

OFFICE OF THE CITY MANAGER
DES MOINES, IOWA

CITY COUNCIL COMMUNICATION 96-343
AUGUST 19, 1996 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
PIONEER HI-BRED FORGIVABLE ECONOMIC DEVELOPMENT LOAN	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT STRICKER ECONOMIC DEVELOPMENT ADMINISTRATOR

SYNOPSIS —

On the August 19, 1996, Council agenda is a roll call to adopt the recommendations for a proposed forgivable economic development loan for Pioneer Hi-Bred International, Inc.

Pioneer Hi-Bred plans to relocate approximately 275 employees to downtown Des Moines in the Capital Square office building. Pioneer currently has 30 employees downtown and occupies approximately 23,000 square feet in Capital Square. To accommodate the additional 275 employees, Pioneer plans to expand its Capital Square space by approximately 80,000 square feet. This planned expansion will result in Pioneer entering into a new 15-year lease for 103,592 square feet in Capital Square. Pioneer plans to undertake leasehold improvements in the expanded space at an estimated cost of \$3.5 million. An additional \$1.5 million cost is estimated for furniture, fixtures, and equipment.

The average compensation of approximately two-thirds of the 305 employees will be over \$45,000 per year. The remaining one-third will earn an average of over \$25,000 per year. Parking needs for the Pioneer expansion downtown are for approximately 275 reserved spaces within close proximity of Capital Square.

The proposed Pioneer expansion will position the company for continued employment growth in the Des Moines metropolitan area by increasing its flexibility, efficiency, and convenience in its Johnston and downtown locations.

In order for Pioneer to relocate the 275 employees to the downtown in the Capital Square space, occupancy costs must be competitive with alternate sites under consideration, such as West Des Moines. Pioneer has analyzed the occupancy costs for the various alternative sites and has determined that the occupancy costs for Capital Square are not competitive, primarily due to a disparity in the cost of providing parking for its employees. Pioneer has estimated the cost for parking downtown results in an added expense of \$3,712,500 over 15 years, compared to alternative sites in the metropolitan area.

In an effort to improve the cost competitiveness and feasibility of Capital Square for Pioneer, it is proposed that the City offer to Pioneer a forgivable economic development loan in the amount of \$1,125,000. The proposed forgivable loan will be structured in accordance with Chapter 15A, State Code of Iowa, as provided for in the Capitol-Center Development Area Urban Renewal Plan, to create new jobs and income, and for the retention of existing jobs and income that would otherwise be lost. The loan would be advanced to Pioneer over five years at \$225,000 per year. It is also proposed that the City make available up to 275 parking spaces within the Court Avenue Parking Garage to Pioneer employees at the standard monthly lease terms and conditions.

The proposed relocation of 275 Pioneer employees to the Capital Square location represents a significant opportunity for the City to diversify the downtown's economy and stabilize its tax base. Pioneer is an important international agri-business corporation. The presence of over 300 Pioneer corporate employees will serve to diversify the predominately finance and insurance economic base of the downtown.

Assessed valuations have recently declined by 13 percent on average in the downtown. This decline has been justified by recent sales of major downtown buildings which were below their assessed value. The Capital Square building is an example of a property that has decreased in value and is in danger of further significant decline. Pioneer's plan to occupy over 100,000 square feet in the building under a long-term lease can prevent a decline in the value of Capital Square and provide stability for the future.

FISCAL IMPACT —

The City's proposed forgivable economic development loan in the amount of \$1,125,000 will be funded with tax increment cash flow (Capitol-Center Development Area Urban Renewal Area), eliminating the need to issue bonds resulting in long-term debt. The loan will be advanced to Pioneer in five equal annual installments of \$225,000 beginning one year after the City has certified completion of leasehold improvements in the Capital Square space.

RECOMMENDATION —

Direct the City Manager to prepare for Council consideration the documents necessary to provide the forgivable loan, including the loan agreement and promissory note, based on the terms of agreement set forth in this communication. Council to refer this matter to the Urban Renewal Board for its review and comment prior to Council action on the proposed agreement.

BACKGROUND —

Terms of Agreement

Based on extensive discussions with Pioneer representatives, we have reached agreement on the following general points which identify the key features of our agreement as outlined below. These points will be defined in greater detail and incorporated into a formal loan agreement between the City and Pioneer.

Proposed City of Des Moines Incentives

The City of Des Moines will provide an economic development assistance package to Pioneer as follows:

- The City will provide a forgivable economic development loan in the amount of \$1,125,000 which will be advanced to Pioneer in five equal annual installments of \$225,000 beginning one year following the issuance of a Certificate of Completion by the City. The loan will be funded through tax increment financing cash flow. The loan will be forgiven after 10 years, eliminating any obligation to make repayment, provided Pioneer has satisfied certain obligations as described below.
- Up to 275 parking spaces in the Court Avenue Parking Garage will be made available to Pioneer employees on the same terms and conditions as the City leases parking spaces to other users in the Court Avenue Garage.

Pioneer Obligations

As consideration for the economic development assistance package provided by the City, Pioneer shall assume the following obligations which must be satisfied for the proposed loan to be forgiven. The terms and conditions for repayment of the loan, in the event of default on the obligations, will be negotiated and incorporated into the loan agreement to be presented to Council.

- Pioneer will lease a minimum of 100,000 square feet of net leasable space within the Capital Square office building for a minimum term of 10 years.
- Pioneer shall employ at least 275 full-time employees to work at the Capital Square offices at all times over a 10-year period beginning from the date of the Certificate of Completion.
- Pioneer shall make leasehold improvements to its Capital Square space at a minimum cost of \$2.5 million. The Certificate of Completion will be issued upon completion of the leasehold improvements.