

**CITY COUNCIL COMMUNICATION 98-085
MARCH 2, 1998 AGENDA**

SUBJECT:

KEMIN INDUSTRIES, INC.

SUBMITTED BY:

**RICHARD CLARK
DEPUTY CITY MANAGER**

SYNOPSIS –

On the March 2, 1998 Council agenda are roll calls to approve the loan documents for a City economic development forgivable loan in the amount of \$1,250,000, a Polk County loan in the amount of \$1,750,000 at zero percent interest, a State of Iowa Community Economic Betterment Account (CEBA) Loan in the forgivable amount of \$500,000 and \$250,000 repayment loan at zero interest, and a State of Iowa Railroad Economic Development (RED) Project Grant in the amount of \$100,000 for Kemin Industries, Inc. (Kemin). The City Council, by Roll Call No. 97-1845, dated May 19, 1997, approved the submission of applications in these amounts to the State of Iowa and gave preliminary approval to the City' s local participation. Terrance N. Vorbrich, Development Financing Coordinator, with the City' s Office of Economic Development, is the City staff contact.

The proposed Kemin expansion project involves a \$17.2 million phased development where by the company will invest:

- \$9.2 million in improvements and new equipment to their facilities located at 2100 Maury that will result in increased real estate assessments of at least \$5.2 million (this increased value will be prohibited from tax abatement);
- invest a minimum of \$8 million into new product research and development, and market development over the next three years; and
- maintain its corporate offices in the City of Des Moines with its current level of community employment at 133 jobs with an average hourly wage of \$16.58 and create 52 new jobs with an average wage of \$19.15 per hour within three years after project initiation.

The company also provides health insurance, disability insurance, and profit sharing plans within its employee benefit program.

The project is located within the recently established SE AgriBusiness Urban Renewal Area and the recently certified state Enterprise Zone. The new investment by Kemin represents a major business expansion in an area of the City that has experienced a lower economic growth rate than seen in other areas of the City. The recently established economic development initiatives within

this area provides it with a high potential for further industrial growth.

FISCAL IMPACT –

A City economic development forgivable loan is proposed for Kemin in the amount of \$1,250,000. The forgivable loan will be funded by a zero interest rate loan from Polk County to the City. Repayment of the County loan will come from SE AgriBusiness Urban Renewal Area Tax Increment Financing District revenues generated solely from the Kemin project. No other funds from the SE AgriBusiness Urban Renewal Area Tax Increment District are pledged to the repayment of the City loan to Polk County. The company has agreed to a \$7.9 million minimum assessment agreement (\$5.2 million of new valuation and \$2.5 million existing valuation), which will provide the necessary tax increment financing district funds for repayment of the \$1.25 million Polk County loan. The company has also agreed that the project's value-added improvements to real property will not be eligible for tax abatement. The City's economic development forgivable loan will be disbursed at the completion of Phase II on the construction project and not until all other financing sources have committed to the project.

RECOMMENDATION –

Approve the roll call approving the loan documents related to the City forgivable loan in the amount of \$1,250,000, the Polk County loan in the amount of \$1,750,000, the CEBA \$500,000 forgivable loan and \$250,000 repayment loan, and the RED Grant in the amount of \$100,000 to Kemin.

BACKGROUND –

Kemin was formed in 1961 by Rolland W. Nelson to manufacture and sell products to the major agricultural and manufactured food markets of the world. R.W. Nelson, is the Chairman of the Board and his son, Dr. Christopher E. Nelson, is President. Kemin, headquartered at 2100 Maury Street in Des Moines, develops and manufactures specialized liquid and dry, nonnutritive additives for animal feeds and human foods, a value-added agricultural product. Product lines include: antioxidants, inhibitors, flavors, enzymes, pigmenters, minerals, and pet foods. Kemin distributes its products on a world-wide basis through a network of international manufacturing and sales facilities. Kemin has grown its operations to include six manufacturing facilities located both nationally (Iowa and two in Texas) and internationally (Singapore, Belgium, and Mexico).

