

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: June 22, 2015
	Agenda Item No. 66B Roll Call No. <u>15-1092</u> Communication No. <u>15-354</u> Submitted by: Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Communication from City Manager regarding proposed purchase of land in the SE Agrimergent Business Park by Electrical Power Products (EP2).

SYNOPSIS:

On June 8, 2015 by Roll Call 15-0928, City Council approved to receive and file a proposal from EP2 (Britt Baker, 1800 East Hull Avenue Des Moines, Iowa 50313) to purchase approximately 42 acres of land from the City of Des Moines in the SE Agrimergent Park for their relocation and expansion project.

While preliminary terms of agreement have not been finalized, there has been ongoing discussion between the company and City staff. EP2 would like to get started on their project by September 1, 2015. In the interest of keeping momentum going on this significant opportunity for both the business and the City, a progress report of the elements in discussion is offered below for Council consideration at this meeting. A recommendation on this information will allow EP2 to move forward with greater confidence and allow staff to formalize terms that will return for Council approval at a future meeting.

The discussion has focused on the level of risk that EP2 is comfortable taking to make a substantial financial investment on the subject property. The property, though able to be built upon by City standards, is located near the SE Des Moines Levee and is currently identified as secluded by FEMA. In addition, there is historical evidence of interior stormwater drainage issues on the site. A summary of the variables in the discussion and the proposal from EP2 is provided below.

FISCAL IMPACT:

Amount: To be determined

Funding Source: Land sale proceeds from the sale of property to EP2 to be deposited in the Economic Development Enterprise Account. Project generated tax increment from the SE Agribusiness Urban Renewal Area.

ADDITIONAL INFORMATION:

EP2 provides power management systems for commercial and utility industries for power generation, transmission and distribution. Products and services include relay panels, modular control system buildings and wind farm equipment. The company has been in business in East Des Moines for 25 years and employs approximately 300 people.

EP2's proposed 42 acre purchase would provide space for two (2) buildings with a total approximate project cost of \$36 million. Phase I would begin construction in 2015 at an estimated cost of \$18M, and provide for the retention of the company's 300 employees in the City of Des Moines. EP2 has requested that Phase II could be initiated as the growth of the company demands. Prior City development agreements that contemplated additional phases of development have been structured to identify a timeframe for that development to occur, which can be included in the discussion with EP2. The company has agreed that Phase II development would be intended for use by EP2 or a subsidiary or partner company of EP2. No sale of land or buildings for speculative development or non-related businesses would occur.

The nature of the company's business requires the specialized construction and assembly of their electrical systems in container structures that are relocated when completed to the customers EP2 serves. These structures are of a size where outdoor storage is a component of the product development process. This necessary storage of highly sensitive electrical equipment gives EP2 an elevated concern about potential impact from flood events. The current status of the SE Des Moines Levee to the south of the proposed site, and the historic evidence of interior stormwater drainage issues on the property have resulted in the company seeking advisement from consulting engineers and builders regarding their level of risk, and the potential need for elevation of the site prior to construction of any buildings.

Following is a summary of the variables in the discussion, which include land sale price, site elevation/fill material, proposed project generated tax increment finance (TIF) assistance, and the requirements under the current 28E Agreement between the City and Des Moines Water Works (DMWW).

Land Sale Price

A consistent valuation for this property has not been found by the real estate market, with the two (2) most recent appraisals showing significant range. The most recent transaction of City land in the SE Agrimergent Park was to Helena Industries in 2013 for approximately \$22,000 per acre or \$660,000. EP2 has proposed a purchase price of \$1,000 per acre, citing the SE Des Moines Levee status and the history of interior stormwater drainage issues as conditions that impact the value of the property.

Both appraisals considered general discounts for the need to fill the City's property, but the discount is highly variable and must be adjusted based on the size and actual needs for individual projects. In addition, the fair market value assumes that each site would contain adequate soil to elevate the portions of the site needed for buildings and other improvements. Therefore, if additional soil is needed for fill for a specific project, the fair market value would be reduced by an amount equal to the additional fill costs, with the maximum discount being equal to the original fair market value. Staff will continue to evaluate fair market value with EP2 and return to Council with a recommended amount under the preliminary terms of agreement.

