



FORMAL AGENDA ITEM

COUNCIL MEETING DATE: May 12, 2009

TO: Honorable Mayor and Members of City Council

VIA: Penelope Culbreth-Graft, DPA - City Manager *Penelope Culbreth-Graft*

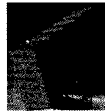
FROM: Nancy Johnson, Assistant City Manager *Nancy Johnson*
Lisa M. Bigelow, Economic Development Director *LMB*
Elena E. Nunez, Business Development Manager *EE*

Subject Title: **A Resolution Authorizing the City of Colorado Springs to enter into an Economic Development Agreement between the City of Colorado Springs and Hewlett-Packard Company**

Strategic Goal(s) this item supports:



ECONOMIC VITALITY



STAINABLE GROWTH

SUMMARY:

In October of 2008, City and Colorado Springs Utilities (CSU) staff met with Hewlett-Packard Company (HP) real estate, facilities engineers, and architects to discuss HP's desire to build a next-generation data center. Colorado Springs was one of several sites under consideration.

After working diligently with CSU and the City on utility requirements, construction provisions, and operational expenses, HP is proceeding to build the data center on its existing property at 305 Rockrimmon Boulevard. This \$260 million data center facility is proposed to be built in three phases beginning in June 2009 with completion in early 2012.

As part of this process, City staff conducted an economic impact analysis (EIA) to quantify the impact of HP's expansion in Colorado Springs. HP's investment retains about 125 high-paying jobs that support existing data center functions. Additionally, over the next five years, the EIA projects that 25 new jobs will be created: 10 new primary jobs and an additional 15 indirect/induced jobs.

Financially, the EIA indicates that over the next 10 years, HP operations will generate an additional estimated \$7.7 million in City sales tax revenue, \$3.3 million in new City business personal and real property tax revenue, and \$15.1 million in new payment-in-lieu-of-taxes (PILT) revenue to the City from Colorado Springs Utilities. Also, it is estimated that more than \$10 million will be circulating in the local economy as a result of HP's new employment.

To ensure Colorado Springs remained the preferred location for this project, CSU staff compiled an exceptionally strong proposal that included three options, accommodating graduated levels of service that directly addressed the utility requirements for the data facility. Additionally, the City is partnering to offset a percentage of HP's substantial capital investment in Colorado Springs.

With City Council approval of the attached resolution, the City of Colorado Springs will enter into a 10-year economic development agreement with HP to provide:

1. A rebate of the City 2% sales and use tax on building materials purchased locally;
2. A rebate of the City 2% use tax on building equipment; and
3. A 10-year Business Personal Property Tax rebate agreement.

While there are measurable financial advantages to the City from HP's investment, the City will also see significant economic and public benefits that further justify partnering with HP:

- Colorado Springs will retain 125 existing data center jobs;
- HP will make a \$260 million capital investment in new infrastructure in Colorado Springs;
- The incentive encourages material purchases from local suppliers;
- The incentive is measured by the revenue generated directly from the building of the data center facility; there is no sharing of existing revenue or guaranteed rebate amount;
- This incentive has minimal financial risk since it is strictly performance-based and revenue is returned only after it is collected;
- HP's data center is leading-edge technology on a global scale; and
- HP's next-generation data center could be the catalyst project that positions Colorado Springs as a premier location for a highly sought-after industry cluster that Colorado Springs can support.

In addition to the above-mentioned incentives, HP will receive the City's Rapid Response Team service that will expedite the plan review and permitting processes. Also, CSU will ensure that HP receives any efficiency and energy-saving rebates for which they are eligible. Finally, should any future incentive programs become available for which HP qualifies, the City will assist in pursuing such incentives at that time.

Staff requests City Council approve the resolution to enter into an economic development agreement with HP to affirm the City's commitment to securing HP's data center in Colorado Springs.

PREVIOUS COUNCIL ACTION: NA

BACKGROUND:

Hewlett-Packard Next-Generation Data Center

HP has been operating in Colorado Springs since 1961. As part of HP's corporate restructuring, HP was implementing operational modifications and reviewing capital asset facilities to identify consolidation opportunities. About 125 high-paying jobs were at-risk locally since HP was investigating consolidating data center operations in other company-owned locations outside Colorado Springs.

