



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

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Communication

Roll Call

Submitted by: Richard A. Clark, Deputy City Manger

SUBJECT—

Economic Development Assistance For Kemin Industries, Inc.

SYNOPSIS—

ON the February 7, 2005 Council Agenda is a Roll Call to approving several actions to assist a proposed new \$17.8 million economic development project for Kemin Industries, 2100 Maury, Des Moines, IA. Dr. Christopher Nelson, President.

Kemin Industries continues to grow and expand its Des Moines manufacturing and worldwide corporate office complex. Kemin is proposing a new expansion project that involves the design and building of a new 30,000 to 50,000 square foot Worldwide headquarters. The building will house all of the Des Moines based business units as well as serve as host to its foreign owned subsidiaries for entertaining dignitaries and major customers. The administration building is approximately \$8.5 million. Kemin will invest an additional 1.5 million in additional production equipment for its Lutein product and \$7.8 million in working capital to support continued marketing, and product development. Kemin has growth plans to hire an additional 40 employees over the next 5 years at an average wage of \$28.37 per hour, plus benefits.

City staff working in conjunction with staff from Polk County, the Iowa Department of Economic Development, The Greater Des Moines Partnership and Des Moines Area Community College have proposed a \$4.5 million financial assistance package to provide assistance so this expansion will occur at the Des Moines complex. Kemin Industries is evaluating sites at its

plants in Belgium, Texas and Des Moines for this project. Without the proposed financial assistance, the project would not go forward in Des Moines.

Terry Vorbrich and Elly Walkowiak with the City's Office of Economic Development are the city staff contacts.

FISCAL IMPACT—

The City's proposed participation totals \$1,080,000 and is in the form of tax abatement under the City's Urban Revitalization 10 year declining schedule with an estimated value of \$800,000 and an economic development forgivable loan for \$280,000 funded from the SE AgriBusiness Urban Renewal Area Tax Increment Financing District. City staff has proposed a \$4 million minimum assessment agreement based on a 50,000 square foot administration building. If the total square footage of the new building is less than 50,000 square feet then the amount of the proposed City participation would be reduced on a pro rata basis to the reduction in square feet and valuation. It is projected that with the minimum assessment agreement in place the project will provide, after tax abatement and the economic development grant, net new property tax revenues of \$742,000 over ten years.

The majority of Enterprise Zone benefits are state of Iowa corporate income tax credits and rebate of sales tax on construction materials. EZ benefits are estimated at \$1.33 million and have no effect on the General Fund.

RECOMMENDATION—

Approval of the Roll Call for the following items:

1. A Good Neighbor Agreement by and between the Des Moines Good Neighbor Task Force and Kemin Industries, Inc. for development in the Des Moines Agribusiness Enterprise Zone;
2. Recommendation to the Des Moines Enterprise Zone Commission of Kemin Industries' Application for Enterprise Zone Benefits for a project in the Des Moines Agribusiness Enterprise Zone,
3. Submission of applications for up to \$550,000 in assistance to the state of Iowa Community Economic Betterment Account (CEBA) and/or Physical Infrastructure Assistance Program;
4. Preliminary approval of a City economic development forgivable loan for \$280,000 to Kemin Industries, Inc.

BACKGROUND—

The proposed project covers three processes that are essential to the continued growth of Kemin Industries and its related companies. The first process is the crystallization of Lutein. Kemin Foods has achieved the milestone of having Lutein placed in Centrum Vitamins, the nation's largest producer of vitamin supplements for human consumption. Kemin has not been able to produce enough Lutein to meet the growing market demand. The project will include an addition to the manufacturing building built in 1999 and equipment for additional manufacturing lines dedicated to Lutein. The second process is the extraction of rosemary. Rosemary is an antioxidant and Kemin has developed a new process and product to capture the antioxidant and use it in pet foods, human foods, and personal care markets. The last process is a new satiety agent from potatoes. This is a new process developed by Kemin and will provide an all-natural product to the dietary market.

The long-term outlook for the company rests on its ability to research and develop new and existing products through state of the art research and development and manufacturing techniques. The company is proposing to bring to market new products that will require substantial amounts of investment in product development and end-user market development. Present cash flow statements for the company show that the company currently could not support this level of product investment on top of the capital costs needed to build a new building and purchase the equipment (\$15.15 million), and remain competitive in its world markets.

