Legislation Text

File #: 14-0549, **Version:** 1

A Resolution to approve an economic development agreement between the city of Colorado Springs and Colorado Interstate Gas Company, LLC and New Colorado Square, LLC

From:
Bob Cope, City for Champions Manager, Economic Vitality

Summary:
Colorado Interstate Gas Company, El Paso Corporation and its various subsidiaries and affiliate entities have had a significant presence in Colorado Springs since 1928. In October of 2011, Kinder Morgan Inc., (KMI) and El Paso Corporation (EP) announced a definitive agreement whereby KMI would acquire all of the outstanding shares of EP. As a result of the announcement KMI formed merger-transition teams and began an analysis to determine the optimum location(s) for their combined operations. Kinder Morgan employs approximately 400 employees in downtown Colorado Springs.

The retention of Kinder Morgan in Colorado Springs became a top economic vitality priority for the Executive Branch as well as the local economic development community. The Executive Branch initiated discussions with KMI to assist with the analysis of multiple options for locating facilities for their combined operations. The Executive Branch worked with Kinder Morgan to address key issues central to their decision making process. KMI has committed to remaining in downtown Colorado based in part upon having certain key issues successfully addressed and upon good faith negotiations to address other key issues in an Economic Development Agreement (EDA).

The Kinder Morgan Economic Development Agreement is consistent with the City Council Strategic Plan for Economic Growth; (1) Enhance Colorado Springs' Business Friendly Reputation, and (2) Facilitate Economic Growth. The Kinder Morgan EDA is consistent with community job retention efforts (supports an existing employer). The Kinder Morgan EDA is consistent with community efforts to attract and retain high quality primary jobs.

Previous Council Action:
N/A

Background:
Kinder Morgan is the largest midstream and the fourth largest energy company in North America. KMI has an ownership interest in or operates approximately 80,000 miles of pipelines and 180 terminals. Pipelines transport natural gas, refined petroleum products, crude oil and more. The Kinder Morgan family of companies has four publicly traded entities:
Kinder Morgan, Inc. (NYSE: KMI), Kinder Morgan Energy Partners, L.P. (NYSE: KMP) (one of the largest publicly traded pipeline master limited partnerships in America), Kinder Morgan Management,

LLC (NYSE: KMR) and El Paso Pipeline Partners (NYSE: EPB). Combined, the Kinder Morgan companies have an enterprise value of approximately $105 billion.

Kinder Morgan Inc. currently operates an office facility located at 118 East Pikes Peak Avenue in the Colorado Square office building in Colorado Springs. In October 2011, Kinder Morgan Inc., (KMI) and El Paso Corporation (EP) announced a definitive agreement whereby KMI would acquire all of the outstanding shares of EP. El Paso Corporation and its various subsidiaries and affiliate entities, including Colorado Interstate Gas Company, have had a presence in Colorado Springs since 1928. As a result of the announcement, KMI formed merger-transition teams and began an analysis to determine the optimum location(s) for the combined operations and their approximately 400 employees in downtown Colorado Springs. The average wage for Kinder Morgan employees in Colorado Springs is approximately $105,000 per year.

The Executive Branch was advised that KMI's location options under consideration included consolidation into their existing Lakewood office facility, consolidation into their Houston Headquarter facilities, a new facility midway between Colorado Springs and Lakewood, a suburban Colorado Springs office facility, a Colorado Springs CDB new build, and their existing downtown Colorado Springs facility in conjunction with a major renovation.

The loss of the Kinder Morgan office facility would create significant negative economic impacts for downtown Colorado Springs and the City at large, significant negative impact on the vibrancy and vitality of downtown, and a major disruption to the downtown commercial real estate market by returning 200,000 square feet of Class A office space to the available inventory.

The retention of Kinder Morgan in Colorado Springs became a top economic vitality priority for the Executive Branch as well as the local economic development community. The Executive Branch initiated discussions with KMI to assist with the analysis of multiple options for locating facilities for their combined operations. In March of 2012, the Executive Branch hosted the Kinder Morgan Executive Team for a meeting to discuss the future of Kinder Morgan's Colorado Springs facilities and their employees. The Executive Branch made the business case for continuing or expanding Kinder Morgan's presence in Colorado Springs. The Executive Branch was also made aware of certain challenges that the existing KMI location presented to the company.

