



Council Communication

Office of the City Manager

Date April 21, 2008

Agenda Item No. 58
Roll Call No. 08-
Communication No. 08-217
Submitted by: Matthew A. Anderson,
Economic Development Director

AGENDA HEADING:

Resolution closing hearing and approving proposed urban renewal development agreement with Wellmark, resolution granting prior approval of tax abatement for the value to be added by the construction of the garage/multi-use building for Wellmark's new home office facility, and resolution approving construction period tax abatement for the new Wellmark home office building.

SYNOPSIS:

On September 24, 2007, by Roll Call 07-1890, the City Council approved preliminary terms of agreement with Wellmark, Inc. for construction of their new downtown corporate headquarters.

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 will build 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, approximately 2,000 privately owned parking spaces in a new garage and below the office building, an employee fitness center, and employee daycare center. Total project costs, including land acquisition, building construction, and furniture and fixtures, are estimated at over \$194 million.

Wellmark currently employs approximately 1,516 people in multiple leased and owned buildings in downtown Des Moines. With its headquarters project, Wellmark anticipates the creation of 63 - 125 additional positions. These positions will include information technology, health management, sales, and finance employees.

At the City Council's direction, the City Manager's Office has negotiated final terms of an economic development assistance package with Wellmark. The various components of the proposed assistance package are to be paid in annual installments over 10 years. This is a different strategy than has been employed with recent large corporate expansions in which assistance payments were provided in annual installments over 20 years.

The terms presented on the following pages are largely unchanged from the preliminary terms approved on September 24, 2007. Notable changes that have occurred since September 24, 2007, include the following:

- This City has been awarded a \$2,580,000 State of Iowa RISE grant to assist with the cost of relocating High Street.
- The City has been awarded a \$1 million State of Iowa PIAP grant for environmental clean-up associated with the project. This amount will directly offset the City's obligations described in greater detail below.
- Wellmark has acquired all of the land necessary for the project. The acquisition has included many parcels previously owned by Iowa Health System or a related entity. Because of the

hospital's tax exempt status, this has returned over \$3.2 million of land valuation to the tax rolls. Wellmark will begin generating "tax increment" on this land valuation before their campus is complete. The City has agreed to grant 50% of this incremental tax revenue back to Wellmark as an advancement on the amount to be paid in the annual installments commencing after the building is completed. Total incremental tax to be paid on the \$3.2 million assessment already added to the tax rolls is estimated at approximately \$154,000 annually, or \$77,000 when split 50/50. This will not increase the total amount the City has pledged to Wellmark, but will be used to reduce the City's future installments to Wellmark.

- Wellmark's design and construction are aimed at achieving LEED gold certification.

FISCAL IMPACT:

Amount: Up to \$20,185,000. The proposed financial assistance package is presented in greater detail below.

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 \$59 million. These new improvements will generate available new tax increment of approximately \$2.5 million annually. This new property tax increment will be utilized to pay the annual installments referenced below.
- \$2,580,000 State of Iowa RISE grant.
- \$1 million State of Iowa PIAP grant.
- \$2 million pledge from Polk County to assist with High Street relocation. The Polk County Board of Supervisors is scheduled to vote on this issue at an upcoming April meeting.

ADDITIONAL INFORMATION:

The elements of the incentive package are presented below as they were in the preliminary terms of agreement on September 24, 2007. After each item, it has been noted if the item is unchanged in the final agreement or, where applicable, changes to the preliminary terms have been explained.

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

This item is largely unchanged from the September 24, 2007 Preliminary Terms of Agreement.
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- **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

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement. Wellmark is targeting LEED Gold certification.

- **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

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement.

- **Right-of-Way:** The City intends to vacate and convey necessary public right-of-way between 11th and 14th Streets to Wellmark for \$1,586,000 (approximately \$30/sq.ft.). This ROW includes all alleys and the proposed vacation and conveyance of 13th Street between Grand Avenue and High Street, and easements for building encroachments under and over portions of the adjoining public sidewalks.
- Wellmark will sell and convey to the City land acquired by Wellmark and needed for the realignment of High Street. The purchase price for this land is \$386,000 (approximately \$30/sq.ft.).
- The net purchase price representing the difference between what the City is selling to Wellmark and what Wellmark is selling to the City is \$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

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement.

