.

SYNOPSIS:

Nationwide Mutual Insurance Company (Donald V. Freiert, Jr., Vice President, Corporate Real Estate, One Nationwide Plaza, Columbus, OH 43215) is proceeding with a major expansion of their downtown Des Moines campus. The expansion includes the addition of approximately 640,000 – 660,000 square feet of office space in two buildings, a 1,500 space parking garage, and creation of 1,570 new jobs. The project will require an estimated capital investment of approximately \$127 million, with an additional investment of approximately \$15 million required for furniture, fixtures and equipment.

City Council approved a preliminary Term Sheet on December 19, 2005 and directed the City Manager to negotiate terms of a final agreement with Nationwide. One item has changed materially from the December 19, 2005 Term Sheet. The parking garage was originally intended to be a tax-exempt garage that the City would acquire through a Lease Purchase Agreement (LPA). The garage will now be privately built and owned by Nationwide. Because Nationwide will now incur substantial property taxes that were not anticipated in the original arrangement structure, the City's economic development grant has been adjusted upward to partially offset this expense. This change is described below in greater detail.

FISCAL IMPACT:

Amount: Total NPV of \$17.02 million for Grants 1, 2, and 3. Tax abatement, skywalk bridge construction and land acquisition are discussed in detailed below.

Grant #1, Phase 1 Office Expansion: Twenty equal annual installments of \$150,000. Payments commence November 1, 2009 if the office expansion receives its Certificate of Occupancy by December 31, 2007. Net present value (NPV) of this payment stream is approximately \$1.83 million.

Grant #2, Phase 2 New Office Building: Twenty equal annual installments of \$200,000. Payments commence November 1, 2010 if the new office building receives its Certificate of Occupancy by December 31, 2008. NPV of this payment stream is approximately \$2.44 million

Grant #3, Parking Garage: Twenty equal annual installments of \$1,045,000. Payments commence November 1, 2011 if the parking garage receives its Certificate of Occupancy by December 31, 2009. NPV of this payment stream is approximately \$12.75 million.

Tax Abatement: The parking garage will be eligible for 10-year, declining tax abatement. Gross parking garage taxes before abatement are estimated at approximately \$600,000. The office buildings will be eligible for construction period tax abatement only. The value of the office construction period tax abatement is \$1,125,000.

Construction of Three Skywalk Bridges: Cost to be determined pending bridge design, plans, and specifications.

Land Acquisition: The City will acquire 2 parking lots that currently serve the businesses occupying the proposed parking garage site. Proposed purchase price is \$600,000.

Funding Source:

Funding is secured by a Minimum Assessment Agreement of the Office Expansion and New Office Building. The new assessments equal at least \$64.5 million. Based on the July 1, 2005 – June 30, 2006 Tax Increment Financing Levy of 40.40887, the office buildings will generate new annual tax increment of approximately \$2.6 million. Additionally, the 20-year NPV of the garage taxes is estimated at \$6.3 million after tax abatement. A new Economic Development CIP project code, URR097, has been established for this project.

Skywalk Bridges: Adopted CIP FY2006 – FY2011 under Sidewalk Improvements – SID094, Plan years 2007-08 and 2008-09, page 5. The plan year figures will be updated when actual cost estimate are developed.

Land Acquisition: The Park and Ride Fund

ADDITIONAL INFORMATION:

The original Term Sheet contemplated a Lease Purchase Agreement (LPA) for the parking garage. Under this structure, Nationwide would construct the parking garage and the City would make installment payments for 20-year term. The City would then license spaces to Nationwide for their employees' use. The City committed to provide a 20-year parking grant with a Net Present Value (NPV) of approximately \$9.74 million. This amount equaled the City's actual cost of operating the garage less the prevailing market rate paid by Nationwide.

When the Term Sheet was presented on December 19, 2005, the LPA seemed to offer beneficial elements to both parties. However, further discussion revealed that there were some fundamental difficulties inherent with the LPA that warranted pursuing a privately owned garage. The City had envisioned possibly building a ramp larger than the 1,500 spaces needed by Nationwide. Further study revealed that this was a financial risk that the City was unable to accept. This eliminated one of the primary benefits for the City to enter into the LPA. It also became apparent that potential taxation issues, security, and operations and maintenance control were barriers to executing the LPA.

Nationwide will now be obligated to pay property taxes on the private garage. The 20-year NPV of the garage taxes is estimated at \$6.3 million after tax abatement. This is a cost they would not have incurred

if licensing spaces in a public facility and a benefit that weighed heavily in their decision-making process. To offset this extra cost, the City has increased its parking grant by a NPV of approximately \$3.0 million. However, this amount is less than half of the property taxes the City will receive from the private garage. The net fiscal impact to the City of switching from the LPA to the private parking garage is a gain of \$3.3 million over 20 years.

The parking garage will be open to the public after 6:00 pm and on weekends. A non-compete clause prohibits Nationwide from leasing spaces to the public at a rate below the City's average rate at nearby public garages. One of the documents presented as part of this Council action is an addendum applying this same non-compete language to the contact for Nationwide's existing parking garage.

