

**MINUTES
SPECIAL
CITY COUNCIL MEETING – COLUMBIA, MISSOURI
MAY 24, 2010**

INTRODUCTORY

The City Council of the City of Columbia, Missouri met for a special session at 6:00 p.m., on Monday, May 24, 2010, in the Council Chamber of the City of Columbia, Missouri. The roll was taken with the following results: Council Members KESPOHL, DUDLEY, NAUSER, HOPPE, MCDAVID, STURTZ and THORNHILL were present. The City Manager, City Counselor, City Clerk and various Department Heads were also present.

APPROVAL AND ADJUSTMENT OF AGENDA

The agenda was approved unanimously by voice vote on a motion by Mr. Sturtz and a second by Mr. Dudley.

OLD BUSINESS

B122-10 Authorizing a Funding and Property Transfer Agreement with Columbia Area Jobs Foundation in connection with the establishment of an IBM office and technical support facility in Columbia; authorizing the City Manager to waive certain contingencies in the agreement and to terminate the agreement if all contingencies are not waived or met; appropriating funds.

The bill was given second reading by the Clerk.

Mr. Watkins noted this legislation authorized the City's part of the IBM deal. It involved a funding and property transfer agreement with the Columbia Area Jobs Foundation (CAJF). CAJF was primarily being used to meet IBM's timeframes as the City would not have the ability to have a facility ready for IBM by November 1, 2010. This legislation also appropriated the \$500,000 down payment for the purchase of the building. He noted the City would own the building by the end of the year.

Mr. Sturtz understood that either CAJF or the City would be paying off a six percent loan for ten years at a cost of about \$111,000 per month and asked if IBM would be paying the \$111,000 to the City or if it would be coming from the State incentive money. Mr. Boeckmann explained the State money was separate and would go to IBM. IBM would make monthly rent payments that consisted of two components. One was a fixed rent, which was the amount to amortize the loan over ten years and the other was additional rent, which paid the operating cost. The operating costs involved the management company fees, snow/ice removal, maintenance, utilities and the PILOT.

Ms. Nauser made a motion to amend B122-10 per the amendment sheet. The motion was seconded by Mr. Thornhill and approved unanimously by voice vote.

Dave Griggs, 6420 Hwy VV, stated he was the Chairman of REDI and a member of the CAJF Board, and asked those in the attendance that were involved in this project to stand. Approximately 20 people stood and he thanked them for their work. He understood some people were upset that incentives were involved, and commented that a couple years ago, Project Chip came to REDI needing a 100,000 square foot building in a short timeframe. REDI submitted a building in the same industrial park and told them they had Chapter 100

bonds, a fabulous community, etc., but they never heard back from them and the company ended up locating in Iowa. The IBM project, also known as Project Tiger, was a result of a tremendous community effort involving educational institutions, private companies, individuals and state and local governments. He explained the first use of economic development incentives in Columbia, Missouri happened in 1839 when 900 citizens raised \$117,900 to locate the University of Missouri in Columbia. There was quite an effort to locate the University in neighboring communities and Columbia raised the most in the bidding war. In 1892, when Academic Hall burned down, there was an effort to relocate the University of Missouri to Jefferson City, but citizens of Columbia raised money to build Jesse Hall for the City's second major use of incentives. He noted REDI, the Chapter 100 bond program, the University making economic development a mission, and Council actions to reinforce the community with a vibrant downtown, the parks and trail system and other amenities were impressive to the IBM representatives. He pointed out the media coverage Columbia had received in the past week with IBM selecting Columbia was priceless as well in terms of economic development.

Mr. Sturtz noted a trend existed with IBM and other technological companies of sending jobs overseas and asked why IBM found Columbia more appealing than off-shoring these jobs. Mr. Griggs replied he did not know the exact reason, but pointed out this was the third of the five centers they had in their business plan with the other centers located in Lansing, Michigan, the home of Michigan State University, and Dubuque, Iowa. He understood 60-70 employees would be brought from other areas, but the remaining workforce would be local, so they were interested in the workforce availability of the Columbia region.

Mr. Sturtz understood there would be a minimum of 600 full time employees. Mr. Griggs stated there would be 600 company employees and up to 200 contract employees initially. Mr. Sturtz asked how those numbers would be vetted by the City and State. He wondered if there would be a third party certifier for those numbers. Mr. Griggs replied it was part of the State's Build Program, a State incentive based on the actual number of jobs and the actual average payroll of those jobs, for the first term of the lease and the company would have to submit certified reports to the Department of Revenue and the Department of Economic Development so they could verify the company met the parameters before issuing the incentives.

