

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: February 11, 2013
	Agenda Item No. 58 Roll Call No. <u>13-0255</u> Communication No. <u>13-070</u> Submitted by: Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Communication presenting a conceptual assistance package with Principal Financial Group for campuswide renovations and approving submittal of an Iowa Economic Development Authority Business Financial Assistance Application on behalf of Principal Financial Group.

SYNOPSIS:

The Principal Financial Group (Principal) (Larry Zimpleman, CEO, 711 High Street, Des Moines, Iowa 50309) is exploring a phased renovation of their downtown Des Moines worldwide corporate headquarters campus. Principal’s downtown campus totals 2.4 million square feet of office space. This first phase of renovations is estimated to cost \$238.5 million and will include significant renovations to 600 7th Street, 711 High Street, and 801 Grand Avenue. Goals of the project include improved campus integration, an increased focus on energy efficiency, and improving Principal’s employee recruitment abilities moving forward.

Principal currently employs approximately 13,000 people worldwide and 6,000 in Des Moines. An increasing percentage of their workforce has migrated to “knowledge based” functions such as IT, actuarial, accounting, asset management, and legal. These higher paying jobs require a different physical environment than the “transaction based” functions which previously dominated Principal’s workforce. Much of Principal’s planned improvements are aimed at attracting and retaining this highly skilled and educated workforce.

Principal employees currently occupy approximately two-thirds of 801 Grand Avenue. As a side benefit of this project, an additional one-third of the building will be made available for third-party tenants. This newly available Class-A space will be strong tool for attracting new firms downtown and allowing expansion opportunities for firms looking to relocate to Iowa’s premier office address.

An investment of this magnitude is a tremendous vote of confidence for Des Moines’ continued standing as a worldwide leader in the finance and insurance industry. It also highlights Principal’s longstanding position as a great corporate steward downtown and represents a continuation of that commitment for another 125 years.

The City Manager’s Office has negotiated a conceptual assistance package of direct financial assistance and public improvement projects to assist with Principal’s campus reinvestment. Details are presented below in Additional Information.

In addition to the proposed City of Des Moines assistance, Principal’s project is also contingent upon assistance approval by the Iowa Economic Development Authority and Principal’s Board of Directors’ approval.

FISCAL IMPACT:

Amount: Specific amounts are yet to be determined. Details of the conceptual assistance package are presented below.

Funding Source: The direct financial assistance and sustainability incentive will be funded through project generated tax increment.

ADDITIONAL INFORMATION:

The project being proposed by The Principal Financial Group is a renovation of three (3) buildings on their downtown Des Moines campus aimed at attracting and retaining quality employees.

For many years, Principal's businesses focused on activities related to either processing new business or paying claims related to existing business. Principal's Des Moines campus was designed with this transaction focus in mind. As Principal's businesses evolved, more jobs became knowledge workers in fields such as information technology, investment management, actuarial science, finance, accounting and law. When Principal became a public company in 2001, approximately 45% of its workforce was transaction workers and 55% were knowledge workers. Today, approximately 30% of its workforce is transaction workers and 70% of its workforce is knowledge workers. The company expects that trend to continue as routine tasks are automated by technology and STEM (Science, Technology, Engineering and Mathematics) skills are applied by teams of knowledge workers. Knowledge workers earn higher compensation than transaction workers, with Principal's knowledge workers earning an average starting salary of \$55,000. Knowledge workers require an office environment that fosters collaboration across individuals and teams. In the new campus design, space will be dedicated to social collaboration, team learning, and unique team structures such as agile development. Less than 2% of Principal's existing office environment is dedicated for collaboration space. The new campus design will include approximately 18% dedicated to various forms of collaboration space.

This project will include the following components:

- Infrastructure Repairs and Maintenance
- Interior Upgrades
- Building Modernization
- Information Technology improvements
- Employee Moves/Consolidations
- A new skywalk bridge across 8th Street connecting 650 8th Street to 600 7th Street. The bridge will be part of Principal's private skywalk system and will be constructed and financed by Principal.

Project Timeline:

<u>Activity</u>	<u>Completion</u>	<u>Date</u>
Design	600 7th Street Renovations	June 2013
Construct	600 7th Street Renovations	January 2015
Design	801 Grand Renovations	December 2013
Construct	801 Grand Renovations	October 2015
Design	711 High Street Renovations	February 2015
Construct	711 High Street Renovations	July 2017

City of Des Moines financial assistance is proposed as follows:

1. 50% of new tax increment will be granted to Principal per the following terms:
 - a. First grant installment will correspond with Principal's first property tax installment based on new valuation of the first improved building.
 - b. A total of 30 semiannual grant installments will be made.
 - c. Total value of this incentive is not yet known because it's difficult to estimate the amount of new increment that will be assigned by the Polk County Assessor. Therefore, we recommend granting a fixed percentage rather than a fixed dollar amount.

2. Sustainability incentive. Principal has already demonstrated leadership in environmental sustainability with their LEED gold rated Child Development Center. The following incentive is recommended for further sustainable initiatives as part of their campus remodel:
 - a. \$25,000 per year for each LEED certified building (or equivalent green-building rating system, such as Green Globes)
 - b. First installment to begin with certification of the first building
 - c. Incentive expires after 10 installments
 - d. Example: Buildings are certified in year 1, 3 and 5.
 - i. \$25,000 paid in years 1 – 2
 - ii. \$50,000 paid in years 3 – 4
 - iii. \$75,000 paid in years 5 – 10
 - iv. Total incentive over 10 years = \$525,000

3. Identification of spinoff development opportunities and Keo Way improvement:
 - a. It is envisioned that Principal's investment can have a catalytic development impact on the area surrounding Principal's campus. It is recommended that the City engage in an urban planning study of the surrounding area to identify additional private and public projects that can leverage Principal's investment.
 - b. As part of that planning effort, it is recommended that the City allocate up to \$500,000 for Keo Way improvements to improve the appearance of this route into downtown from I-235 to Park Street. Funds would be allocated for the City's FY16-17 CIP budget.

4. Reconstruct the 7th and Grand parking garage. City engineers estimate this garage will need to be demolished no later than 2019. Because the improvements to 711 High Street will require the skywalk access to be raised to the 3rd floor, it is recommended that replacement of this garage be accelerated to match Principal's timeline. It is recommended that the City pursue a mixed use development of parking, commercial space, and residential units. It is also recommended that the development incorporate the city-owned site on the west half of the block (former YWCA site). The following schedule is an estimate of the timeline for the proposed public/private partnership:
 - a. 2013 – Develop project scope and RFP
 - b. 2014 – Issue RFP, select developer, finalize financing and contracts
 - c. 2015 – 2017 Demolition and construction

PREVIOUS COUNCIL ACTION(S): NONE

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

- Urban Design Review Board review and recommendation to City Council.
- Final City Council approval of an Urban Renewal Development Agreement.
- Items related to the 7th and Grand parking garage replacement.
- Items related to urban planning study of the area surrounding the Principal campus.

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 first 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.