

**CITY COUNCIL
COMMUNICATION:**

03-218

AGENDA:

MAY 19, 2003

SUBJECT:

DIAMOND ANIMAL
HEALTH, INC. LOAN

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 19, 2003 Council agenda is a roll call that provides approval of a \$200,000 economic development loan to Diamond Animal Health, Inc. The company manufactures biological and pharmaceutical products for the veterinary markets related to both food producing and companion animals. Dr. Michael McGinley is the Manager and Vice President of Operations and Technical Affairs at Diamond Animal Health, which is a wholly owned subsidiary of the Heska Corporation of Fort Collins, Colorado. Diamond plans to purchase equipment to expand its production of non-sterile powders and tablets at 2538 SE 43rd Street. This project represents the first expansion of an agribusiness in the Agrimergent Technology Park. The company intends to invest \$700,000 and create ten jobs in three or less years. The average wage for these positions will be \$13.17/hour with an extensive benefit package. Ellen Walkowiak with the City's Office of Economic Development is coordinating the City activities for this project.

FISCAL IMPACT —

Diamond Animal Health will repay the \$200,000 loan within three years at 3 percent interest. As part of this transaction, the company will forego tax abatement on its new \$1.25 million structural/roof improvement. Due to cash flow constraints, it is essential that Diamond obtain additional funding for its expansion. The City will yield not only repayment of the principal and interest on the loan, but also approximately \$83,300 over a three-year period in additional tax revenue due to the company foregoing tax abatement. The source of loan funds is tax increment financing (TIF) from the SE Agribusiness TIF district. The City will hold a first position on the new equipment as loan security. Diamond is also eligible for \$70,000 of investment tax credits from the State of Iowa Enterprise Zone Program.

RECOMMENDATION —

Approval.

BACKGROUND —

Diamond Animal Health, Inc. is one of three anchor tenants in the Des Moines Agrimergent Technology Park and celebrated its 50th anniversary in Des Moines in 2002. The company manufactures biological and pharmaceutical products for the veterinary markets related to both food producing and companion animals on a 34-acre site at 2538 SE 43rd Street. It is involved in research and development, manufacturing, process improvement, packaging, warehousing, and distribution. Diamond has 103 employees and a total payroll of \$4.3

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million. In 2001, it purchased \$3 million of goods and services from Iowa-based vendors.

Diamond has steadily invested in its approximately 160,000 square foot facility over the years. In 1994, the company borrowed \$200,000 from the City for ten years at 3 percent interest in order to acquire machinery and equipment. The total project cost was \$4.65 million and included other costs to acquire land, buildings, and inventory, as well as to conduct research. Diamond is current on its loan payments to the City. In 2002, it installed a new \$1.25 million structural/roof improvement to meet the stringent regulatory requirements of the United States Department of Agriculture (USDA), Food and Drug Administration (FDA), and Drug Enforcement Administration (DEA), which license this facility.

The company intends to purchase equipment to expand its production of non-sterile powders and tablets, which will assist it in becoming a full-service manufacturer of these products. Consequently, Diamond will be able to be more competitive with out-of-state animal vaccine manufacturers. The company proposes to purchase the equipment in the third quarter of 2003 and commence production in the fourth quarter of 2003.

On January 6, 2003, by Roll Call No. 03-089, Council provided preliminary approval of Diamond's \$200,000 loan request and recommended approval of its application for Enterprise Zone benefits. In the ensuing months, the company renegotiated its banking relationship with Wells Fargo. Diamond is now positioned to move forward with this project.

The Des Moines Enterprise Zone Commission requires businesses expanding in the Agribusiness Enterprise Zone to meet with the Good Neighbor Task Force. On April 13, 2002, the Task Force recommended approval of the above-referenced project and entered into a Good Neighbor Agreement with Diamond Animal Health, Inc. On January 7, 2003, the Commission recommended approval of Diamond's application for Enterprise Zone benefits, which the Iowa Department of Economic Development subsequently approved.

Diamond is involved in one of three industry clusters the State of Iowa is focused on expanding. The company is part of creating a critical mass of agricultural biotechnology and life sciences businesses in Iowa, which will assist in developing Iowa's competitive agribusiness advantage. Its expansion will also contribute to the success of the Des Moines Agrimergent Technology Park.

