

**OFFICE OF THE CITY MANAGER
DES MOINES, IOWA**

**CITY COUNCIL COMMUNICATION 96-397
SEPTEMBER 16, 1996 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
ANDERSON ERICKSON DAIRY LOAN APPROVAL	◆ RESOLUTION ORDINANCE RECEIVE/FILE	SCOTT STRICKER ECONOMIC DEVELOPMENT ADMINISTRATOR

SYNOPSIS —

On the September 16, 1996, Council agenda is a roll call to approve the State of Iowa Community Economic Betterment Account (CEBA) Loan Agreement and Promissory Notes in the amount of \$3.0 million and approve the City's local participation in the form of a forgivable loan in the amount of \$72,500 for Anderson Erickson Dairy Co. By Roll Call No. 96-889, dated March 4, 1996, City Council approved submittal of a CEBA application and gave preliminary approval of the City's local participation in the amount of \$72,500.

The proposed public assistance will allow Anderson Erickson Dairy Co. to expand its Des Moines facility rather than construct a satellite production facility in the Kansas City area. The satellite production facility would have replaced at least 25 percent of the Des Moines plant's production and would have and resulted in its downsizing of current employment by at least 50 jobs with an annual payroll of \$1.5 million.

The project involves new construction consisting of a 3,000-sq.-ft. addition to their cooler, an 11,300-sq.-ft. receiving addition and the remodeling of their current production facility to better facilitate production flows, thereby increasing production. The total project cost is \$4.5 million (new construction costs are approximately \$3 million and new equipment costs are approximately \$1.5 million). The proposed project will retain 50 production jobs and create 25 new full-time jobs over a period of two years after the completion of the expansion project. It is estimated that the retained and created jobs will average \$12.73 per hour and result in an annual local payroll of \$2,223,800. The company also provides medical and dental insurance and pension and profit-sharing plans.

The following five-year loan package has been developed: a \$500,000 interim loan from Norwest Bank Iowa, N.A. with a term not to exceed 12 months, and a \$3.0 million State of Iowa CEBA Float Loan at a zero interest rate repaid over a term of 30 months. The CEBA Float Loan will be repaid from a \$1 million payment made by Anderson Erickson Dairy Co. and a \$2.0 million loan from Polk County. The Polk County loan will be repaid by Anderson Erickson Dairy Co. at zero interest over a term of 30 months. The CEBA Float Loan is required to be secured by an Irrevocable Letter of Credit. The City of Des Moines' participation will be in the form of a forgivable loan totaling \$72,500 to cover company costs associated with the issuance of the State-required letter of credit and interest costs incurred on the conventional interim loan.

FISCAL IMPACT —

A local contribution in the form of a forgivable loan will be provided to Anderson Erickson Dairy Co. in the total amount of \$72,500. It is anticipated that the forgivable loan will be initially funded from the UDAG Repayment Account and subsequently reimbursed from the proposed Tax Increment Financing District Revenues (assuming a TIF District is established by the City Council). The project will generate approximately \$485,000 in cumulative new net property taxes after 10 years (estimated normal allocations to other taxing bodies, Polk County \$102,400, Des Moines Independent Schools \$183,700,

and City \$186,300) and \$1.5 million in cumulative new net property taxes after 20 years (estimated normal allocations to other taxing bodies, Polk County \$316,800, Des Moines Independent Schools \$568,200, and City \$576,150) taking into account the 10-year declining tax abatement schedule and the City forgivable loan. The project will be eligible for tax abatement under either the City's three-year 100 percent or ten-year declining schedules at the discretion of the company. Under the ten-year declining schedule, the estimated benefit to the company is \$283,000.

RECOMMENDATION —

Approve the State of Iowa CEBA Loan Agreement and Promissory Notes in the amount of \$3.0 million for Anderson Erickson Dairy Co., and approve the City's local participation in the form of a forgivable loan in the amount of \$72,500. Final City loan documents will be brought to the Council for approval after the Accent Tax Increment Financing District is established.

BACKGROUND —

Anderson Erickson Dairy Co. is proposing to expand their existing production facility located at 2201 Hubbell in Des Moines. Sales of the company's products are experiencing a growth rate of about four percent annually within Iowa, Illinois, Nebraska and Northern Missouri. Within the Kansas City market alone, in the last year the company has experienced an eight percent increase in product sales. Due to limitations in the current plant facilities and operations, the Des Moines facility is producing near capacity and cannot meet growing sales demands for the company's products.

