

**CITY OF CHICAGO
DEPARTMENT OF COMMUNITY DEVELOPMENT**

**STAFF REPORT TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
September 8, 2009**

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name:	United Air Lines Operations Headquarters Relocation
Applicant Name:	United Air Lines, Inc. and UAL Corporation (collectively "United")
Project Address:	233 S. Wacker Drive
Ward and Alderman:	2 nd Ward, Alderman Robert W. Fioretti
Community Area:	32, Loop
Redevelopment Project Area:	LaSalle Central Tax Increment Financing District
Requested Action:	TIF Developer Designation
Proposed Project:	Relocation of United's operational headquarters into and redevelopment of portions of the 233 S. Wacker building (the "Building").
TIF Assistance:	\$24,389,768 in tax increment financing assistance for interior renovations plus \$1,500,000 in tax increment financing assistance for job training.
Other Assistance:	\$10 million in corporate grant funds payable in equal installments over five years.

II. PROPERTY DESCRIPTION

Address:	233 South Wacker Drive
Location:	Southeast corner of South Wacker and West Adams Street
Tax Parcel Numbers:	17-16-216-009-0000
Land Area:	United will occupy approximately 400,000 to 450,000 s.f. of space in the 233 S. Wacker building.

Current Use:	The 233 South Wacker Drive building is an existing office building.
Current Zoning:	DC-16 Downtown Core District
Proposed Zoning:	DC-16 Downtown Core District; all signage and building materials shall be in conformance with the DC-16 zoning district.
Environmental Condition:	N/A; redevelopment of office space

The Property is located within the LaSalle Central Tax Increment Financing Redevelopment Project Area (the "Area"), which was established by the City Council on November 15, 2006. The Area is located within the Loop and Near West Side community areas and is generally bounded by Dearborn Street on the east, Van Buren Street on the south, the Chicago River and Canal Street on the west, and portions of the Chicago River, Lake, Randolph, and Washington Streets on the north.

The Property, 233 South Wacker Drive, is located on the southeast corner of West Adams Street and South Wacker Drive. The building was constructed in 1973, is known as the Willis Tower (formerly known as the Sears Tower), and is located in the DC-16 zoning district.

III. DEVELOPMENT TEAM

Development Entity and its History: United was originally formed by United Aircraft and Transport Corporation, a partnership between Boeing Airplane Company and Pratt & Whitney. The larger corporation, Boeing, officially established an operating division known as United Air Lines on July 1, 1931. In 1934, after the Air Mail Act of 1934 stipulated that all existing aviation holding companies had to break up, United Aircraft and Transport Corporation split into its three parts, Boeing, United Aircraft, and United Air Lines. The company merged with Capital Airlines on June 1, 1961, making it the world's largest commercial airline and giving it a route network covering the entire United States. In 1968 the company reorganized, creating UAL Corporation, with United Air Lines as a wholly-owned subsidiary.

United has a rich history as "Chicago's Hometown Airline." United's predecessor airlines mentioned above started the first commercial flights from Chicago in 1926. Today, United employs about 14,000 people in Illinois, including over 600 now downtown and 10,000 who work at Chicago's O'Hare International Airport. United is the largest carrier at Chicago's O'Hare Airport, operating approximately 240,000 flights annually to 130 destinations in 26 countries, serving North America, South America, Europe, Asia and the Middle East.

United Air Lines and its parent company, UAL Corporation, are both Delaware corporations. UAL Corporation is traded on the NASDAQ exchange under the symbol UAUA.

Consultants: United has retained Jones Lang LaSalle as its broker and owner's representative in connection with the relocation. OWP/P is anticipated to be the architect of record for the Project. United has not yet selected a general contractor.

IV. BACKGROUND – UNITED'S REAL ESTATE CONSOLIDATION EFFORTS

In 2006, United undertook a company-wide effort to consolidate its real estate assets. The key goals of this effort were to maximize the efficient use of the company's real estate assets and to group appropriate functions together in single locations. One of the first phases of this undertaking was consolidation of the company's headquarters function. At that time, United considered sites in San Francisco, Denver and Chicago. The result of this site selection was United's commitment to the City of Chicago for its corporate headquarters.