After several months of extensive technical, operational, and financial analysis, HP chose Colorado Springs for its expansion. The 185,000 square-foot data center facility is proposed to be built in three phases:

- Phase I
 - Proposed construction start: June 2009
 - Construct a two-story building to accommodate three data center cells
 - Complete first cell build-out
- Phase II
 - Proposed construction start: First quarter 2010
 - Complete interior finish of the second cell
- Phase III:
 - Proposed construction start: First quarter 2011
 - New construction of third cell

City Business Personal Property Tax (BPPT) Rebate Program

Businesses pay personal property tax on equipment used to conduct business, such as large machinery, computer equipment, desks, and furniture. Primary employers may qualify for a 50%, and up to a 90%, rebate of business personal property taxes based on the number of jobs created and the amount of investment in business personal property.

Under the City's BPPT program, standard agreements are for a four-year term and require the company to create at least 10 new jobs and have over \$1 million in business personal property value. For a 10-year agreement, the company must create at least 100 jobs in addition to the \$1 million investment, and if the company creates over 500 jobs and invests over \$75 million, the City may extend a 10-year agreement for an additional five years to a maximum of 15 years.

All City rebates are based on the amount of investment as determined by the El Paso County-assessed market value of business personal property, over the term of the agreement years.

FINANCIAL IMPLICATIONS:

City Economic Development staff conducted an economic impact analysis (EIA) to quantify the economic benefit to Colorado Springs if HP locates its data center here. The results are as follows:

5-Year Jobs Impact: 150

If HP builds its next-generation data center here, HP's local operations will retain about 125 data center operations jobs and generate 25 new jobs. From the EIA, it is projected that 10 new primary jobs will be created over the next five years which will generate an additional 15 indirect/induced jobs to meet the supplier and service demands of HP's new investment.

Jobs	5-Year Estimate
Retained Jobs: Existing direct jobs supporting data center functions	125
New Direct jobs: Created by HP's data center	10
New Indirect/Induced jobs: Created from HP's data center demand	15
Total 5-Year Job Impact	150

10-Year Projected Impact to the Local Economy: \$10,200,000

It is estimated that, from the 25 new jobs, Colorado Springs will benefit from an additional \$10.2 million circulating in the local economy. This reflects consumer spending on eating (at home and away from home), apparel and services, entertainment, etc. It is this consumer spending that stimulates activity in the local economy contributing to economic health.

10-Year City Sales Tax Revenue: \$7,721,000

The EIA indicates that, over the next 10 years, HP's investment will generate an additional \$7.7 million in sales tax revenue. The primary source of this revenue will be from the construction of the facility and investment in machinery and equipment.

The EIA estimates that this project will generate about \$4,680,000 in sales and use tax. Additionally, the City will collect and retain \$3,041,000 in tax revenue attributed to the .1% Trails, Open Space and Parks (TOPS) tax, .4% Public Safety Sales Tax (PSST), and the 1% Pikes Peak Rural Transportation Authority (PPRTA) tax.

10-Year City Property Tax: \$3,089,000

The EIA results show that the City's General Fund will receive nearly \$3.1 million in City property tax over the next 10 years from HP's \$260 million infrastructure investment.

10-Year City Business Personal Property Tax: \$230,000

Over the next 10 years, it is projected that the City's General Fund will receive about \$230,000 in City business personal property tax from HP's investment in applicable business personal property.

10-Year Payment-in-Lieu-of-Taxes (PILT): \$15,100,000

It is projected that the City's General Fund will receive over \$15.1 million over the next 10 years from the CSU PILT as a result of HP's data center operations in Colorado Springs. Phase I of the data center is expected to require 21 megawatts (MW) of electricity and 42MW at full build-out. With an electric demand of this magnitude, the City will be receiving a substantial annual increase in new PILT revenue (paid to the City of Colorado Springs from CSU) generated directly from HP's data center utility (electric and natural gas) usage.

Over a 10-year period, assuming a 3% annual increase in PILT growth, the City's cumulative PILT revenue from this facility will exceed \$15.1 million.

FINANCIAL IMPACT SUMMARY
10-Year Revenue

City Revenue Source	Amount
City Sales Tax revenue to the City from HP facility construction	\$4,680,000
New TOPS, PSST, PPRTA sales tax revenue to City from facility construction and employee spending	\$3,041,000
New City Property Tax revenue from facility	\$3,089,000
New City Business Personal Property Tax revenue*	\$230,000
New PILT revenue to the City from HP's utility use**	\$15,100,000
Total 10-Year Benefit to the City	\$26,140,000

* All City BPPT rebates are based on the amount of investment as determined by the El Paso County-assessed market value of business personal property, over the term of the agreement years.