- **Environmental Assistance:** The assistance outlined below is for the blocks bound by 11th, 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 (up to \$600,000) 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>	
	-0-	

Should the total cost for the parcels 11th – 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

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement. Preliminary environmental cost estimates for all parcels total less than \$1.5 million. The \$1 million State of Iowa PIAP grant will be applied to this section.

- **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

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement. Wellmark's land assembly costs have totaled approximately \$17 million.

- **High Street Realignment:** Wellmark has requested the City realign High Street in order to allow for a more efficient parking garage design. The realignment will also allow for safer and more efficient traffic flow in the area. 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 Council has approved this \$5,914,500 project as part of the FY 08-09/13-14 Capital Improvement Program. The \$2,580,000 State of Iowa RISE grant and \$2 million Polk County contribution will directly offset a portion of the City's cost for this project.

- **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.

Total costs were \$808,309.50. Wellmark paid this expense and the City will repay Wellmark in 10 annual installments of \$80,830.95 beginning with the first installment of the Employment and LEED incentives.

- **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.

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement. Wellmark has designed the project to accommodate the corridor and vertical access facility as described above.

- **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.

This item is unchanged from the September 24, 2007 Preliminary Terms of Agreement.
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PREVIOUS COUNCIL ACTION(S):

Date: April 7, 2008

Roll Call Number: 08-619

Action: Setting date of hearing on proposed urban renewal development agreement with Wellmark, Inc., and vacation and conveyance of property in the three-block area bounded by High Street, Grand Avenue, 11th Street and 14th Street, \$1,586,000, (4-21-08). Sponsor: Hensley. Moved by Vlassis to adopt. Motion Carried 6-1.

Date: April 7, 2008

Roll Call Number: 08-560

Action: Approving right-of-way acquisition settlement agreement and accepting real estate documents from Principal Life Insurance Company for the High Street Realignment – 10th Street to 14th Street Project, \$1,814,250. (Council Communication No. 08-202) Moved by Vlassis to adopt. Motion Carried 6-1.

Date: November 19, 2007

Roll Call Number: 07-2245, 07-2246, and 07-2247

Action: 52. On vacation of High Street right-of-way between 10th Street and 12th Street, and all of the 13th Street right-of-way between High Street and Grand Avenue, and all of the alley rights-of-way within the three block area bounded by 11th Street on the east, Grand on the south, 14th Street on the west and High Street on the north. It is further proposed that all public utilities be required to relocate from the vacated rights-of-way. Moved by Kiernan to adopt and approve the vacation without

reservation of easements for existing utilities, subject to final passage of the vacation ordinance. Motion Carried 7-0.

(A) First consideration of ordinance above. Moved by Kiernan that this ordinance be considered and given first vote for passage. Motion Carried 7-0.

(B) Final consideration of ordinance above, (waiver requested by the City Manager), requires 6 votes. Moved by Kiernan that the rule requiring that an ordinance must be considered and voted on for passage at two Council meetings prior to the meeting at which it is to be finally passed be suspended, that the ordinance be placed upon its final passage and that the ordinance do now pass, #14,724. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Date: March 11, 2008

Roll Call Number: N/A

Action: By 6-0 Vote, the Urban Design Review Board approved Wellmark's conceptual development plan as presented.

Date: March 11, 2008

Roll Call Number: N/A

Action: By 6-0 vote, the Urban Design Review Board approved the Wellmark financial incentive package as presented.

Date: November 19, 2007

Roll Call Number: N/A

Action: By 12-0 vote, the City Plan and Zoning Commission recommended approval for vacation and conveyance of 13th Street from High Street to Grand Avenue, excess High Street right-of-way from 11th Street to 12th Street, all intervening alleys between High Street, Grand Avenue, 11th Street and 14th Street, and the air rights for a pedestrian bridge over 12th Street.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Contract administration in accordance with the terms of Development Agreement and all related documents.

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to cityclerk@dmgov.org.