Preferred Site Elevation and Fill Material

Based on the two (2) appraisals, it is reasonable to assume that any prudent buyer would elevate the site at least one (1) – two (2) feet with the conditions identified above. Any higher level of fill required for a specific project would affect the price that a buyer would be willing to pay for the property. EP2 and their consultants have determined that their preferred elevation would require adding approximately six (6) feet of fill to elevate the entire 42 acre site. The estimated cost for this additional work on the site is \$3.3 million.

The City has initiated a study with Allendar Butzke Engineering to determine the suitability and quantity of the soil on part of the remaining 64 acres of the City owned site (a second purchase proposal has been submitted by a second Des Moines company for approximately 30 acres; that proposal is on this Council agenda to receive and file). Depending on the study results, a portion of this material could be made available to EP2 to achieve their preferred elevation. This would not decrease the estimated \$3.3 million estimate provided to EP2, but it would eliminate the need for off-site imported fill, which has been estimated at a significantly higher cost.

Until the results of the soil testing are completed by the City's consultant, any City recommendation on the proposed purchase request should be subject to the receipt and review of the study, which is important to both the City and EP2.

Proposed Project Generated TIF Assistance

EP2 has requested 50% of what Phase I of the project would generate in new tax increment for 17 years. The City would retain the remaining 50% of the tax increment generated by the project. The increment would be based on a building valuation set by a Minimum Assessment Agreement approved by the Polk County Assessor. EP2 would waive any tax abatement that the Phase I project may be eligible for. Phase II of the project, when initiated, would request no TIF assistance and would only contemplate applying for what City tax abatement program may be in place at that date, or State of Iowa Industrial Property Tax Exemption.

The proposed TIF can provide a response to the \$3.3M estimated cost to conduct the work to elevate the site, responds to EP2's concerns of risk regarding their investment and also acknowledges the retention of a significant number of jobs by keeping EP2 in Des Moines.

28E Agreement with DMWW

The current 28E Agreement requires both the DMWW Board of Trustees and the City Council to review and approve proposed sales of property for approximately 236 acres of land located south and north of Vandalia Road in the SE Ag Park. DMWW contributed \$625,000 to the City's original purchase of property from Archer Daniels Midland, and is to receive 1/3 of the proceeds from any transaction on the land. In addition, the 28E Agreement specifies that the preferred businesses will be high water and sewer users.

In discussions between City Staff and DMWW staff, there is acknowledgement that the high water and sewer uses contemplated by the 28E Agreement have not pursued the land for their business locations. Though several plant and production facilities have expressed interest in the property over the last six (6) years, the levee variable has been significant in those conversations as well, and no transactions have occurred on the property, which is currently being farmed. DMWW staff and City staff have also acknowledged that neither entity wants to prohibit the growth of Des Moines businesses, particularly existing companies. A potential solution to propose to City Council and the DMWW Board of Trustees would be dissolving the agreement with DMWW being repaid their investment amount. As there are no identified City funds available to provide this repayment at present, it may need to be requested of DMWW that the repayment occur over time from TIF funds generated by the land sale to EP2.

PREVIOUS COUNCIL ACTION(S):

Date: June 8, 2015

Roll Call Number: [15-0928](#)

Action: [Receipt](#) and file of proposal to purchase City-owned property at SE 43rd and Vandalia Road for redevelopment and direct the City Manager to negotiate preliminary terms of agreement with Electrical Power Products (EP2). ([Council Communication No. 15-286](#)) Moved by Gatto to receive and file Council Communication No. 15-286 and to direct the City Manager to negotiate preliminary terms of a development agreement with EP2. Motion Carried 7-0

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Presentation of preliminary terms of an urban renewal development agreement with EP2 and review of proposed financial assistance and project design by the Urban Design Review Board. Review by the City's Good Neighbor Task Force and DMWW Board of Trustees is also anticipated.

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