



Council Communication

Office of the City Manager

Date

September 24, 2007

Agenda Item No. 64

Roll Call No. 07-

Communication No. 07-593

Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Communication from the City Manager regarding the proposed corporate headquarters construction by Wellmark, Inc.

SYNOPSIS:

Wellmark, Inc. (John Forsyth, Chairman/Chief Executive Officer, 636 Grand Avenue, Des Moines, IA 50309) has been the leader in the health insurance market in Iowa for more than 67 years. Wellmark has announced a major corporate headquarters project to be located in downtown Des Moines. The project will include the construction of approximately 500,000 square feet of office space and a 2,000 space privately owned parking garage. Total project costs, including land acquisition, building construction, and furniture and fixtures, are estimated at over \$194 million.

Wellmark currently employs approximately 1,577 people in leased space in downtown Des Moines. With its proposed headquarters project, Wellmark anticipates the creation of 63 - 125 additional positions. These positions will include information technology, health management, sales, and finance employees.

The City Manager's Office has negotiated preliminary terms of an economic development assistance package with Wellmark. The various components of the proposed assistance package are to be paid in 10 annual installments or less. This is a different strategy than has been employed with recent large corporate expansions in which assistance payments were provided in 20 annual installments. The City Council is asked to direct the City Manager to negotiate and draft all necessary final documentation based on the preliminary terms outlined in detail below.

The City Council is also asked to endorse a RISE grant application to the Iowa Department of Transportation for the realignment of High Street between 10th and 14th Streets.

FISCAL IMPACT:

Amount: Up to \$20.185 million. The proposed financial assistance package is presented in greater detail below. Assuming State of Iowa and Polk County participation as mentioned below, the annual net property tax generated after payment of economic development incentives is estimated to exceed \$750,000 in years 1 – 10 and approximately \$2.5 million annually in year 11 and beyond.

Funding Source:

- Land sales proceeds of approximately \$1.2 million.
- Construction period tax abatement.
- Project-generated tax increment. Wellmark's office building and parking garage will carry a minimum property tax assessment of approximately \$62 million. These new improvements will generate available new tax increment of approximately \$2.5 annually. This new property tax increment will be utilized to pay the annual installments referenced below.

- Potential 3rd party funds. The City has submitted an application to the Iowa Department of Transportation for a RISE grant to assist with the High Street realignment project described below. The City is also seeking funds from the State of Iowa for assistance with environmental remediation costs described below.
- All sources will be further defined and clarified during the drafting of the final Development Agreement and prior to final City Council approval.
- Polk County has also been asked to provide up to \$2.0 million to assist with some of the initial public expenses.

ADDITIONAL INFORMATION:

The City Manager proposes the following economic development package to assist with development of Wellmark’s downtown Des Moines headquarters.

The annual employment and LEED incentives below will be available for 10 years, commencing upon the first full year of property tax assessment for the proposed office improvements.

- **Annual Employment Incentives** *(to be calculated annually based on year-end employment certification):*
 - Job Retention Incentive = \$500 per employee x 1,577 FTE employees x 10 years
 - Job Growth Incentive = \$1,000 per employee x up to 150 FTE employees x 10 years

Total Maximum Value = \$9,385,000

- **Annual LEED Incentive:** The City of Des Moines proposes the following incentives should Wellmark choose to construct their campus in accordance with the U.S. Green Building Council’s Leadership in Energy and Environmental Design Green Building Rating System
 - Certified = \$25,000 per year x 10 years
 - Silver = \$50,000 per year x 10 years
 - Gold = \$100,000 per year x 10 years
 - Platinum = \$150,000 per year x 10 years

Total Maximum Value = \$1,500,000

- **Tax Abatement:** The City will grant a combination of tax abatement and TIF resulting in zero property taxes for the garage improvements for a period of 10 years. Wellmark will not apply for tax abatement for the proposed office improvements.

Estimated Value Over 10 Years = \$4,800,000

- **Right-of-Way:** The City intends to vacate and convey necessary public right-of-way between 11th and 14th Streets to Wellmark at a price of \$30/sq.ft. This ROW includes all alleys and the proposed vacation and conveyance of 13th Street between Grand Avenue and High Street. Total sales price is estimated to be \$1.2 million. The City will then grant half of that amount, \$600,000, back to Wellmark immediately following land closing.

Estimated Grant Value = \$600,000

- **Environmental Assistance:** The assistance outlined below is for the blocks bound by 12th, 14th, High and Grand. Demolition, asbestos abatement, and environmental remediation on these blocks are estimated at \$2.8 million. In addition to the \$2.8 million estimate, an additional amount is necessary to specifically address environmental remediation at 1220 High Street. The City proposes to participate in the environmental remediation in the following manner:
 - 1220 High Street: City will provide up to \$1 million for demolition, asbestos abatement and environmental remediation to be paid in 10 annual installments or less.
 - Remaining Environmental Costs 12th – 14th
 - \$200,000 grant to be paid at the time costs are incurred.
 - The next \$1.2 million will be split 50/50 between the City and Wellmark. The City will grant back the net land sales proceeds (\$15/sq.ft.) as costs are incurred.
 - The remaining \$1.4 million will be split 50/50 between the City and Wellmark. The City’s portion (up to \$700,000) will be granted back to Wellmark in 10 annual installments.
 - Example:

Total costs	\$2,800,000
City grant	<u>- \$200,000</u>
Remaining	\$2,600,000
City Portion	- \$600,000
Wellmark Portion	<u>- \$600,000</u>
Remaining	\$1,400,000
City Portion	- \$700,000 to be paid in 10 annual installments
Wellmark Portion	<u>- \$700,000</u>
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Should the total cost for the parcels 12th – 14th exceed \$3.8 million, the City and Wellmark must mutually agree to move forward with the remediation on a 50/50 basis.

