

**CITY COUNCIL COMMUNICATION 97-551
NOVEMBER 17, 1997 AGENDA**

SUBJECT:

COLOR CONVERTING INDUSTRIES

SUBMITTED BY:

**RICHARD CLARK
DEPUTY CITY MANAGER**

SYNOPSIS –

On the November 17, 1997, City Council agenda is a roll call to approve the submission of applications to the State of Iowa under their Community Economic Betterment Account (CEBA), Revitalize Iowa Sound Economy (RISE) and Railroad Economic Development Project Account (RRRISE) programs; and give preliminary approval to the City' s local participation, on behalf of a proposed economic development project for Color Converting Industries (CCI).

CCI is a manufacturer of printing ink for the flexible packaging industry and was founded by Ronald T. Barry in 1975 at 129 SE 18th Street, Des Moines. The company currently maintains two locations: its corporate office and research facilities in leased space located at 11229 Aurora, Urbandale, and its manufacturing plant at 129 SE 18th Street, Des Moines. The company employs 120 people with an annual payroll of \$5.7 million (average wage rate of \$17.93 per hour). The company is proposing to consolidate its operations into one new 80,000 s.f. facility at an estimated total cost of \$17.6 million. The project will allow the company to expand by an additional 97 positions within the three years with an estimated increase in payroll of \$3.7 million (average starting wage of \$18.18 per hour). The company would continue to operate its existing Des Moines plant, and within three years modernize it at an estimated cost of \$3.0 million. The City' s action is part of a larger financial assistance package developed in conjunction with Polk County, the Iowa Department of Economic Development, the Greater Des Moines Chamber of Commerce Federation, MidAmerican Energy Co., Des Moines Area Community College (DMACC), and the Airport Commerce Park West, L.L.C.

FISCAL IMPACT –

The proposed project is to be located on a site in the established Airport Commerce Park West Tax Increment Financing District. The City' s proposed participation in the economic development project in the amount of \$348,533 is to be funded partially from a reallocation of previously authorized tax increment financing revenues in the amount of \$200,000, and \$148,533 out of the Capital Improvement budget, which will be used to pay a portion of the local match required for the RISE funded improvements. The use of tax increment financing revenues

necessitates an amendment to the Airport Commerce Park West development agreement, but should not increase total tax increment financing expenditures over previously approved limits. The proposed project will also be eligible for tax abatement under the City's three-year 100 percent exemption schedule.

RECOMMENDATION –

Approve the roll call authorizing the City Manager to submit applications to the State of Iowa under the CEBA, RISE, and RRRISE programs; preliminary approval of the City's local participation in the amount of \$348,533; and authorize the City Manager to negotiate amendments to the Airport Commerce Park West development agreement and other contracts to implement the economic development project for subsequent review and approval by the City Council.

BACKGROUND –

When the company was established in 1975, their primary market was in Iowa. Over time, its markets began expanding outside of Iowa, mostly in northeast Wisconsin and the greater Minneapolis area. These market developments led to the addition of two new blending/manufacturing facilities in these respective areas. Most recently, the company has been experiencing tremendous growth in the mid-Atlantic and southeast regions of the country. These trends drove its most recent acquisition, a smaller printing ink manufacturer with complementary technologies and locations in both Nashville, TN, and Spartanburg, SC. Currently, CCI continues to grow rapidly with annualized sales of approximately \$50 million, with a year-to-date growth rate of over 40 percent. This growth rate is exclusive of its recent acquisition, which will add an additional \$10 million to annual sales. The proposed new facility is being constructed in response to both capacity and capability needs of the company's expanding and increasingly sophisticated markets.

As a result of its recent acquisition, the company owns manufacturing facilities in the Nashville, TN, and Spartanburg, SC, areas. Both of these new sites have ample land area adjacent to their plants to provide the company with needed space for the proposed project. If this expansion does not occur within the Des Moines area, it may occur at one of the company's other manufacturing sites, which are located closer to its expanding markets and result in lower construction and operational costs. A state-to-state comparison of construction and operating costs in Iowa, South Carolina, and Tennessee, suggests there exists a need for public assistance in reducing the costs associated with developing this project in Iowa, making the Des Moines location more competitive with other location options.

To construct the new 80,000 s.f. facility with state-of-the-art manufacturing and research facilities, the company's preliminary estimates of total project costs are \$17.6 million. Project costs directly associated with the proposed project have been provided by the company as follows: land acquisition and site preparation, \$810,000; building construction, \$6.1 million; machinery and equipment, \$5.0 million; furniture and fixtures, \$1.0 million; new product development, job training and moving expenses, \$1.7 million; working capital to support future

growth, \$3.0 million. To facilitate the proposed project on the site under consideration, transportation infrastructure will need to be provided. Preliminary cost estimates for infrastructure total \$1.25 million and include: \$768,000 in roadway improvements along Park Avenue (i.e., a new intersection with Park Avenue located in the proximity of the R.R. Donnelley plant entrance, placement of traffic signals at this new intersection, the widening of Park Avenue for turning lanes, and a new railroad crossing as an integral part of the Park Avenue widening) and access to the site that will be dedicated for public use; and \$570,000 for the construction of a railroad spur. The developer is currently gathering final cost estimates for the roadway and rail spur improvements.

Staff from the City of Des Moines, Polk County, Greater Des Moines Chamber of Commerce, Iowa Department of Economic Development, Iowa Department of Transportation, DMACC, MidAmerican Energy Co., and Airport Commerce Park West, L.L.C., have been working together to structure a financial assistance package that will allow this project to proceed within the City of Des Moines. The proposed assistance package will lower the project's total costs, bringing them closer to other alternatives that the company is evaluating and is structured as follows: City of Des Moines forgivable loan in the amount of \$348,533; the project will also be eligible for tax abatement under the City's three-year 100 percent tax exemption schedule; Polk County forgivable loan in the amount of \$474,533; State of Iowa, CEBA funds in the amount of \$750,000; State of Iowa, RISE funds in the amount of \$542,400; State of Iowa, RRRISE funds in the amount of \$100,000; Airport Commerce Park West, LLC, a write down of land costs in the amount of \$200,000 and a forgivable loan in the amount of \$382,533; DMACC Training funds in the amount of \$492,000; and MidAmerican Energy Co. reduction in energy costs totaling \$45,000. The company will also be eligible for State of Iowa tax credits for new job creation estimated at \$95,250.

The City's participation will be used to lower land costs and provide local funds to the roadway and railway transportation infrastructure improvements to match RISE and RRRISE program requirements. It is being proposed that funds from the Airport Commerce Park West Tax Increment Financing District be used to fund \$200,000 of the City's participation to reduce the cost of land and will be matched by contributions from Polk County and Airport Commerce Park West, LLC. The remaining portion of the City's participation (\$148,533) is to be funded out of the Capital Improvements budget as local match to roadway improvements to Park Avenue estimated at \$74,000; and to offset railroad spur improvements estimated at \$74,533. The City's participation toward the rail spur costs will be matched by Polk County and the developer.

The use of funds from the Airport Commerce Park West Urban Renewal Area Tax Increment Financing District will require amendments to the development agreement between the City and the Airport Commerce Park West, LLC. The amendments will allow for the funds to be used in offsetting costs associated with the land purchase and railroad improvements. The use of TIF funds is a reallocation of approved expenditures and should not increase the limit established under the approved urban renewal plan and the approved developer agreement.