In 2007, United moved its corporate headquarters from Elk Grove Village to 77 West Wacker Drive. The headquarters relocation was achieved with the City's financial assistance, which was critical in leveling the economic playing field with the other corporate headquarters relocation options such as Denver and San Francisco. The City provided assistance in the form of \$5.4 million in tax increment financing and up to \$10 million in fuel tax rebates. In return, United provided a 10-year commitment to move its corporate headquarters to the City, to initially create at least 365 new jobs and retain at least 325 of those jobs, and to occupy at least 135,000 square feet at 77 West Wacker Drive. The corporate headquarters relocation has been a great success for both United and the City, as evidenced by United ultimately moving almost twice as many employees into the City as required by the agreement and occupying almost twice as much office space as required. It is worth noting, however, that for various economic and business reasons, United has been unable to realize much of the fuel tax rebate which it was expecting. Less than 2% of the grant funds have been paid out to date and United does not anticipate further payments for the foreseeable future.

Having successfully completed the corporate headquarter relocation, United turned to the next phase of this company-wide effort – relocation and consolidation of its operational headquarters. The operational headquarters includes, among others, global operations, information technology, and flight control and maintenance functions and accounting. Over 2,500 United employees support these functions and groups.

In early 2009, United began its site selection process by considering approximately 15 sites in Lake, DuPage and Cook Counties. Two of those sites were located in the City. United ultimately narrowed its choices to two suburban locations and two City locations. While the City options offered many positive attributes, one of the challenges was that the suburban locations were much less costly. The City's offer of assistance helped to narrow this gap and, like the corporate headquarters relocation, was important factor in United's decision making process.

V. PROPOSED PROJECT

Project Overview:

In connection with its relocation to the City, United intends to enter into an office lease with the owner of the Building. The lease will provide, among other things, that United will lease either approximately 450,000 square feet of office space (Version A), or, if they decided not to take an option on one floor of the Building,, approximately 400,000 square feet of office space (Version B). With either option, the space will be leased for an initial period of fifteen (15) years with two renewal options for periods of either five (5) or ten (10) years. The lease is contingent on final approval of the City incentives package.

United intends to phase its construction of and relocate a minimum of 2,500 FTE employees into its new space. Construction on Phase I, which includes approximately 200,000 square feet of office space, will begin in August 2010 with an anticipated occupancy of approximately 1,000 of the FTE employees in December of 2010. The Phase I budget is approximately \$30,868,260 for Version A and Version B. Construction of Phase II, which includes the balance of the space, will begin in January of 2011 with an anticipated occupancy of the remaining positions (for a total of no less than 2,500 FTE positions) in July 2011. The Phase II budget is approximately \$40,918,391 for Version A and \$33,126,363 for Version B. All told, United's investment in locating, building out and moving into its new operations headquarters space is approximately \$71,786,650 assuming Version A or \$63,994,623 assuming Version B.

Environmental Features:

United has committed to construct their office space to be LEED certified for Corporate Interiors.

VI. FINANCIAL STRUCTURE

The City, through the Department of Community Development ("DCD"), intends to enter into a redevelopment agreement ("RDA") with United to provide tax increment financing for an amount not to exceed \$25,889,768 --- \$24,389,768 for interior build out (the "TIF Amount") and \$1,500,000 for job training (the "Job Training Amount"). This represents 36% of total project costs assuming United selects Version A, or 40% of total project costs assuming United selects Version B. The per job subsidy of the TIF funds equates to approximately \$10,356/job.

At the date of issuance of a certificate of completion for Phase I (the "Phase I Certificate"), the City will pay to United up to \$3,000,000 of the TIF Amount in a lump sum payment. The payment will be sized by the number of FTE positions relocated to the site; and the City will reimburse \$2,400 per FTE relocated to the Building. For example, if United relocates 1,100 FTE employees to the Building, their lump sum payment will be \$2,640,000. The City will not issue the Phase I Certificate if there have been less than 1,000 FTE positions relocated to the Building.

At the date of issuance of a certificate of completion for Phase II (the "Phase II Certificate"), the City will issue to United another lump sum payment for the equivalent of \$6,000,000 less the payment made at the issuance of the Phase I Certificate. In the same example as above, if United relocated 1,100 FTE employees at Phase I, and the City issued a lump sum payment of \$2,640,000, the Phase II lump sum payment would equal \$6,000,000 - \$2,640,000, or \$3,360,000 of the TIF Amount.

At Phase II Certificate the City will also issue to United a taxable developer note (the "Note") with an interest component for the remainder of the City funds. On each of the next eight (8) anniversaries of the Phase II Certificate, the City will pay to United installments of City funds, each equal to one eighth of the remaining TIF Amount including interest. Payments will be made from available area wide increment in the LaSalle Central TIF.