** The 10-year PILT value was calculated assuming a 3% increase in PILT over the next 10 years

It is important to note that the proposed incentive has minimal financial risk since it is strictly performance-based and revenue is returned only after it is collected. Additionally, since the incentive is measured by the revenue generated directly from the building of the data center facility, there is no sharing of existing revenue or guaranteed rebate amount. Finally, while the incentive is projected to be about \$4.8 million, it is still 1.8% of the \$260 million that HP is investing in Colorado Springs.

In conclusion, staff is recommending City Council approve the resolution for the HP incentives due to the projected strong financial gains from HP's capital investment and low-risk, performance-based conditions of the incentive.

BOARD/COMMISSION RECOMMENDATION: N/A

STAKEHOLDER PROCESS: N/A

ALTERNATIVES:

1. City Council could approve the attached resolution authorizing the City of Colorado Springs to enter into an economic development agreement with Hewlett-Packard Company.
2. City Council could not approve the resolution which may discourage local manufacturing companies to invest in new equipment. This could negatively impact HP's longevity in Colorado Springs increasing the risk of further community job loss.

RECOMMENDATION:

Recommend approval of the resolution.

PROPOSED MOTION:

Move approval of the resolution authorizing the City of Colorado Springs to enter into an economic development agreement between the City of Colorado Springs and Hewlett-Packard Company.

List of attachments for this item:

Attachment I: Hewlett-Packard Company Facts

Attachment II: HP Keeps Up with Accelerated Customer Demand for Next-Generation Data Centers

- c: Mike Anderson, Assistant City Manager
Terri Velasquez, Chief Financial Officer
Patricia K. Kelly, City Attorney
Pat McDivitt, Senior City Attorney
Public Communications
Candice Bridgers, Revenue and Collections Manager

**A RESOLUTION AUTHORIZING THE CITY OF COLORADO SPRINGS TO
ENTER INTO AN ECONOMIC DEVELOPMENT AGREEMENT WITH
HEWLETT-PACKARD COMPANY**

WHEREAS, City Council's 2009 Strategic Plan Economic Vitality goal commits to support economic development efforts that attract, retain, and create quality jobs to ensure a diverse economic base, a resilient and growing City tax base, and thriving neighborhoods; and

WHEREAS, Hewlett-Packard Company (HP) has been operating in Colorado Springs since 1961; and

WHEREAS, HP will make a \$260 million capital investment in a next-generation data center in Colorado Springs that retains 125 existing high-paying jobs and creates 10 new primary jobs and an additional 15 indirect/induced jobs; and

WHEREAS, HP's investment stimulates the local construction and retail industries; and

WHEREAS, the City will benefit from measurable financial advantages including increased tax revenue as well as a substantial annual increase in new Payment-in-Lieu-of-Taxes (PILT) revenue, paid to the City of Colorado Springs from Colorado Springs Utilities, generated directly from HP's data center electric and natural gas usage; and

WHEREAS, HP's next-generation data center could be the catalyst project that positions Colorado Springs as a premier location for a highly sought-after industry cluster that Colorado Springs can support; and

WHEREAS, providing an incentive to HP will further local business success amidst global competition and economic conditions.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COLORADO SPRINGS:

That City Council approves the City of Colorado Springs entering into a 10-year economic development agreement with Hewlett-Packard Company to provide:

1. A rebate of the City 2% sales and use tax on building materials purchased locally;
2. A rebate of the City 2% use tax on building equipment; and
3. A 10-year Business Personal Property Tax rebate agreement.

That this incentive is measured by the revenue generated directly from the building of the data center facility.

That the public and financial benefits of securing HP's expansion in Colorado Springs warrants a City partnership that is performance-based with incentives provided after collection.

That all incentives will be subject to annual appropriation by City Council.

Dated at Colorado Springs, Colorado, this _____ day of _____, 2009.

ATTEST:

Lionel Rivera, Mayor

Kathryn M. Young, City Clerk

Hewlett-Packard Company Facts:

