

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

99-367

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

AGENDA:

AUGUST 16, 1999

SUBJECT:

**KEMIN INDUSTRIES
EXPANSION**

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY:

**RICHARD CLARK
DEPUTY CITY
MANAGER**

SYNOPSIS -

On the August 16, 1999 Council agenda is a roll call to approve amendments to the City Loan Agreement, and approve new bank debt subordination agreements for Kemin Industries, Inc. Approval of these documents will allow for: (a) a six-month extension in the development agreement to complete construction of their new manufacturing facility; and (b) additional bank loans in the amount of \$8 million to support the company's additional investment in new production machinery and equipment and working capital.

By Roll Calls No. 98-660 and No. 98-661, both dated March 2, 1998, City Council approved a forgivable City Loan in the amount of \$1,250,000, and a State of Iowa Community Economic Betterment Account (CEBA) loan in the amount of \$750,000 to Kemin Industries. The City and State participation are part of a \$4.0 million public financing package to assist Kemin in a multi-year, \$17.2 million expansion of their corporate home office and manufacturing facilities located at 2100 Maury Street in the Des Moines Agribusiness Park Enterprise Zone. With the new bank financing, Kemin's investment in the Des Moines facility expansion will increase to over \$22 million. The company currently employs 133 workers and will create at least 52 new positions in Des Moines, all with an average hourly wage of \$16.60 plus benefits.

Terrance N. Vorbrich, Development Financing Coordinator with the City's Office of Economic Development, is the City staff contact.

FISCAL IMPACT -

Approval of the subordination and amendments to the City Loan Agreements will not affect the General Fund or the Southeast Agribusiness Tax Increment District. A \$7.9 million

minimum assessment agreement on the project's value-added improvements and existing real property will continue to provide the necessary tax increment revenues to cover the City's commitment to the project. The company has agreed to only apply for tax abatement under the enterprise zone tax exemption schedule, which provides for one dollar of tax exemption on the project's new value added improvements per year for ten years. The State of Iowa Enterprise Zone tax benefits are State of Iowa corporate tax credits and will have no effect on the General Fund.

RECOMMENDATION -

Approve the roll call approving the subordination and amendments to the City and CEBA loan agreements for Kemin Industries, Inc.

BACKGROUND -

Kemin Industries' investment in the Des Moines expansion includes \$5.2 million in increased real property valuations and approximately \$9 million in new "state of the art" in the manufacturing facilities and corporate office. The balance of their investment, approximately \$11 million, continues to be in research, product development, and working capital.

The expansion project is moving forward, albeit construction slow downs that have delayed the completion of their new manufacturing facility and the expansion of their existing manufacturing facility from June 1999 to the fall of 1999. All other facets of the project are on schedule. The company has requested that provisions of the City Loan Agreement be extended to December 31, 1999 to accommodate the construction delays. City staff is recommending that the Council approve the company's request.

The company has developed new dietary supplements for human consumption that will go into full production next year. These new products will require even newer technology and additional capital infusion in the amount of \$8 million. Bank financing in this amount has been arranged subject to the City, County, and State subordinating their security interests in machinery and equipment to the bank debt.

The planned phased development includes:

- Phase I (Completed): Updating of current Management Information System (MISS) including hardware, software, and staff training, total investment of \$1 million;
- Phase II: Originally anticipated to be complete by June 1, 1999, but construction delays have pushed the anticipated completion date back to the Fall 1999. This development phase includes the renovation, expansion, and upgrade of "state of the art" technology in their existing manufacturing plant and the construction of new manufacturing space, total investment of \$4 million;
- Phase III (Currently under construction): Renovation, expansion, and "state of the art" technology in the research and development facility estimated investment of \$3.2 million;
- Phase IV (Fall 2000): Renovation and expansion of the Corporate Headquarters estimated investment of \$1 million; and
- Phase V (Ongoing): Throughout the implementation of the above phases is the continued infusion of capital into research, and product and market development totaling an estimated investment of \$8 million.

The total public assistance package included a forgivable City Loan in the amount of \$1,250,000, a Polk County Loan in the amount of \$1,750,000 to be repaid at zero percent interest; the CEBA Loan in the amount of \$750,000 of which \$500,000 is forgivable and \$250,000 to be repaid at zero percent interest, and \$276,000 in Job Training Grants administered through the Des Moines Area Community College (DMACC). The State of Iowa has also approved the project for Enterprise Zone benefits. The Enterprise Zone benefits include a 10 percent Investment Tax Credit applied against Iowa income tax liability and a rebate of sales and use taxes paid on all project construction materials.

Kemin Industries, Inc. (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. Kemin distributes its products on a worldwide basis through a network of international manufacturing and sales facilities. Kemin has manufacturing facilities located both nationally

(Iowa and in Texas) and internationally (Singapore, Belgium, and Brazil).

R. W. Nelson served as President of Kemin Industries until 1994, when he stepped up to Chairman of the Board. Since 1994, his son, Dr. Christopher E. Nelson, has served in the position of President.

Under the direction of Dr. Nelson, two new affiliates have been established: Kemin Foods in 1996, and Kemin Biotech in 1997. Kemin Foods manufactures and sells human food additives and nutraceuticals. New products it is bringing to market include an assortment of vitamins and dietary supplements containing lutein. Medical research has shown that increased consumption of lutein helps prevent an eye disease. Other new products under research and development include the development of new food preservatives and an all-natural appetite suppressant made from potatoes. Kemin Biotech serves as a worldwide research company to take Kemin into the 21st century. Kemin Biotech is in research and development of several new processes focused on the extraction of corn enzymes for use in feed additives and other processes.