The Job Training Amount will be distributed to United in two installments. Up to half of the Job Training Amount could be paid in 2010 with the remainder paid in 2011, depending on when United conducts the job training activities.

In addition to the TIF grant, DCD intends to enter into a separate agreement with United to provide a \$10,000,000 grant payable from City Corporate Funds, payable in equal installments over five

years. The sizing of the grant is based on the amount of projected new taxes generated by United employees that will be relocating to the Willis Tower. The first grant payment is estimated to be issued in the second quarter of 2012, but no sooner than the first anniversary of the issuance of the Phase II Certificate. The grant agreement will contain a jobs and occupancy covenant that is identical to the tax increment financing agreement. The TIF grant plus the corporate grant represent 50% of total project costs assuming United selects Version A, or 56% of total project costs assuming United selects Version B. The per job subsidy equates to approximately \$14,356/job.

Employment Covenant

United commits to relocating a minimum of 2,500 FTE positions to Building, and maintaining no less than 2,500 FTE positions for a ten-year compliance period (the “Compliance Period”) commencing on the date of issuance of the Phase II Certificate. If United fails to maintain a minimum of 2,500 FTE positions at the Building during the term of the Compliance Period, United will be in default of the RDA. United shall be entitled to a single 1-year cure period during the Compliance Period in the event that the employment number falls below 2,500. Any default year by United (if cured) shall not count toward the required 10 years of compliance or any other obligation of United under the RDA. If a default has occurred and has been cured, then any subsequent default with respect to the employment covenant shall constitute an Event of Default without notice or opportunity to cure.

United plans to fund the Project using a combination of cash reserves, debt sources and a tenant improvement allowance from the landlord. The following tables show the proposed sources and uses (by phase) for Version A and Version B:

Version A:

	Total Sources	Phase I	Phase II
Equity	\$ 46,441,330	\$ 19,969,772	\$ 26,471,558
Lender Financing	\$ 0	\$ 0	\$ 0
Tenant Improvement Allowance under Lease	\$ 25,345,320	\$ 10,898,488	\$ 14,446,832
ESTIMATED TOTAL	\$ 71,786,650	\$ 30,868,260	\$ 40,918,391

Version B:

	Total Sources	Phase I	Phase II
Equity	\$ 41,404,230	\$ 19,969,772	\$ 21,434,458
Lender Financing	\$ 0	\$ 0	\$ 0
Tenant Improvement Allowance under Lease	\$ 22,590,393	\$ 10,898,488	\$ 11,691,905
ESTIMATED TOTAL	\$ 63,994,623	\$ 30,868,260	\$ 33,126,363

Costs of Rehabilitation (Version A):

	<u>Total Cost</u>	<u>Phase I Cost</u>	<u>Phase II Cost</u>
Hard Costs			
Electrical	\$11,960,000	\$5,142,800	\$6,817,200
HVAC	\$4,140,000	\$1,780,200	\$2,359,800
Plumbing and Fire Protection	\$3,680,000	\$1,582,400	\$2,097,600
Drywall & Ceiling Systems	\$5,520,000	\$2,373,600	\$3,146,400
Millwork, Doors & Glass	\$5,980,000	\$2,571,400	\$3,408,600
Flooring and Finishes	\$5,520,000	\$2,373,600	\$3,146,400
Total Hard Costs	\$39,539,300	\$17,001,899	\$22,537,401
Soft Costs			
Security System			
Audio Visual Infrastructure	\$1,840,000	\$791,200	\$1,048,800
Architecture/Engineering	\$899,300	\$386,699	\$512,601
Project Management	\$2,999,200	\$1,289,656	\$1,709,544
	<u>\$805,000</u>	<u>\$346,150</u>	<u>\$458,850</u>
Total Soft Costs	\$3,804,200	\$1,635,806	\$2,168,394
Total Hard and Soft Costs	\$43,343,500	\$18,637,705	\$24,705,795

Costs of Rehabilitation (Version B):