Kemin is proposing to renovate, expand, and update to “state of the art” technology their existing facilities that includes their manufacturing plant, research and development facility, and their corporate headquarters all located at 2100 Maury. The proposed project will enhance the company's ability to meet world-wide economic competition by expanding their research and development and manufacturing technology and capacity. The proposed project will allow the company to continue its development of new value-added agricultural products, such as new processes for extracting and uses of corn enzymes and new trace minerals for feed additives, and

additional uses of lutein (the active molecule of Vitamin L), and bring these new products to market.

The project will not proceed without the proposed public-private financial assistance package. The proposed assistance will make the costs of the project more competitive with other location options available to the company. Presently, due to the large amount of company imports and exports, transportation is the company's third highest operational cost. If this expansion does not occur at the Des Moines facility it will occur at one of the company's other manufacturing sites that is more suitable to importing and exporting of goods. The company currently owns 28 acres adjacent to its plant in Port Houston, Texas, which is a prime alternative site. A state-to-state comparison of Iowa and Texas suggests that this alternative is very viable and would result in lower operational costs to the company and reduce tax considerations for the stockholders.

The total project costs are estimated at \$17.2 million and will be phased in over three years as follows: Phase I (Fall 1997 - Spring 1998): Updating of current Management Information System (MISS) including hardware, software, and staff training estimated at \$1 million; Phase II (Spring 1998): Renovation, expansion and "state of the art" technology in the manufacturing plant estimated at \$4 million; Phase III (Spring 1999): Renovation, expansion, and "state of the art" technology in the research and development facility estimated at \$3.2 million; Phase IV (Fall 2000): Renovation and expansion of the Corporate Headquarters estimated at \$1 million; and Phase V. (Ongoing): Throughout the implementation of the above phases, is the continued infusion of capital into product and market development totaling an estimated \$8 million.

The following private-public financial assistance package has been finalized:

Firststar Bank, N.A. will provide loans of up to \$5,200,000 as conventional financing for the project.

City of Des Moines will provide a \$1,250,000 economic development forgivable loan. The company has agreed to a minimum assessment on the completed project of \$7.9 million and will not be eligible for tax abatement on the new value-added to real property. The proposed economic development forgivable loan will be funded by a loan to the City from Polk County and repaid at zero interest from the SE AgriBusiness Urban Renewal Area Tax Increment District revenues generated solely from the Kemin project.

Polk County will provide a loan to the company in the amount of \$1,750,000 to be repaid at zero interest over ten years. Principal payments on the loan will be deferred during the first five years of the loan with the full balance amortized over years six through ten.

State of Iowa CEBA has approved a \$750,000 award in the following form: a \$500,000 forgivable loan and a \$250,000 loan at zero percent interest repaid over a term of five years.

State of Iowa RED has approved a \$100,000 grant to offset a portion of the project costs to renovate a rail spur on the company's site. The company currently ships raw materials and finished products via rail; however, the company currently uses a rail spur not located at their facility. This will allow the product to come directly in and out of the Des Moines facility.

Des Moines Area Community College: Is working with the company to provide job training funds under the State of Iowa New Job Training Program. Estimates based on the new jobs to be created by the project place the amount of funds available for training at \$276,000.

MidAmerican Energy Co. is also working directly with the company to reduce its electrical and natural gas distribution and usage costs.

URBAN RENEWAL AREA AND TAX INCREMENTAL FINANCING DISTRICT

The City Council, by Roll Call No. 98-275, dated January 26, 1998, approved the SE AgriBusiness Urban Renewal Area (URA) Plan and, by Roll Call No. 98-451, dated February 16, 1998, the SE AgriBusiness Tax Increment Financing District in the vicinity of and including Kemin.

Urban Renewal Board Action

The Urban Renewal Board, at its January 20, 1998 meeting, reviewed the proposed economic development assistance package for the company's project and recommended it for approval to the City Council on a vote of 3-0.