Mr. Sturtz asked about the stringency of the verification process. Mr. Griggs replied he understood it was very stringent. They had the state withholding records, so they had the ability to cross-reference the information and ensure people were employed at the rates reported. He noted a minimum of 100 employees was required in order to apply for the incentive, and another incentive could be applied for upon reaching the next threshold of 100 employees. After the Build Program and State verification process stopped at the end of year ten, the lease indicated the rental cost would increase incrementally if IBM dropped below 600 jobs. Mr. Sturtz asked if the 600 job threshold was at an average of \$55,000. Mr. Griggs replied yes.

Mike Brooks, 403 Stallworth, stated he was the President of REDI and the Columbia Economic Development Director and asked the Council to support the ordinance. He

explained this project came from the Missouri Partnership and the request for information (RFI) indicated the company wanted support in server management systems, operation database management, storage management and project management and to be in close proximity to colleges and technical schools, have low cost utilities and have a sufficient supply of IT workers. With regard to the building, there had only been one potential option when considering the space and time requirements. He noted the salary range for employees would be between \$30,000 and \$80,000, but the exact wages per job were not known. He pointed out the first RFI was received on January 26, 2010 and the announcement was made on May 17, 2010, and there were three site visits and many conference calls critical to the process during that time. The building the City would purchase and rent to IBM was located at 2810 Lemone Industrial Boulevard. He noted part of the challenge had been convincing the company an industrial building could be converted to an office building, and after many discussions and providing conceptual drawings, IBM became convinced the change could be made. He explained how the building would be purchased by CAJF from Lemone Trust with the City providing the funds for the downpayment to CAJF, and noted the lease with the company, the construction contract, building management contract and the relationship with the banking community, who was being asked to lend up to \$10 million, was in place. IBM had access to the Missouri Build Program for a bond of \$8.6 million, which would have a pay out over ten years of \$11.6 million, and those were the dollars the company would likely use to pay the \$10 million amortization on the loan to CAJF. He emphasized the fact the lease did not allow for any flexibility. It would have to be paid regardless of whether the company received payments from the bond program and at the end of the process, which was at the end of the year, the transfer of the property and lease would come to the City. It was estimated that this would bring roughly \$77 million in new payroll in the community by virtue of the direct 800 full time jobs at IBM and the 600 additional secondary or multiplier jobs in the community. The estimated annual sales tax revenue would be \$507,000 - \$660,000 per year.

Mr. Sturtz asked if the sales tax revenue estimated would be from the company or the employees. Mr. Brooks replied this was the total impact, so it would include the consumer purchases of the employees. Mr. Sturtz understood that the majority of the \$660,000 would be from the employees living their lives. Mr. Brooks stated there would be some from the company as well and noted Boone County would benefit by its portion of sales tax revenue collected.

Mr. Brooks explained property taxes were estimated to increase to approximately \$700,000 in additional revenue in 2013 or 2014. Once fully complete, he believed the School District should see a net increase in funding of almost \$431,000 annually. In addition, there would be a \$17 million increase in retail sales in the community. He pointed out the City had also received some of the best media exposure possible in attracting other businesses.

Mr. Sturtz asked if the \$700,000 in property taxes was based on 300 employees purchasing homes. Mr. Brooks replied he thought it was reasonable to expect 250-325 homes would be built.

Mr. Sturtz understood most of the people that located to Dubuque, Iowa for IBM were renters. Mr. Brooks replied he believed that due to some of the challenges IBM had faced in

the establishment of the Dubuque facility, they had asked more detailed questions of Columbia, to include the housing availability. He agreed many employees would rent instead of buy at the front end. Mr. Sturtz stated he had heard the rental market in Dubuque had been flooded, but that there was not a big impact on the sale of homes because most employees did not know if they would be there in 5-10 years due to the corporate culture. If the \$700,000 was based on building 250-300 homes, he wondered how long it would take to get to that dollar amount. Mr. Brooks noted the problem with economic modeling was that there were no guarantees. He did, however, believe the building of 250 new homes was a reasonable estimate.

Mr. Sturtz asked what kind of clawback provisions were in place if IBM changed its plans several years from now. He understood the City was responsible for \$3 million for the purchase of the building, but the \$10 million for rehabilitation of the building would be IBM's responsibility. He wondered what the City would be left with if something happened since it had a \$3 million investment. Mr. Brooks replied he believed it was almost the perfect clawback because the City would own the building. In addition, the lease was iron clad as IBM would be responsible for paying off the \$10 million loan in ten years. If IBM left after five years, they would still be held responsible for the remaining five years of lease payments, and the City could use the facility as a resource to attract a new company.

Mr. Thornhill asked if it was safe to assume some potential employees would be renters coming from the University that would likely buy a home. Mr. Brooks replied one reason IBM was attracted to Columbia was the ability to hire students coming out of local colleges and universities, so he thought that was a valid assumption.

