



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6f

ACTION ITEM

Date of Meeting July 24, 2018

DATE: June 28, 2018

TO: Stephen P. Metruck, Executive Director

FROM: Dave McFadden, Managing Director Economic Development Division
Jeffrey Utterback, Director Real Estate & Economic Development

SUBJECT: City of Des Moines interlocal agreement (ILA)
RE: Des Moines Creek - West development

Amount of this request: \$1,500,000

Total estimated project cost: \$1,500,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to enter into an interlocal agreement with the City of Des Moines for the construction of frontage improvements in front of the Port’s proposed Des Moines Creek - West future development.

EXECUTIVE SUMMARY

To the west of the existing Des Moines Creek Business Park (“DMCBP”), the Port plans to facilitate the development its Des Moines Creek - West (“DMC-W”) property in 2019.

The City of Des Moines is currently moving ahead and constructing its Transportation Gateway Project along South 216th Street right-of-way to accommodate multiple modes of travel (pedestrians, bicycles, transit, automobiles, & freight) in support of DMC-W as well as accommodating future growth as reflected in the City’s Comprehensive Transportation Plan.

Consistent with DMMC 12.20.050(2) and in advance of future development on the DMC-W site, the Port will agree to make an advance payment totaling \$1,500,000 (One Million, five hundred thousand Dollars) to the City to fulfill its financial obligations to physically construct the required roadway and frontage improvements. The ILA will define the broader scope of these improvements and insure the future development of the DMC-W is more streamlined.

Based on the Des Moines City municipal code (“DMMC”), the Port is responsible for improving approximately 1,025 linear feet of frontage improvements, including frontage along both existing Port-owned property as well as the land owned by WSDOT (former SR509 easement). The WSDOT property provides the final land assemblage between the DMCBP and the DMC-W and will allow the Port to provide for the best ingress/egress to all future development in this area.

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The DMC-W property is envisioned as a modern, institutional quality commercial development that provides family wage jobs, a new source of direct and indirect long-term revenue for both the Port and the City and increasing trade opportunities for the region. It will be developed in phases in accordance with a Des Moines City Council-approved Master Plan. The property will be developed in the following phases:

1. Execution of this Interlocal Agreement with an acknowledgment that this agreement may need to be amended as subsequent phase details for this Project are developed.
2. Completion of City managed frontage improvements on South 216th Street connecting corridor improvement between 11th Avenue South and 20th Avenue South financed by the City, State Transportation Improvement Board, and early In-Lieu payments by the Port (the “Transportation Gateway Project”).
3. Solicitation of a developer and development of a DMC-W Master Plan consistent with DMMC 18.105.050.

JUSTIFICATION

By providing funding of the frontage improvement through this ILA, the Port eliminates one of the basic hurdles encountered with future development of its DMC-W property.

The frontage included here of the DMC-W is part of a more significant City investment, the “Transportation Gateway Project”. By contributing this is larger project, the Port is able recognize some financial savings by being part of a bigger investment. In addition, we have been able to limit our financial exposure for these frontage improvements and at the same time, increase the value of the DMC-W as a future development site.

The future developer of the DMC-W property will be presented with a property that includes all the required frontage improvements, thereby eliminating both the timing and permit risks normally associated with such off-site works.

This will serve as the final piece to the frontage improvements of the Port-owned properties in this area. Additional information –

- The Port acquired the property as part of noise mitigation efforts and the airport has determined the property is not needed for critical aviation operations.
- The Port has ground leased several other properties in this vicinity to promote job creation and economic development surrounding the airport. These include the Des Moines Creek Business Park (Des Moines), IAC Commerce Center (SeaTac), Seattle Gateway Center 1&2 (Burien).
- The future development of the DMC-W property will generate additional non-aeronautical revenues for the Aviation Division.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Postpone Development in light of possible future recession

Cost Implications: \$0

Pros:

- (1) Real estate markets have been on fire within the region over the past five years and the risk is growing that there will be a down cycle.
- (2) Prudence could help the Port avoid possible problems with developer or development of the site.

Cons:

- (1) Opportunity to support economic development and job creation around the airport lost or postponed.
- (2) Lost financial benefit of providing required frontage improvements as part of a larger investment being made by the City.

This is not the recommended alternative.

Alternative 2 – Enter into Inter-local Agreement with City of Des Moines to construct road improvements needed for Des Moines Creek West property development.

Cost Implications: \$1,500,000

Pros:

- (1) Recognizes a valuable economic development partnership with the City of Des Moines.
- (2) Opportunity to support economic development and job creation around the airport.
- (3) Allows the Port to benefit from being part of a greater investment by the City.
- (4) Enhances the overall value of the Port DMC-W property in excess of this investment.

Cons:

- (1) Real estate cycle is mature and risk of down cycle that could negatively impact project is greater.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Authorization Summary

	Capital	Expense	Total
Previous authorizations	\$0	\$0	\$0
Current request for authorization	\$0	\$1,500,000	\$1,500,000
Total authorizations, including this request	\$0	\$1,500,000	\$1,500,000
Remaining amount to be authorized	\$0	\$0	\$0

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Annual Budget Status and Source of Funds

This public expense project was not included in the 2018 budget and will reduce 2018 non-Aeronautical net income by \$1.5M.

Financial Analysis and Summary

Project cost for analysis	\$1,500,000
Business Unit (BU)	Non-Aero Commercial Properties
Effect on business performance (NOI after depreciation)	The payment will reduce 2018 non-Aeronautical Commercial Properties net income by \$1.5M. The future DMC-W development is expected to initially generate approximately \$400K in annual revenue.
IRR/NPV (if relevant)	Estimated return of future DMC-W development: <ul style="list-style-type: none">• IRR: 9%• NPV: \$5.1M

ATTACHMENTS TO THIS REQUEST

ILA with POS

Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None