The project will not proceed without the proposed public gap financing. This specific assistance will make the costs of the project more competitive with other location options available to the company. Presently due to the large amount of company imports and exports, transportation is the company's third highest operational cost, next to materials and labor. If this expansion does not occur at the Des Moines facility, parts of it will occur at one of the company's other manufacturing sites, which are more conducive to importing and exporting of goods. The company currently owns 28 acres adjacent to its plant in Port Houston, TX, which is a prime alternative site. A two-state comparison of Iowa and Texas suggests that this alternative is very viable and would result in lower operational costs to the company and reduce tax considerations for the stockholders. The raw material for the new satiety agent is produced in Minnesota and must be transported to Iowa. Officials with the state of Minnesota have approached Kemin Industries with economic incentives to locate this new production line in Minnesota. If the company does not invest the new processes in the Des Moines plant, it will do so on one of the other proposed sites.

Kemin Industries continues to be a major agribusiness expansion within the Des Moines Agribusiness Enterprise Zone. The proposed project will continue Kemin's expansion here at the Des Moines complex. Kemin's current level of community employment is at 191 jobs with an average hourly wage of \$20.22. This is the company's fourth major expansion at the Maury Street campus in the City of Des Moines. Kemin's previous expansions has resulted in investments in new buildings and equipment invested in excess of \$24.2 million and created 165 jobs at wage levels averaging between \$23.78 – \$25.10 per hour. The company also provides health and dental insurance, disability insurance, profit sharing plans and educational reimbursement within its employee benefit program.

Good Neighbor Task Force

On January 31, 2005, representatives of Kemin Industries met with the Des Moines Good Neighbor Task Force to discuss the proposed expansion project in the Des Moines Agribusiness Enterprise Zone. By a unanimous vote, the Des Moines Good Neighbor Task Force approved a resolution finding that Kemin Industries meets the Good neighbor Policy and recommends approval of the Good Neighbor Agreement

Enterprise Zone Application

The Kemin Industries expansion project meets or exceeds all the requirements for enterprise zone benefits, which include: (a) a minimum capital investment of at least \$500,000 located in a

certified Enterprise Zone, (b) the creation of at least 10 full-time positions, the Kemin Project will create 40 new positions, (c) the payment an average wage of at least \$13.61per hour, the Kemin project will pay an average wage of at least \$28.37 per hour; and (d) pay at least 80% of the cost of health and dental insurance or the monetary equivalent.

If approved, the enterprise zone benefits provide for: (a) the refund of sales, service and use taxes paid on construction materials used in the project, (b) a ten percent (10%) investment tax credit applied to state corporate income taxes and (c) a 13 percent research and development activity state of Iowa corporate income tax credit.

Polk County and State of Iowa Loan

It is proposed that Polk County will provide to Kemin a \$1,250,000, zero percent loan to be repaid over 10 years. The County loan would require no payments for the first three years and then be amortized in annual payments over the remaining seven years. It is proposed that the state of Iowa provide assistance under its CEBA/PIAP programs totaling \$550,000 of which \$250,000 would be a forgivable loan and \$300,000 would be repaid over a 5-7 year amortization with zero percent interest.

Company History

Kemin Industries, Inc. (Kemin) (KI) 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, headquartered at 2100 Maury in Des Moines, develops and manufactures specialized liquid and dry, nutritional additives for animal feeds and human foods, value added agricultural products. Product lines include: antioxidants, inhibitors, flavors, enzymes, pigmenters, minerals, and gluconeogenics. Specific product lines have been developed for swine, poultry, dairy cattle, beef cattle, sheep and pets. Kemin currently distributes its products on a worldwide basis through a network of international manufacturing and sales facilities. Kemin has grown its operations to include six manufacturing facilities located both nationally (Iowa and two in Texas) and internationally (Singapore, Belgium, Thailand, China, India and Mexico). Kemin Industries continues to refine and develop new products as feed additives for the poultry, swine, dairy and beef cattle industries.

Kemin Industries d/b/a Kemin Nutrisurance (KN) continues to expand into the companion animal market with all natural antioxidants as well as developing nutritional supplements to enhance the life of the companion animal. Kemin Nutrisurance has recently announced the arrival of a marigold extract, the first ever naturally-stabilized marigold extract for use in pet food. Kemin Nutrisurance (KN) is currently conducting studies on including a satiety aid in pet food to promote animal health.

Two new affiliates were established, Kemin Foods (now d/b/a Kemin Health) in January 1996, and Kemin Consumer Care (KCC) in 2003 (a fully owned subsidiary of Kemin Foods). Kemin Health (KH) manufactures and sells nutraceuticals. New products it has brought to market include an assortment of vitamins and dietary supplements, containing lutein. Medical research has shown that increased consumption of lutein may help prevent an eye disease. Kemin Consumer Care is Kemin's first retail company. KCC is taking our new all-natural satiety aid, Satise, straight to the consumer through infomercials, the Internet and retail stores.