CITY COUNCIL COMMUNICATION:

02-270

AGENDA:

MAY 20, 2002

SUBJECT:

EMCO ENTERPRISES, INC. ECONOMIC DEVELOPMENT ASSISTANCE

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY MANAGER

ITEM _____

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS -

On the May 20, 2002 Council agenda is a resolution to approve several actions related to a proposed expansion of EMCO Enterprises, Inc. at its existing building leased at 2121 East Walnut Street in the Des Moines Agribusiness Enterprise Zone. Council is requested to:

1. Enter into a Community Economic Betterment Account (CEBA) Loan Agreement with the State of Iowa on behalf of EMCO Enterprises, Inc. for a $1.75 million, 0 percent interest rate, 30-month term float loan; and

2. Execute the City's Loan Agreement for a $450,000, 0 percent interest rate, 30-month term loan and an economic development grant of approximately $33,750 from the City to cover Irrevocable Letter of Credit costs for the $1.75 million CEBA float loan.

EMCO is proposing to invest approximately $7 million in aluminum fabricating, assembly and packaging equipment, install new technology in the office and the production facility, expand distribution, and create at least three professional and 20 customer service jobs that would pay annual salaries of $45,000 and $24,000 respectively. EMCO manufactures the FOREVER brand of storm and screen doors. J Glasnapp is the President and Chief Operating Officer of EMCO, headquartered at 2121 East Walnut Street. In 2001, EMCO became a wholly-owned subsidiary of Andersen Windows, the world's largest window manufacturer, headquartered in Bayport, Minnesota.

Ellen Walkowiak and Terrance Vorbrich with the City's Office of Economic Development are coordinating the City activities relative to this project.

FISCAL IMPACT -

The $450,000, 0 percent interest rate, 30-month term loan and the $33,750 economic development grant to cover Irrevocable Letter of Credit costs for the State $1.75 million CEBA float loan will be funded from the City's Economic Development Enterprise Fund Account. The project does not involve the use of tax abatement because no building expansion is anticipated.

RECOMMENDATION -

Approval.

BACKGROUND -

EMCO Enterprises, Inc. has had a long-term partnership with the City of Des Moines since its inception in 1932. Andersen Windows acquired EMCO as a wholly-owned subsidiary in 2001. Andersen is the world's largest manufacturer of windows and ranks Number 132 on the Forbes 500 of largest privately-held companies. The EMCO-Andersen alliance has enhanced their competitive position by enabling them to provide storm and screen doors as well as windows to home improvement stores throughout the nation.

EMCO's major customer, Home Depot, is expanding rapidly in the U.S. Consequently, EMCO needs to expand to keep pace with this growth. The company has numerous location options. These include expanding at Andersen's facilities that have excess capacity in Gainesville, Virginia; Carlisle, Pennsylvania; Munster, Indiana; and West Chicago, Illinois; in Luray, Virginia at EMCO's other facility; or in Des Moines. EMCO prefers to expand in Des Moines but is requesting financial assistance to help it overcome location disadvantages when compared with East Coast sites. Projected sales and demand are stronger in the eastern U.S. for EMCO's products.

EMCO has nearly 850 employees. There are approximately 455 in Des Moines in five buildings, over 300 in Luray, Virginia in one building, and 75 field associates. It provides about $20 million in wages and benefits to its Des Moines employees, who are represented by the United Auto Workers (UAW) union. The company has had no strikes. In addition, it has a diverse workforce. Nine nationalities and languages are represented; 27 percent of its employees are minority and 30 percent are women.

Phase I of EMCO's expansion involves purchasing approximately $7 million of machinery, equipment, and technology; expanding distribution; and creating at least 23 jobs. It is important to assist EMCO with this expansion to enable it to prepare for its Phase II development. Phase II involves an expansion and a consolidation of the company's Des Moines operations into a 30+ acre campus environment within two to four years. This will allow it to yield cost and operating efficiencies. Des Moines will compete more effectively for this Phase II retention and expansion by assisting with the Phase I project.

On December 17, 2001, by Roll Call No. 01-3691, Council provided preliminary approval of a $450,000 City loan and a $33,750 economic grant to cover Letter of Credit costs associated with a CEBA loan. It also approved submission of a CEBA application to the State of Iowa for a $1.75 million loan on behalf of EMCO.

On April 29, 2002, the Good Neighbor Task Force met with EMCO, toured its manufacturing facility at 2121 East Walnut Street, and discussed the proposed Good Neighbor Agreement. On May 15, 2002, the Task Force decided not to enter into the Good Neighbor Agreement because of their concern about odors associated with door painting procedures with the company's current operations. No painting is involved with the expansion. The Task Force is recommending that the Council withhold economic development incentives until an Agreement with them is reached. The Task Force will not sign an Agreement until EMCO adds the following:

- "and current use of odorous chemicals will be discontinued by July 2002"
- "and current use of any harmful airborne and/or ground chemicals will be discontinued by July 2002"

Chapter 15A of the Iowa Code states that Good Neighbor Agreements are not required, but a company can lose points when competing for State funds. The State of Iowa has already approved the loan and is awaiting the City's endorsement.

EMCO will repay the City's loan within the timeframe in which it is finalizing its Phase II development plans. The City will work aggressively with the company to assist it with its current and future development. This project will help the City to retain and expand its manufacturing base.