

**CITY COUNCIL
COMMUNICATION:**

03-571

AGENDA:

DECEMBER 8, 2003

SUBJECT:

CCI COLOR
CONVERTING INC.
AMENDMENT TO
CITY
DEVELOPMENT
AGREEMENT

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 December 8, 2003 City Council agenda is a roll call approving documents relating to the satisfaction of the job retention and creation requirement section of the Development Agreement between the City of Des Moines and CCI Color Converting Inc. The Second Amendment and Satisfaction requires Color Converting to repay \$97,301 of the City's forgivable loan, waives any accrued interest relative to the job retention and creation requirements and maintains the remaining development agreement covenants for the term of the agreement (additional six years). Despite the fact that CCI Color Converting did not achieve the original new job creation goal, the business has nonetheless made a very positive investment in the community that has resulted in both retained and new higher paying jobs, as well as new taxable valuations. By any measure, the project represents a very significant addition to the City's economic base.

FISCAL IMPACT —

\$97,301 of the forgivable loan to be repaid within 30 days of approval of the roll call, which will be deposited to the Economic Development Enterprise Account. A portion of these funds estimated at \$14,000 will be used to settle the City liability under the Iowa Department of Transportation Revitalize Iowa's Sound Economy (RISE) Grant – Immediate Opportunity Funding that was used to improve the intersection of Park Avenue and SW 56th Street as part of the original project.

RECOMMENDATION —

Approval.

BACKGROUND —

In 1998, Color Converting began the construction of a new corporate headquarters and manufacturing facility located at 3535 SW 56th Street, Des Moines. The facility was completed in early 2000 resulting in a new investment in land, building, equipment, furniture, and fixtures of more than \$13,000,000. As part of the company's expansion, the City approved by Roll Call No. 98-1048, dated April 6, 1998, an economic development forgivable loan for \$348,533 as assistance in the construction of the new corporate headquarter and manufacturing facility.

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The company pledged to retain its existing workforce of 118 at an average wage of \$17.93 per hour plus benefits and create 97 new jobs at an average wage of \$18.18 per hour plus benefits for a total of 215 jobs. The new jobs were to be created within three years after occupying their new facility (June 30, 2002). By Roll Call No. 02-580, dated March 4, 2002, the City agreed to amend the development agreement and extend the new job creation timeframe to December 31, 2003.

The company has met its job retention number of 118 positions and with an average wage rate of \$24.33 per hour. The company has created 44 new full-time equivalent positions in direct and contracted employment with an average wage of \$19.40, but is short on the number of contracted new jobs by 53 positions. Covenants of the development agreement require the company to repay a pro-rata share of the forgivable loan totaling \$97,301. In addition, the company is to pay interest on the forgivable loan at 7 percent from the date the forgivable loan was advanced to the company totaling \$34,055.

The company has agreed to repay the Iowa Department of Economic Development (IDED) a total of \$200,000 and agreed to repay Polk County \$49,300, under their respective development agreements. City staff is recommending that the City development agreement be amended to waive the accrued penalty interest for \$34,055. Staffs from IDED and Polk County have agreed to recommend that their respective boards also waive accrued penalty interest under their respective development agreements. The recommendation to waive the interest is predicated on the company's higher level of wages that result in a higher total payroll than had they created more jobs at the lower average wage, and the greater than expected financial investment in the project made by the company.

The ink industry has become an international market with increased focus on consolidation of manufacturers, improving productivity, and developing lower-cost manufacturing capacity. Ron Barry, Chairman and majority owner of Color Converting Industries, has informed the City that Siegwirk Druckfarben AG has acquired the company effective December 1, 2003.

Siegwerk is an independent, German company that was founded in Siegburg, Germany near Cologne and Dusseldorf in 1830. The company, which ink sales is roughly 3-4 times the annual revenues of Color Converting, are market leaders in both the packaging and publishing ink markets in Central and Eastern Europe. In the US, they have a publication ink production facility in Virginia, but no presence in the packaging ink industry.

The Des Moines facility will become the North American headquarters of Siegwirk's North American Packaging Division. All existing employees and management (except for Ron Barry who will retire from the company) will remain with the new company, which will operate

under the name CCI Color Converting, Inc.

The new company has agreed to assume all remaining obligations and liabilities under the City of Des Moines, Polk County, and State of Iowa development agreements. We have received a communication from Siegwirk (attached) stating its intention is to keep the current operations, employees, and payroll as it currently is in Des Moines.

The Color Converting management team is very positive about this merger. It will provide additional capital to continue the Des Moines facility domestic revenue growth with the added benefit of Siegwirk's global reach.

Attachment