Should the either party successfully obtain 3rd party funds to assist with environmental remediation on any parcels 12th – 14th, including 1220 High Street, that savings will be applied first to 1220 High Street, then the remaining parcels, in proportion to the amounts owed by the City and Wellmark.

Total Environmental Assistance = Up to \$2,500,000

- **Land Purchase and Relocation:** Wellmark has stated that it will pay up to \$12 million for purchase of property and relocation of tenants on the blocks between 12th – 14th Streets. Total assembly for all parcels will likely exceed \$12 million. The City proposes to offset this difference, up to \$1.4 million, through construction period tax abatement. Any amount of construction period tax abatement less than \$1.4 million will be added to the City’s annual Employment Incentive, any amount over will be deducted.

Total Land Purchase Assistance = \$1,400,000

- **High Street Realignment:** Wellmark has requested the City realign High Street in order allow for a more efficient parking garage design. The projected rerouting results in an estimated project cost of \$5.8 million. The widening of High Street is currently part of the City's CIP budget for plan years 2008-09 and 2009-10 with a project cost of \$1.14 million. However, realigning High Street and shifting it north will require a much greater project scope than anticipated in the CIP. The realignment project will necessitate right-of-way acquisition and extending the street project area one block east to 10th Street. Wellmark has tentatively agreed to loan the funds necessary to complete this project. The City will repay principal and interest in 4 years at an estimated 6% annual interest rate. Details of this agreement are to be finalized as part of the final contract documents.

The City has applied for an Iowa Department of Transportation RISE grant to fund up to \$2.9 million of the realignment cost. Any 3rd party assistance received to fund this project will be applied directly to the principal balance of the proposed loan.

The City of Des Moines' Engineering Department will need to proceed with design of the High Street realignment as soon as possible. Engineering staff will engage in negotiations with qualified design firms and return to City Council at an upcoming meeting for approval of a design contact.

- **Tenant Relocation 1220 High Street:** The City of Des Moines will work with this tenant to identify suitable relocation alternatives that will coincide with Wellmark's construction schedule. The City will assume responsibility of all reasonable relocation costs for the tenant at this location.
- **Skywalks:** The public skywalk currently terminates at a privately owned parking garage located between 9th and 10th Streets. The block between 10th and 11th Streets is an undeveloped surface parking lot. Should this lot be developed, it is the City's intention that the skywalk corridor be extended to 11th Street, and the City of Des Moines intends to construct public skywalk bridges across 10th and 11th Streets. In exchange for the construction of these public bridges, Wellmark will consider construction of a public corridor and a vertical access facility at the NE corner of 12th and Grand in its proposed parking garage.
- **DART and the Unlimited Access Program**

The City of Des Moines has worked with Des Moines Area Regional Transit Authority (DART) to provide convenient affordable transportation alternatives to downtown employers. All bus routes lead to and from downtown, so employees living in Des Moines and all of the surrounding DART communities have easy access to their downtown workplace.

The Des Moines Area Regional Transit Authority (DART), is the public transportation provider that serves Polk County and the communities of Altoona, Ankeny, Alleman, Bondurant, Carlisle, Clive, Des Moines, Elkhart, Granger, Grimes, Johnston, Mitchellville, Pleasant Hill, Polk City, Runnells, Sheldahl, Urbandale, West Des Moines and Windsor Heights. DART operates a family of transportation services including regular-route, express, and on-call bus services, shuttles, paratransit services and the Central Iowa RideShare vanpool and ride-matching programs, that make getting around Greater Des Moines easier and more convenient.

DART will work with Wellmark to develop an “Unlimited Access” program, that will allow Wellmark employees to take advantage of fare-free public transportation services. DART and the Wellmark will establish a set annual payment based on current ridership and annual bus pass purchases. In exchange for the set annual payment, all Wellmark employees will be able to ride all DART bus service for free by simply showing their employee I.D. DART expects to sign a contract with Wellmark that will identify specifics regarding payment and tracking procedures.

The “Unlimited Access” program has proven successful locally in a pilot program for Nationwide Insurance, and nationally for many universities and colleges and employers in cities such as Portland and Colorado Springs. The program will (1) reduce the demand for parking, (2) help employers recruit and retain employees, (3) reduce the cost of commuting, (4) help protect the environment and (5) relieve congestion and travel times.

PREVIOUS COUNCIL ACTION(S):

Date: N/A

Roll Call Number: N/A

Action: N/A

BOARD/COMMISSION ACTION(S):

Date: N/A

Roll Call Number: N/A

Action: N/A

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board review and recommendation regarding the Conceptual Development Plan and financial assistance package.
- Approval of the final development agreement and all associated documents.
- Actions related to ROW vacation and conveyance.
- Actions related to High Street Realignment, including ROW acquisition, design consultant services, and construction services.