In May of 2013, Kinder Morgan determined that the company would continue operations in Colorado Springs. Kinder Morgan has executed a new 20 year lease for their existing office facility located in the Colorado Square Office Building located at 118 E. Pikes Peak. The office facility will consist of approximately 135,000 square feet and will be remodeled to be more efficient. Remodeling costs are estimated to be $11 million. The owner of the property anticipates an additional investment of millions of dollars to remodel the balance of the office building not to be occupied by Kinder Morgan. The proposed Economic Development Agreement covers only the investment made for the direct benefit of Kinder Morgan.

The decision to continue operations in downtown Colorado Springs was based in part upon the City successfully addressing certain key issues, such as the cost and availability of parking, the speed and efficiency of the process for obtaining land use approval and building permits, and good faith negotiations to enter into an Economic Development Agreement in an effort to partially offset some of the cost disadvantages when compared to other location options. Due to Kinder Morgan's timeline for lease execution, it was determined that parking and Rapid Response issues could be resolved immediately, and that the Economic Development Agreement would be pursued at the appropriate time based upon obtaining the remodel design and cost estimates followed by the City's required process for final approval.

The proposed EDA would provide an economic development incentive measured by the City 2% sales and use tax on building materials used in the renovation of the Kinder Morgan office facility.

Financial Implications:

City staff has conducted an Economic Impact Analysis (EIA) to quantify the estimated economic benefit to the City that is expected to be derived by the retention of the Kinder Morgan office facility in Colorado Springs. The following is a summary of the results:

RETENTION IMPACT

20 Year Jobs Impact: 1,521
Kinder Morgan currently has approximately 398 full time employees locally. The EIA indicates that an additional 1,123 induced/indirect jobs will be retained resulting in a total retained jobs impact of 1,521.

20 Year Wage Impact: $1.9 Billion
The EIA indicates that the 1,521 retained jobs will retain approximately $1.9 billion in direct and induced wages over 20 years.

20 Year Projected Impact to Consumer and Non-consumer Spending: $1.3 Billion
It is estimated that approximately $1.3 billion in consumer and non-consumer spending will be retained in the local economy as a result of the 1,521 retained jobs over 20 years.

20 Year Projected Impact to Local GDP: $5.4 Billion
It is estimated that approximately $5.4 billion in local Gross Domestic Product will be retained in the local economy as a result of the 1,521 retained jobs over 20 years.

20 Year City Sales Tax Revenue: $12.3 Million
The EIA indicates that the Kinder Morgan office facility in Colorado Springs will retain approximately $12.3 million in City sales tax revenue over 20 years. Total City sales tax revenue retained includes approximately $9.8 million in general fund sales tax, $2 million in PSST and $500,000 in TOPS.

20 Year PPRTA Revenue: $4.9 Million
The EIA indicates that the KMI office facility in Colorado Springs will retain an economic benefit to the region in the form of approximately $4.9 million in PPRTA revenue over 20 years.

Estimated Value of Proposed City Incentive
The estimated value of the proposed city incentive is $110,000.

See attached Summary of Financial Implications.

The proposed incentive structure incurs no financial risk since it is strictly performance based and revenue is rebated to the Company only after it has been collected. The $110,000 estimated value of the City's incentive is equal to approximately 1.0% of the Company's projected $11 million investment; and approximately .9% of the $12.3 million in sales tax revenue generated for the City.

Board/Commission Recommendation:
N/A

Stakeholder Process:
The proposed Economic Development Agreement is supported by the Downtown Partnership, the Downtown Development Authority and the Regional Business Alliance.

Alternatives:
Enter alternatives. Enter N/A if not applicable.

Proposed Motion:
Approve the attached Economic Development Agreement between the City of Colorado Springs and Colorado Interstate Gas Company, LLC and New Colorado Square, LLC

N/A