

# Kinder Morgan, Inc. Economic Development Agreement

Colorado Springs City Council  
Work Session  
September 8, 2014

# Presentation Overview

- Kinder Morgan Background
- Proposed EDA
- Financial Analysis
- Staff Recommendation
- Questions

# Kinder Morgan Background

- Kinder Morgan is a Houston based energy company
- Largest midstream energy company in North America
- Fourth largest energy company in North America
- Operates 80,000 miles of pipeline and 180 terminals
- KM transports natural gas, refined petroleum products, crude oil and more

# KM Background

- Kinder Morgan family of companies includes four publicly traded entities
  - Kinder Morgan, Inc. (NYSE: KMI)
  - Kinder Morgan Energy Partners, L.P. (NYSE: KMP)
  - Kinder Morgan Management, LLC (NYSE: KMR)
  - El Paso Pipeline Partners (NYSE: EPB)
- KM operates an office facility in Colorado Springs located at 118 E. Pikes Peak
- KM employs approximately 400 in Colorado Springs
- Average wage of \$105,000

# KM Background

- In October 2011 Kinder Morgan reached an agreement to acquire El Paso Corporation
- El Paso Corporation, its subsidiaries and affiliates, including Colorado Interstate Gas have had a Colorado Springs presence since 1928
- In October 2011 KM formed merger transition teams to determine optimum locations for combined operations

# KM Background

- KM location options included:
  - Consolidation into existing Lakewood facility
  - Consolidation into Houston HQ
  - New facility located between Lakewood and Colorado Springs
  - Colorado Springs CBD new build
  - Colorado Springs existing suburban
  - Renovation of existing downtown Colorado Springs facility

# KM Background

- Retention of KM in Colorado Springs became top economic development priority
- Implications of losing KM include:
  - Significant economic impact citywide
  - Significant economic impact downtown
  - Disruption to downtown commercial office market

# KM Background

- Key location decision criteria
  - Business case for Colorado Springs
  - Cost and availability of parking
  - Speed in obtaining building permits
  - Cost differential vs. other options



# KM Background

- In May of 2013 KM determined it would continue operations in Colorado Springs and entered into a 20 year lease at their existing facility
- Decision to continue operations in Colorado Springs based upon:
  - Obtaining long term parking agreement
  - Commitment for Rapid Response
  - Good faith negotiations to enter into an Economic Development Agreement to partially offset cost differentials compared to other options

# KM Background

- Due to KM required timeline for completing lease agreement:
  - Parking Agreement resolved prior to lease execution
  - Commitment for Rapid Response made
  - Good faith negotiations regarding Economic Development Agreement to be completed upon
    - Completion of design and cost
    - Completion of EDA approval process by City

# KM Background

- Renovated office facility will consist of approximately 135,000 Square Feet
- Estimated cost of \$11 Million
- Building ownership will invest millions more in renovating the balance of the building
- Renovation work has commenced

# Project Site: 118 E. Pikes Peak



# Proposed EDA

- Provide an economic development incentive measured by the City 2% sales and use tax paid on building materials used in the renovation of the Kinder Morgan office facility

# Financial Implications

- Economic Impact Analysis
- Analysis of Incentives

# Financial Implications

## 20 Year Analysis

<b>Retained Community Benefits</b>	<b>Amount/Value 20 Year Total</b>	<b>Amount/Value Average/Year</b>
<b>Jobs</b>	1,521	1,521
<b>Wages</b>	\$1.9 Billion	\$96 Million
<b>Consumer/Non Consumer Spending</b>	\$1.3 Billion	\$65 Million
<b>PPRTA Revenue</b>	\$4.9 Million	\$245,000
<b>Local Gross Domestic Product</b>	\$5.4 Billion	\$270 Million

# Financial Implications

## 5 Year Analysis

<b>Retained City Sales Tax Revenue</b>	<b>Amount/Value 20 Year Total</b>	<b>Amount/Value Average/Year</b>
<b>General Fund Sales Tax</b>	\$9.8 Million	\$490,000
<b>PSST</b>	\$2 Million	\$98,000
<b>Tops</b>	\$500,000	\$25,000
<b>Total Retained City Sales Tax Revenue</b>	\$12.3 Million	\$613,000



# Financial Implications

## 20 Year Analysis

<b>Proposed City Incentives</b>	<b>Amount</b>
<b>Sales and Use Tax Rebate on Construction Materials (2%)</b>	\$110,000
<b>Total City Incentives</b>	\$110,000

# Financial Implications

## 20 Year Analysis

Net City Revenues	Amount/Value 20 Year Total	Amount/Value Average/Year
<b>Total Retained City Sales Tax Revenue</b>	\$12,300,000	\$613,000
<b>Total City Incentives</b>	\$110,000	
<b>Total Net City Revenues</b>	<b>\$12,190,000</b>	<b>\$610,000</b>

# Financial Safeguards

- Incentive structure incurs no financial risk to the City
  - Strictly performance based
  - Rebates are made to the company only after revenue has been collected
  - The \$110,000 estimated value of City incentives is approximately:
    - 1.0% of the Company's projected \$11 million investment
    - 0.9% of the \$12.3 million in net City tax revenue

# Other Considerations

- EDA is consistent with the City Council Strategic Plan
  - Enhance Colorado Springs business-friendly reputation
  - Facilitate Economic Growth
- EDA is consistent with community job retention efforts  
(supports an existing employer)
- EDA is consistent with community efforts to attract and retain quality primary jobs

# Staff Recommendation

- Approval of the proposed Economic Development Agreement

# Questions?