Source: HP website

- HP was founded in 1939
- Corporate headquarters are in Palo Alto, Calif.
- HP is focused on three technology shifts that have the power to transform our customers' lives and businesses. Next-generation data center always on, always connected mobile computing, and ubiquitous printing and imaging
- HP, the world's largest technology company, simplifies the technology experience for consumers and businesses with a portfolio that spans printing, personal computing, software, services and IT infrastructure.
- Hewlett-Packard Company (NYSE: HPQ)
- HP serves more than one billion customers in more than 170 countries on six continents
- HP has approximately 321,000 employees worldwide
- HP's 2008 Fortune 500 ranking: No. 14
- HP's revenue for the four fiscal quarters ended October 31, 2008: \$118.4 billion
- HP's mission is to invent technologies and services that drive business value, create social benefit and improve the lives of customers — with a focus on affecting the greatest number of people possible
- HP dedicates \$3.5 billion (U.S.) annually to its research and development of products, solutions and new technologies
- HP is:
 - #1 globally in the inkjet, all-in-one and single-function printers, mono and color laser printers, large-format printing, scanners, print servers and ink and laser supplies*
 - #1 globally in desktop PCs and notebooks, and #2 globally in Pocket PCs and workstations*
 - #1 globally in blade, x86, Windows®, Linux, UNIX and high-end UNIX servers
 - #1 globally in total disk storage systems
 - #1 globally in distributed system management software*
 - #1 globally in automated software quality*
 - #2 globally in IT services**
 - #15 on the World's Most Innovative Companies ranking by BusinessWeek
 - Listed on all four FTSE4Good Index lists — U.S., Global, UK and Europe — which rate the performance of companies meeting globally recognized corporate responsibility standards
 - #24 in the 2007 Accountability Rating, the first global index that evaluates how well the world's 100 largest companies account for their impact on society and the environment
 - #10 globally and #1 in the U.S. in Environment, Social Impact Ratings by The Economist
 - On the 2007 Global 100 Most Sustainable Corporations in the World list and a member of the Dow Jones Sustainability World Indexes

* IDC Q2 2008 worldwide data

** IDC; Gartner's April 2008 IT Services Market Metrics Worldwide Market Share

HP Keeps Up with Accelerated Customer Demand for Next-Generation Data Centers

Thu Sep 18, 2008 7:45am EDT

PALO ALTO, Calif.--(Business Wire)-- HP (NYSE:HPQ) today announced it has signed data center design services contracts with more than 60 customers in the last six months.

EYP Mission Critical Facilities (EYP MCF), a company of HP, provides strategic planning, design and operations support to help companies transform their data centers, optimize energy efficiency and enable business growth.

In the past six months, organizations across 12 industries and 27 countries - including Credit Suisse, UBS, Digital Realty Trust and Power Loft - have signed up for EYP MCF's data infrastructure services. More than 500 companies have worked with EYP MCF to design their data centers, command and control centers, trading floors, and supercomputing sites. As a result of the high demand in mission-critical services projects, HP plans to broaden its EYP MCF services availability to more countries.

"Companies from all over the world are turning to HP to design and build the next-generation data centers required for high-density scalable computing," said Peter Gross, chief executive officer, EYP Mission Critical Facilities. "By offering customers the right solutions to complex energy-efficiency and optimization challenges, we are giving them the keys to adapt and transform to meet changing business needs."

EYP MCF designs energy-efficient data centers for Power Loft and others. Power Loft is a privately held company headquartered in McLean, Va., that specializes in the development and ownership of high-density, high-security data centers. Recently, Power Loft signed an agreement with EYP MCF to design a data center in San Antonio, Texas. EYP MCF also designed and provided engineering consulting services on Power Loft's first data center, located in Virginia.

Both of Power Loft's facilities will be LEED (Leadership in Environmental Design) certified and, upon completion, will operate using 52 percent less power than comparably sized data centers.

By partnering with EYP MCF, Power Loft is able to apply industrial design concepts within the data center to maximize energy efficiency with zero reduction to overall reliability. The result is lower energy costs for Power Loft and its customers, driven by a data center that meets the company's needs today and into the future.

Other examples of EYP MCF's recent data center design projects include:

- Designing a leading technology company's energy-efficient technology infrastructure at its U.S. headquarters
- Providing mission-critical consulting services for a Tier IV data center master plan across a top U.S. university's statewide, multi-campus data center environment
- Designing a high-profile, energy-efficient data center in Iceland, offering reliability levels from Tier I to IV and LEED Platinum certification

EYP also consulted with global financial services firm UBS on its data center design. "Ensuring that we have the right infrastructure in place to support continuous uptime and reliability, while reducing energy costs is a big priority for UBS," said Stephen Peters, executive director, Corporate Real Estate, UBS. "EYP MCF understands these priorities and helped us to design our critical data centers to achieve these business objectives."

With one of the industry's broadest portfolios of servers, storage, services and software, HP is helping customers build next-generation data centers to drive competitive advantage. EYP MCF's capabilities add facilities expertise to the HP Data Center Transformation portfolio.

About HP

HP, the world's largest technology company, provides printing and personal computing products and IT services, software and solutions that simplify the technology experience for consumers and businesses. HP completed its acquisition of EDS on Aug. 26, 2008. More information about HP is available at <http://www.hp.com/>.