

City Council Communication 97-576

December 8, 1997 Agenda

Subject:

Economic Development Assistance

to Keystone Electrical

Manufacturing Co.

Submitted by:

James Grant

Community Development Director

Synopsis —

Approval of the submission of a Community Economic Betterment Account (CEBA) application in the amount of \$115,000 to the State of Iowa and preliminary approval of a Des Moines Action Loan Fund (DMALF) Loan in the amount of \$115,000 to Keystone Electrical Manufacturing Co.

Fiscal Impact —

The proposed \$115,000 City loan is to be funded on an interim basis from the Urban Development Action Grant (UDAG) Repayment Account which will be reimbursed from tax increment financing funds as they become available from the Riverpoint Capitol Center Development Area Tax Increment Financing District. The City loan will be administered by the Economic Development Division and repaid over a term of five years at an interest rate of three percent to the City's Economic Development Financial Incentive Programs.

Recommendation —

Approval of the roll call, contingent upon the company's receipt of all other private and public financing commitments at the approximate amounts identified in this communication. Upon receipt of all financing commitments, loan documents will be presented to City Council for final approval.

Background —

Keystone Electrical Manufacturing Co. is a designer and manufacturer of custom electrical relaying equipment, medium voltage switchgear, and complimentary products. The company's customers are investor owned and public utilities and rural cooperatives, primarily in the Continental U.S. The business, located at 122 SW 16th Street, was founded in 1965 in Des Moines by William G. Milliman.

The City of Des Moines and State of Iowa are being asked to participate in a financial package totaling \$2.9 million, which will retain local ownership of Keystone Electrical Manufacturing Co. located at 122 SW 16th Street and its 35 employees with an annual payroll of about \$1.1 million (average wage of \$13.82 per hour), and assist the company to create five new production positions within the next two years at an average starting wage of \$11.55 per hour. The company also provides a comprehensive employee benefit package which includes: Medical and Dental Insurance, 401K, Pension Plan, Life and

Disability Insurance. The manufacturing work force is represented by the International Brotherhood of Electrical Workers Local #347.

Mr. Milliman has made the decision to sell the company and has held discussions with two out-of-state companies that would result in the relocation of this company's activities outside the state. Mr. Frederick V. Buie, General Manager of Keystone Electrical Manufacturing Co., has negotiated an agreement to purchase the company with the intent of keeping the company located in the City of Des Moines. The proposed purchase, by Mr. Buie, will retain the existing 35 employees at the current manufacturing facility and will assist the company to create five new production positions within the next two years at an average starting wage of \$11.55 per hour, plus benefits.

Mr. Buie has negotiated a purchase price of \$1.3 million from the current owner. Mr. Buie has until the end of November 1997 to arrange the necessary financing to close this purchase. The business will also own its manufacturing facility located at 122 SW 16th Street. Mr. Buie is endeavoring to arrange financing totaling \$2.9 million for the ownership purchase, new equipment and working capital, as follows: \$150,000 in cash equity injection; a City of Des Moines DMALF loan in the amount of \$115,000 at three percent interest repaid over a term of five years; a State of Iowa CEBA loan in the amount of \$115,000 at zero percent interest repaid over a term of five years; a \$1.0 million promissory note to the seller, Mr. Milliman; and a \$1.5 million operating line of credit to support the company's working capital needs from Brenton Bank. The financing provided by the seller will be subordinate to the proposed Bank, City and CEBA loans.

Mr. Buie has over 19 years of manufacturing and engineering experience in commercial and government contract business. Prior to joining Keystone Electrical Manufacturing Co., Mr. Buie held management positions with various wholly owned manufacturing subsidiaries of General Electric, including Manager, Plant Operations & Technology for GE Electrical Distribution & Controls; Manager, Product Configuration & Support; Manager, Quality Engineering; Manager, Materials Applications Engineering; and Senior Engineer, Configuration Management for GE Aerospace.

Subsequent to the structure of this financial assistance package, Economic Development staff became aware that Keystone Electrical Manufacturing Co. was a plaintiff in litigation against the City for damages it incurred as a result of the 1993 floods. Mr. Buie has indicated that upon purchasing ownership of the company, he will dismiss Keystone Electrical Manufacturing Company's action against the City. The City's loan agreement, when prepared and executed, will contain provisions to such affect.