Joan Beard, 154 W. Green Meadows, commented that although she thought it was wonderful that IBM was coming to Columbia, she had concerns regarding the \$3 million cost to the City when the rent payment charged would only be one dollar per year, the exemption of personal property taxes, the 50 percent reduction of property taxes, and the fact the building would belong to the City without being used by the City. She understood this was the first time the public had been given the opportunity to comment and believed more time should be given to absorb the information and provide comment. She also understood the City would be getting into its reserves by the end of the year and was not sure this was a timely expenditure. She was glad IBM was coming, but was uncertain as to whether this was the best way to get them here. She wondered if the City had been held hostage in providing these incentives to get IBM to locate here. She stated she believed there should have been more transparency in this process. She asked the Council to address her concerns.

Pat Fowler, 606 N. Sixth Street, stated citizens, through city, state and federal dollars, had funded job training programs, particularly construction training programs for several years. Job Point's Columbia Builds Youth and the construction training program at the Columbia Area Career Center were two examples. She asked that this IBM initiative include a clear intention by the City and its partners to hire the graduates of these programs as part of the renovation team and to pay wages that would allow them the ability to meet their financial obligations and support their families as this had been a problem. She noted a business person needed to step up to allow these graduates an opportunity to demonstrate they were good employees, and with the City buying the building, she felt the City was the

business person that should help move this process along. She asked the Council to ensure the graduates of the training program, who had worked hard in overcoming obstacles, had an opportunity for steady employment and good wages, and hoped these conversations were underway with Little Dixie, the main contractor for this project.

Mr. Sturtz asked if the concerns brought forth by Ms. Fowler could be integrated into the construction contract. Mr. Boeckmann explained the timing of this project was driven by IBM's need to get into the building by November 2010. In addition, IBM did not want an announcement made until the terms of the lease were worked out, and that prevented the City from doing this publicly. He thought the concerns of Ms. Fowler could be brought to Little Dixie, but the contracts were ready to be signed at a closing tomorrow, so he did not think the construction contract could be changed at this time.

John Clark, 403 N. Ninth, stated he was a licensed attorney and CPA and noted he believed there was a huge flaw in the analysis in terms of the benefits to the City. The increase in sales and property taxes would be used to pay for the additional services and infrastructure improvements that would be needed, so that funding would not be there to repay the \$3 million. He wondered why the entire deal was contingent on approving a management contract with Wilgate. He asked for the source of the \$500,000 down payment. He commented that he was concerned with threats to the City's ownership from possible liens, notes, etc., and the State wanting its tax credits back. In terms of Ms. Fowler's comments, he noted the economic, social and educational gaps of the people living in Columbia were a concern, but he did not believe it was IBM's responsibility to address it. He did, however, encourage the Council to ensure 90 percent of those hired were from this area.

Karl Skala, 5201 Gasconade Drive, commented that he saw this as a positive step toward economic development, but also saw some potential problems with respect to the process in terms of transparency. In addition to the transparency involving the citizens of Columbia, he believed there should be transparency between the groups that negotiated the deal and the City Council. As a former member of the City Council, he understood the need for balance between confidentiality and an expedited process, but he also believed it was difficult to make serious, large decisions in a vacuum. His participation in terms of whether or not to proceed was based on \$3 million, and not \$32 million, as the Council did not know the extent of the commitment at that time. He encouraged the Council to think about the clawback provisions and ways to improve the process even in when expedited projects were involved.

Ken Pearson, the Boone County Presiding Commissioner and a CAJF Board Member, stated his support for the project and encouraged the Council to vote in favor of it as economic development of this type was very important to Columbia, Boone County and the entire region.

Mr. Sturtz understood Boone County would enjoy more property and sales taxes due to this project and asked what the investment would be from Boone County toward this project. Mr. Pearson replied the County would work with REDI, IBM and the bond counsel on the Chapter 100 bond. Under the Chapter 100 bond, IBM would be able to abate half of their property tax and would potentially qualify for sales tax exemption for the personal property purchased for the building.

Mr. Thornhill understood the property tax exemption only applied to items owned by IBM and not the items owned by the employees. Mr. Boeckmann replied that was correct. He explained it was a 100 percent tax abatement for ten years, but a 50 percent payment in lieu of taxes (PILOT) was required during that time. He pointed out the property would be reassessed and taxes would be paid on the reassessed value after ten years.

Ms. Nauser understood an analysis of benefits over the next ten years had been done and asked if a brief synopsis could be provided.

Mr. Sturtz asked for additional information regarding Wilgate. Mr. Brooks replied Jay Birchfield was with Wilgate and John States was with Little Dixie Construction.