The proposed financial incentive package will assist the company in expanding the Des Moines plant: new construction consisting of a 3,000-sq.-ft. addition to their cooler, an 11,300-sq.-ft. receiving addition, and the remodeling of their current production facility to better facilitate production flows, thereby increasing production. As an alternative, the company has considered the establishment of a satellite production facility in the Kansas City area. Had the company pursued this alternative, they would have only expanded the Des Moines facility's cooler and would have moved production to Kansas City resulting in the loss of at least 50 jobs at the Des Moines plant. The proposed project will allow the company to increase production capacity, resulting in the creation of 25 new full-time jobs starting at an average hourly wage of \$12.37 per hour with an annual local payroll of \$723,800. The 50 retained jobs represent a local annual payroll of \$1.5 million.

The company's current facilities within the City of Des Moines are assessed at a combined value of \$5.7 million. The company currently provides within the City of Des Moines 300 jobs with an annual payroll of \$9.2 million plus health and dental insurance and pension and profit-sharing plans.

Several events are occurring within the company and dairy industry that make the Kansas City alternative viable for the company. First, the greater Kansas City area presents tremendous growth opportunities for the company's products. The company estimates that their current level of sales represents about 15 percent of the total Kansas City market, with product sales growing at a rate of eight percent during the past year. The company currently transports out of the Des Moines plant to its Kansas City distribution center eight semi-trailers of products daily (approximately 25 percent of the plant's production).

Second, a production facility in the Kansas City area would result in lower raw milk costs, which represents between 62 and 63 percent of Anderson Erickson Dairy product costs. The production of raw milk has been gradually shifting from its traditional base in the Northern Midwestern States to the South and Southwestern States. This shift has occurred due to inexpensive land prices and lower production costs associated with milder climates. These factors have resulted in lower raw milk prices for milk produced in the South and Southwestern States. It has also caused raw milk prices in the

Northern Midwestern States to increase as the supply of excess raw milk has fallen. Third, transportation costs from South and Southwestern States is less to Kansas City than to Des Moines by approximately \$0.50 per 100 gallons.

Financial Assistance Package

To assist the company in increasing its production capacity while reducing the operational costs associated with the expansion, City staff have worked with staff from Polk County and the State of Iowa to design a \$3.5 million financial incentive package. The financial assistance package will enable the company to expand their existing facility, retain at least 50 production jobs (those that would be lost to a Kansas City expansion), and create 25 new full-time jobs over a period of two years after the completion of the expansion project. The project parameters and the financial incentive package has been structured as follows:

Project Parameters

Anderson Erickson Dairy Co. has agreed to:

- Maintain its existing community employment base of 300 jobs within the City of Des Moines and create 25 new jobs within two years of the project's completion at an average wage of \$12.37 plus benefits.
- Inject \$1.0 million equity into the project.
- Enter into a \$1.5 million minimum assessment agreement for the assessed value added to real property resulting from the project's new construction and remodeling.

In consideration of the above-identified project parameters, the following five-year loan package has been developed: a \$500,000 interim loan from Norwest Bank Iowa, N.A. with a term not to exceed 12 months, and a \$3.0 million State of Iowa CEBA Float Loan at a zero interest rate repaid over a term of 30 months. The CEBA Float Loan will be repaid from a \$1 million payment made by Anderson Erickson Dairy Co. and a \$2.0 million loan from Polk County. The Polk County loan will be repaid by Anderson Erickson Dairy Co. at zero interest over a term of 30 months. The CEBA Float Loan is required to be secured by an Irrevocable Letter of Credit.

The City of Des Moines' participation will be in the form of a forgivable loan totaling \$72,500 to cover company costs associated with the issuance of the state required letter of credit and interest costs incurred on the conventional interim loan. Additionally, the expansion will be eligible for tax abatement under either the City's three-year 100 percent or ten-year declining schedules. The company has historically selected the ten-year declining schedule which, based on the minimum assessment agreement, provides for a tax savings to the company of an estimated \$283,000. The City of Des Moines' local participation in the proposed financial incentive package totals \$355,500. A separate roll call on tonight's Council agenda suggests establishment of an Urban Renewal Area and Tax Incremental Financing District in the vicinity of and including Anderson Erickson Dairy Co. These designations will provide the tools and funding for the present Anderson Erickson Dairy expansion, as well as future improvements within the district. The Accent Urban Renewal Area Plan and tax increment financing documents are scheduled to be presented to Council at their October 21, 1996, meeting.