

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

02-433

SYNOPSIS -

AGENDA:

AUGUST 19, 2002

On the August 19, 2002 agenda is a roll call to approve the Second Amendment to the development agreement with Airport Commerce Park, L.C. (Gerard Neugent, 5000 Westown Parkway/Suite 100, West Des Moines, IA).

SUBJECT:

AMENDMENT TO
DEVELOPMENT
AGREEMENT FOR
AIRPORT
COMMERCE PARK
WEST URBAN
RENEWAL AREA

The developer, Airport Commerce Park, L.C., has requested an amendment to the development agreement with the City. The proposed amendment would assist funding for a development that would place several divisions of Principal Financial Group at the former McLeod USA Telecommunications facility (6200 Park Avenue).

TYPE:

The proposed second amendment 'caps' the infrastructure reimbursements and allows the developer to make payments to Principal up to \$1.5 million to gap the locational cost differences for Principal. The amendment also increases the Tax Increment Financing (TIF) disbursement to the developer by about \$477,000.

RESOLUTION
ORDINANCE
RECEIVE/FILE

FISCAL IMPACT -

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

The development agreement, approved in 1996, provided a 'reimbursement' of up to \$3.86 million property taxes generated by new development. The reimbursement to the developer was limited to the construction costs of specific public improvements, such as streets and sewers, installed in the Airport Commerce Park West Urban Renewal Area by December 2004.

Airport Commerce Park West has developed much more quickly than originally anticipated and as a result, tax revenues exceed initial projections. Including the proposed and previously paid TIF reimbursements to the developer, the urban renewal area is projected to generate about \$1 million annually in new net revenues beginning in Fiscal Year (FY) 2006.

As of 2002, the development agreement payments have totaled

\$1,964,983; the developer has requested the unused remainder of the approved TIF amount-\$1,023,046-plus an additional \$477,000 from the tax increment revenues to fund the proposed project.

TIF revenues from the Airport Commerce Park West Urban Renewal Area will fund the payments. Based on anticipated TIF receipts, the City's payment of the previously approved (but unused) \$1,023,046 and proposed additional \$477,000 in TIF reimbursements will be paid off by FY2008.

The developer has also agreed to a minimum property tax assessment of about \$6.02 million for this property, which provides additional security for the TIF revenue flow.

RECOMMENDATION -

Approve the second amendment to the development agreement with Airport Commerce Park, L.C.

BACKGROUND -

On July 8, 2002, the Council approved the preliminary terms of this agreement, directed staff to prepare the agreement and have the Urban Development Board make its recommendation on the proposed agreement to the Council.

Urban Development Board Review

On August 6, 2002, the Board recommended approval of the proposed amendment by a 4-2 vote. In taking its action, both sides of the issue noted:

1. This amendment has been carefully crafted to provide reasonable safeguards to revenue flow and limits future financial assistance. However, the City should provide clearer revenue numbers to support its argument that this funding is needed to retain an existing business in Des Moines.
2. An evaluation of what TIF may cost in the short run, such as how much it may increase the existing tax rate, should be taken into account.
3. The evaluation should also consider what the tax revenues would be if the project/urban renewal area had not been created.

The Board recognizes TIF is a difficult issue and respects that TIF has been an important tool in attracting and retaining development especially as other suburbs provide aggressive incentives. However, an evaluation of its use may be warranted at this time to evaluate the various issues TIF raises and how it impacts Des Moines' overall competitiveness.

History

Principal Financial Group has worked to identify a new non-downtown location for several of its back-office functions as part of its disaster preparedness plans. Because 60 percent of the employees in these divisions live in western Des Moines or the west suburbs, Principal's location search has focused on these areas.

Based on the information provided by Principal and their consultant, Terrus Real Estate Group, the only Des Moines location that meets Principal's major locational criteria and facility needs is the McLeod property at 6200 Park Avenue, which is part of the Airport Commerce Park West Urban Renewal Area.

The lease rate for this 75,000 sq. ft. facility is significantly higher than it would be in a new suburban facility but lower than the rate paid by McLeod, which is undergoing a significant downsizing at this location. An approximate \$1.5 million gap (net present value at 7.5 percent) over a 12-year lease term exists between the Des Moines and suburban location options.

Terms and Conditions of Proposed Amendment

Key features of the proposed amendment to the development agreement between the City and Airport Commerce Park, L.C.:

1. The City will provide \$500,000 per year for three years beginning in FY2006, to the developer, Airport Commerce Park, L.C., for reimbursement to Principal.
2. A minimum property assessment agreement of about \$6.02 million is required. (This is a new requirement-there is currently no minimum assessment required.)
3. Airport Commerce Park, L.C. agrees no further tax increment reimbursements will be paid beyond those costs currently certified to the City (\$1,964,983.98) with infrastructure costs being the developer's responsibility.
4. The City shall request Iowa Department of Transportation funding for a new traffic signal on 63rd Street at either Watrous or Thornton

Avenue; the City will **not** be responsible for any costs associated with the signal.

5. By a letter from Principal, Principal agrees that the Airport Commerce Park West Urban Renewal Area will be given strong consideration to any future development. In addition, the new development will not be eligible for City financial assistance (other than tax abatement that is available to all developments that meet the City ordinance requirements).

The developer has provided an option to Principal on the adjacent 15-acre parcel that will allow Principal to expand in the future.