Mr. Sturtz asked how the \$500,000 down payment was being paid. Mr. Watkins replied it was being funded from the public improvement fund, which was a percentage of sales tax set aside annually for small capital improvements.

Mr. Brooks explained the source of the information requested by Ms. Nauser was the Federal Reserve Board's fiscal impact tool. Based on estimates used, the School District would benefit by a net revenue of \$430,000 annually. The current annual property tax being paid on the building was about \$26,000, so the net revenue to the School District would be about \$2,708 without this project. He noted he could not guarantee the anticipated numbers since they were based on modeling tools, but could guarantee the amount of \$26,000 for the building if IBM did not come.

Mr. Thornhill asked if the expediency and secrecy involved was typical for securing a location for this type of project. Mr. Brooks replied he had never worked on a project where confidentiality was not a key driver of the decision. In terms of a business decision, he asked how many businesses would let their competitors know of their plans. Companies did not want their identities divulged.

Ms. Hoppe noted the previous Council had been involved in the process, and although they did not initially know the identity of the company, it was eventually revealed to them. She asked if CAJF had held a bidding process for the contracts. Mr. Brooks replied CAJF was used as a tool to make this project work due to the need to move quickly, since the City could not move as fast as needed. He explained the City, Boone County, REDI, the Chamber of Commerce and some local businesses had representatives on the Board of CAJF and that CAJF had been created to support job creation in the community.

Ms. Hoppe asked if IBM had input in who they wanted to participate in the construction of the building. Mr. Brooks replied he only had a generic understanding of what was required for the space early in the process, so the contractor, with a group he believed could be subcontractors, began working with IBM to understand the ability to fulfill the contract. He did not believe there was a lack of interest in supporting Job Point. He noted they had another project they hoped to announce within the next two weeks, which could be valuable to Job Point or others. He explained every project was different and that they tried to bring the right partners to the table.

Ms. Nauser asked how many construction jobs this project might bring in reconstructing the building. Mr. Brooks replied that based on a \$9 million construction estimate, they expected 67 full time jobs would be needed.

Mr. Sturtz understood comments had been made with regard to the lack of transparency during the negotiation process and they had explained why confidentiality was so important. As they moved forward, he asked when they could expect a more transparent atmosphere in terms of IBM's practice of not disclosing its headcount in the United States and where people specifically worked. Mr. Brooks replied he did not know as the topic had not come up.

Mayor McDavid explained he could attest to how complex the project had been having sat in on some of the negotiations. He noted many attorneys had worked a lot of hours to bring all of the parties together. He congratulated REDI on this remarkable achievement. They were bringing in 800 IBM jobs and 600 supporting jobs in a time of economic downturn. The City's sales tax revenues had declined and the City would spend more than it would take in this year. The \$70 million anticipated from this project was remarkable and it would accrue to all citizens of Columbia. He noted they had lost 5,000 jobs over the past 2-3 years and this agreement would fill one-third of that gap. He was impressed with the work done on this and pointed out it was good for the City.

Ms. Hoppe commented that in addition to the new jobs and increased revenue, she like the fact it would be located where there was existing infrastructure because it would cost less to the City. It was an adaptive reuse of an existing building and had a lower impact on the environment. She understood IBM was interested in improving the transit system. In addition, they were a progressive company and had partnered with the National League of Cities in terms of the Smartest Cities Initiative, so she believed they would be a great contributing member of the community and would fit well in Columbia.

Mr. Sturtz thanked everyone who had worked on this project as it would potentially be great for the City. If the numbers Mr. Brooks had provided in estimated revenues came true, he did not believe anyone could argue with the deal. He noted he had a few concerns to include the lack of transparency and did not believe that should be done often unless the benefits were tremendous as they were potentially for this project. Moving forward, he asked that the Council and public be notified of the number of jobs created and the average pay as there had been concerns raised with regard to different accounting procedures that made things look better than they were. He was also concerned with the war on incentives with other cities and states. He did not believe this was the most sustainable way of doing business and felt it was more like job shifting than job creation. He agreed they needed to take the risk because the potential benefits were great.

Mr. Thornhill commented that if they were afraid to take an educated and calculated chance, he felt they would be where they were two years ago. In an environment where they constantly heard about communities that did not have jobs or were losing jobs, Columbia would be getting more jobs. He felt IBM could go anywhere and chose Columbia for what it had to offer as a community.

B122-10, as amended, was given third reading with the vote recorded as follows:
VOTING YES: KESPOHL, DUDLEY, NAUSER, HOPPE, MCDAVID, STURTZ, THORNHILL.
VOTING NO: NO ONE. Bill declared enacted, reading as follows:

There being no further business, the meeting adjourned at 7:17 p.m.

Respectfully submitted,

Sheela Amin

City Clerk