The City will acquire parking lots located at 1212 Cherry Street and 1216 Mulberry Street from William C. Knapp, LC (Gerard D. Neugent, President and COO, Knapp Properties, Inc., 4949 Westown Parkway, Suite 200, West Des Moines, IA 50266). These parking lots serve the businesses currently located on the proposed parking garage site. Nationwide does not require these lots for the parking garage. The City owns the adjoining land to the west and south of these parcels. Both parcels are strategic corner sites and will further solidify the City's holdings in this area. This area has been identified for potential parking/transit oriented development. Park and Ride Funds will be utilized for the acquisition.

Another key point of the final development agreement involves skywalk vertical access. The new office building west of 12th Street is required by ordinance to have one vertical access. Nationwide's early schematic plans anticipate this access point will be along Walnut Street. The City desires a vertical access on Locust Street to allow easy access for patrons in Western Gateway Park. Such a design element will likely require Nationwide to extend an unplanned north/south skywalk corridor through their building. This imposes potential security and cost burdens on the project. The impact of such a design element cannot be measured until the architect is engaged to fully design this building. The actual Development Agreement language reads as follows:

Nationwide shall engage in a good faith effort during the design process of the New Office Building to incorporate a Vertical Access Facility for pedestrian access to the Skywalk System from an entrance on the Locust Street frontage. However, Nationwide shall have no obligation to construct a Vertical Access Facility for pedestrian access to the Skywalk System from an entrance on the Locust Street frontage if such construction or location would impose an unreasonable financial or security burden upon Nationwide. In the event Nationwide does not construct the Vertical Access Facility for pedestrian access to the Skywalk System from an entrance on the Locust Street frontage, then Nationwide shall instead construct a covered walkway and appropriate signage, consistent with surrounding architecture and the Western Gateway Area Redevelopment Goals and Guiding Principles, within the 12th Street right-of-way from Locust Street to the entrance into the Vertical Access Facility. Nationwide shall provide City with three (3) alternative designs for such covered sidewalk and signage, subject to the selection of a final design within the sole discretion of the City.

Also on the May 8, 2006 City Council agenda is a roll call to amend the Skywalk Ordinance to expand the Skywalk District to include the parking garage to be constructed as part of the Nationwide Phase 2 expansion and to allow a use of a single vertical access facility to serve the two blocks occupied by the Nationwide office building between 10th and 12th Streets. Additionally, the Skywalk System Plan Map is modified to include bridges and corridors for the Nationwide Phase 2 expansion. The Urban Design Review Board reviewed these changes and expressed concerns regarding the diagonal bridge proposed between the two garages. Design of this and all other bridges will be presented to the Urban Design Review Board at a later date. A recommendation letter from the Board is presented for Council's consideration.

By unanimous consensus vote of the members present, the Urban Design Review Board recommended approval of the Preliminary Development Plan for the Office Expansion of Nationwide Mutual Insurance's Gateway Campus. The Board will review the new office building and parking garage at a later date. A recommendation letter from the Board is presented for Council's consideration.

The State of Iowa has agreed to extend the expiration date of the April 21, 2000 Physical Infrastructure Assistance Program forgivable loan. This \$750,000 forgivable loan was utilized for the previous phase of Nationwide's campus and still has \$423,976 remaining from which funds can be drawn. The new expiration date is December 31, 2008. This item has no fiscal impact on the City. The amendment is presented for City Council consideration.

PREVIOUS COUNCIL ACTION(S):

Date: December 19, 2005

Roll Call Number: 05-3051

Action: Communication from the City Manager regarding the proposed expansion by Allied Insurance and its parent company, Nationwide Mutual Insurance Company of its downtown Des Moines Campus. (Council Communication No. 05-714) Moved by Kiernan to receive and file, and to direct the City Manager to negotiate terms of a preliminary and final agreement with Nationwide. Motion Carried 7-0.

Date: December 19, 2005

Roll Call Number: 05-3052

Action: Enterprise Zone Application to the Des Moines Enterprise Zone Commission and to the Iowa Department of Economic Development regarding the proposed expansion by Allied Insurance and its parent company, Nationwide. Moved by Kiernan to adopt. Motion Carried 7-0.

Date: December 16, 2002

Roll Call Number: 02-2903

Action: Issuance of the Certificate of Completion for the Nationwide Office Building and Garage. (Council Communication No. 02-635). Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Date: April 4, 2006

Roll Call Number: N/A

Action: By 5-0 consensus vote of the members present, the Urban Design Review Board recommended approval of the Preliminary Development Plan for the Parcel 'A' expansion of Nationwide Mutual Insurance's Gateway Campus.

Date: April 4, 2006

Roll Call Number: N/A

Action: By 5-0 consensus vote of the members present, the Urban Design Review Board recommended approval of the changes to the skywalk plan map with the following condition: The Board recommends City Council expand the design budget to provide for a more creative and acceptable design solution for the skywalk bridge proposed to connect Nationwide's two parking garages.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Urban Design Review Board review and recommendation of the new office building, parking garage, and skywalk design.

Final documents related to the acquisition of the parking lots at 1212 Cherry Street and 1216 Mulberry Street will be presented to City Council at a later date.