	<u>Total Cost</u>	<u>Phase I Cost</u>	<u>Phase II Cost</u>
Hard Costs			
		\$5,142,800	
		\$1,780,200	
		\$1,582,400	
		\$2,373,600	
Electrical	\$10,660,000	\$2,571,400	\$5,517,200
HVAC	\$3,690,000	\$2,373,600	\$1,909,800
Plumbing and Fire Protection	\$3,280,000		\$1,697,600
Drywall & Ceiling Systems	\$4,920,000		\$2,546,400
Millwork, Doors & Glass	\$5,330,000		\$2,758,600
Flooring and Finishes	\$4,920,000		\$2,546,400
Total Hard Costs	\$35,241,550	\$17,001,899	\$18,239,651
Soft Costs			
Security System	\$1,640,000	\$791,200	\$848,800
Audio Visual Infrastructure	\$801,550	\$386,699	\$414,851
Architecture/Engineering	\$2,673,200	\$1,289,656	\$1,383,544
Project Management	\$717,500	\$346,150	\$371,350
Total Soft Costs	\$3,390,700	\$1,635,806	\$1,754,894
Total Hard and Soft Costs	\$38,632,250	\$18,637,705	\$19,994,545

Note: Notwithstanding the total dollar amount of TIF-Funded Improvements listed above, the financial assistance to be provided by the City under this Agreement for rehabilitation costs is limited to \$24,389,768.

VII. PUBLIC BENEFITS

The proposed Project will provide the following public benefits.

General Benefits:

- Locating United's operational headquarters in Chicago in addition to its existing corporate headquarters makes Chicago the headquarters for all of United's global operations and provides a highly visible enhancement of the City's reputation as an international business center. This continues the noteworthy positive trend of significant headquarters commitments in the City. It also helps solidify Chicago's position as a national and international air transportation hub.
- The relocation will generate additional revenue and economic activity for Chicago. As a result of the relocation, the Project is preliminarily anticipated to generate the following new revenues to the City of Chicago from 2010 - 2019: \$23.8 million in real estate taxes, \$9.9 million in sales taxes, \$14.0 million in utility taxes (electric, gas, telecom), \$13.8 million in lease/transaction taxes, and \$1.2 million in employer's expense taxes in total from \$9.0 billion in direct and \$5.5 billion in indirect economic activity. In addition, it is projected that 3,235 new jobs will be indirectly created as a result of this relocation.
- The Project will generate substantial construction activity at a time when few major projects are being undertaken.

Short and Long-Term Jobs:

- The Project will result in a minimum of 2,500 new, full time jobs, all of which are new to Chicago. United will covenant to maintain at least this number of jobs for a period of 10 years after the Phase II Certificate is issued.
- The project is anticipated to create approximately 400 short-term construction jobs during the nine-month construction period.

Environmental Features:

- United has committed to construct their office space to be LEED certified for Corporate Interiors.

Affirmative Action:

- United will comply with the requirements of Chicago's affirmative action ordinance, which requires contract participation of at least 24% by minority-owned business enterprises and at least 4% by woman-owned business enterprises. United, through its owner's representative, has provided notification of the proposed project, by certified mail, to eight associations of minority and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

City Residency:

- United will comply with the requirements of Chicago's city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman Fioretti endorses this Project, and has provided a letter of support. World Business Chicago and The Chicagoland Chamber of Commerce also support the project, and letters are attached to this report.

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The Project is located in the LaSalle Central Tax Increment Financing Redevelopment Project Area. The Project will satisfy the following goals of the redevelopment plan:

- Provide resources for the rehabilitation and modernization of existing structures, particularly historically and architecturally significant buildings.
- Promote the Redevelopment Project Area as a center of employment and commercial activity, through the attraction and retention of major employers and corporate headquarters.
- Encourage environmentally-sensitive development, including development that achieves LEED certifications.
- Support job training programs and increase employment opportunities for City residents.

X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, DCD will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is DCD policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action.

Closing of the redevelopment agreement will not occur before the City Council has approved the agreement, the developer has obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The redevelopment agreement will include a development timetable.

XI. RECOMMENDATION

DCD has thoroughly reviewed the proposed Project, the qualifications of the development team, the financial structure of the Project, its need for public assistance, its public benefits, and the Project's conformance with the Redevelopment Area Plan, and DCD recommends that the CDC recommend

to the City Council the designation of United as developer for redevelopment up to 450,000 square feet of office space in the Building. DCD also requests that the Commission provide DCD with authority to negotiate, execute and deliver on the City's behalf, a redevelopment agreement and a grant agreement with United for the Project.

EXHIBITS

LaSalle Central TIF Boundary Map
Sample MBE/WBE Letter
Copies of MBE/WBE Certified Mail Receipts
World Business Chicago Letter of Support
Chicagoland Chamber of Commerce Letter of Support
Alderman's Letter of Support
Organizational Chart