

Meeting Agendas/Info

CITY COUNCIL COMMUNICATION:

ITEM _____

OFFICE OF THE CITY MANAGER CITY OF DES MOINES, IOWA

01-200

SYNOPSIS -

AGENDA:

APRIL 23, 2001

SUBJECT:

KEMIN INDUSTRIES,
INC.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

On the April 23, 2001 Council agenda is a roll call approving loan documents to assist the \$24 million economic development project for Kemin Industries (2100 Maury, Des Moines, IA) as follows: The loan documents include: (1) a State of Iowa Community Economic Betterment Account (CEBA) float loan for the amount of \$2.7 million at zero percent; (2) a City economic development forgivable loan in the amount of \$42,000; and (3) new subordination agreements that provide for the provision of additional bank financing in the amount of \$20 million to support the expansion. The City's economic development forgivable loan is to reimburse the actual costs associated with an Irrevocable Letter of Credit securing the CEBA float loan.

On August 7, 2000, by Roll Call No. 00-3399, City Council approved the submission of the CEBA application and gave preliminary approval of the City economic development forgivable loan in the amount of \$33,750, based on estimated costs associated with an Irrevocable Letter of Credit. Kemin has gained approval from LaSalle Bank for the required \$2.7 million Irrevocable Letter of Credit at a cost higher than the original estimate. The City is being asked to increase its forgivable loan to reflect the higher letter of credit costs.

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

FISCAL IMPACT -

The City's economic development forgivable loan will be initially funded from the Economic Development Enterprise Account and reimbursed as funds are available from the SE AgriBusiness Urban Renewal Area Tax Increment Financing District revenues generated solely from the Kemin Industries project. The project's value-added improvement to real property will be eligible for tax abatement and is projected to generate \$255,000 in net new tax

revenues (after abatement and the forgivable loan) over the next ten years.

This project has also been approved for benefits under the Iowa Enterprise Zone program. The Enterprise Zone program benefits are State of Iowa corporate income tax credits and rebate of the State's 5 percent sales tax on construction materials and will have no effect on the General Fund.

RECOMMENDATION -

Approve the roll call approving the loan documents related to the CEBA \$2.7 million float loan at zero percent, the City forgivable loan in the amount of \$42,000 and the subordination agreements to LaSalle Bank in the amount of \$43 million for Kemin Industries, and authorize the Mayor to execute the documents as appropriate.

BACKGROUND -

Kemin Industries continues to grow and expand its Des Moines plant and worldwide corporate office complex. Kemin's new \$24 million expansion project involves investments in a new \$1.5 million, 20,000 square foot production facility, setting up several new manufacturing lines at an investment of \$13.6 million and increased investments totaling \$9 million into new product research and development and market development over the next three years. The expansion will result in the creation of 76 positions at an average starting wage of \$16.73 per hour, plus benefits.

City staff working in conjunction with staff from Polk County, the State of Iowa, and the Greater Des Moines Partnership have proposed a \$6.7 million financial incentive package to assist Kemin Industries, Inc. in their new expansion. The approved financial incentive package consists of:

- \$2.7 million, zero percent, State of Iowa, CEBA float loan to be repaid over 30 months and supported by an Irrevocable Letter of Credit;
- \$1.2 million, zero percent, Polk County loan to be repaid over 36 months;
- \$42,000 City of Des Moines economic development forgivable

loan; and

- State of Iowa, Enterprise Zone benefits.

The City has previously approved, by Roll Call No. 98-660, dated March 2, 1998, a \$1.25 million forgivable economic development loan to Kemin to support its first expansion. That City loan is now subordinate to bank financing in the amount of \$23 million as approved by Roll Call No. 99-2527, dated August 16, 1999. The new subordination agreements will allow the bank to increase Kemin's financing to \$43 million.

By Roll Call No. 00-3398, dated August 7, 2000, City Council approved a Good Neighbor Agreement negotiated between the Neighborhood Task Force and Kemin Industries.
