



**Council
Communication**
Office of the City Manager

Date

December 4, 2006

Agenda Item No. 46

Roll Call No. ~~06-~~

Communication No. 06-768

Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Resolution Receiving the Supplement to the Proposal from Vision Fuels for the Purchase and Redevelopment of Disposition Parcel No. 1 in the Agrimergent Technology Park *and* Resolution Selecting Vision Fuels as the Redeveloper of Disposition Parcel No. 1.

SYNOPSIS:

Recommend approval for the following actions:

1. Receive the supplemental staff and consultant reports as well as Vision Fuels Des Moines, LLC's response to the City's information request.
2. Approve the Preliminary Terms of Agreement that Vision Fuels Des Moines, LLC submitted for the purchase and redevelopment of part of Disposition Parcel No. 1 in the Agrimergent Technology Park.
3. Authorize the City Manager to negotiate a final Development Agreement with Vision Fuels Des Moines, LLC (David W. Walters, President, 2641 86th Street, Urbandale, IA 50322) that is consistent with its executed Preliminary Terms of Agreement as well as its Proposal, supplemented by its written response to the City's information request, and
4. Set the date of public hearing as December 18, 2006 to enter into the final Development Agreement with Vision Fuels Des Moines, LLC.

Vision Fuels Des Moines, LLC has proposed to construct a 110-million gallon, dry mill fuel ethanol production facility on 128 acres. The company has pledged to create at least 45 full-time, permanent jobs within three months after a Certificate of Occupancy has been issued and up to an additional 35 jobs within 21 months thereafter. The minimum annual projected payroll would be \$2.2 million. Based on its proposal, Vision Fuels intends to start construction by March 2007 and complete the project in July 2008.

FISCAL IMPACT:

Amount: The developer will make a one-time investment of \$6,070,000 plus recurring annual payments to the City of approximately \$3,508,000.

Funding Source: Vision Fuels Des Moines, LLC has agreed to the following as specified in its Preliminary Terms of Agreement.

1. *One-Time Investment* (land price, regional storm water detention, land assemblage and infrastructure fund, additional payments and road infrastructure): *Approximately \$6,070,000.*
2. *Recurring Payments* (projected annual taxes = \$1,908,000 and annual franchise fees = \$1,600,000 that will be provided for three years @ 5%, which afterwards will be reduced by the amount of the industrial rebate and by the amount that is legally allowed when the franchise fee issue is resolved): *Approximately \$3,508,000.*

ADDITIONAL INFORMATION:

On November 1, 2006, the City Council considered presentations by Lincolnway Energy, LLC and Vision Fuels Des Moines, LLC for the purchase and redevelopment of part of Disposition Parcel No. 1 in the Des Moines Agrimergent Technology Park. Council directed the City Manager to negotiate agreements with both companies regarding the following issues and to report what was negotiated at its December 4, 2006 meeting.

1. Local participation regarding construction of the facility.
2. The environmental impact and economic feasibility of using coal vs. natural gas to power the ethanol plant.
3. The overall financial impact upon the City, and
4. The ability of MidAmerican Energy to provide the natural gas required for the ethanol facility that Vision Fuels proposed.

On November 30, 2006, Lincolnway Energy, LLC withdrew from consideration to purchase and redevelop the site. The company thanked the Council and staff for their efforts.

Vision Fuels Des Moines, LLC provided the following information, which was excerpted from its response to the City's information request.

Local Participation

Vision Fuels Des Moines, LLC (David W. Walters, Chairman, 2641 86th Street, Urbandale, IA 50322) is located in the Des Moines metropolitan area. Sinclair-Hille and Brian Clark + Associates (architects) office in Des Moines. SSOE/New Mech is from St. Paul, Minnesota. Praj Industries Limited (technology provider) is from India. Ryan Companies (construction contractor) offices in West Des Moines and is headquartered in Minneapolis, Minnesota.

The company intends to obtain nearly all of its construction labor from the Des Moines area. It anticipates spending less than 2% (\$3.5 million) of its \$175 million total project cost on engineering and design services from India. Full-time employees are expected to come from within 15 miles of the Des Moines plant. It projects that 80% of the corn will originate by rail within a 30-mile radius of Des Moines. In addition, the company aims to purchase nearly all of its operation/maintenance services from Des Moines area businesses.

Approximately 45% (\$78,750,000) of the \$175 million total project cost will be funded with equity, and 55% (\$96,250,000) will be debt financed through a senior lender. Vision Fuels Holding Company, LLC, which is the 100% owner of Vision Fuels Des Moines, LLC, will conduct a founders offering, a seed capital offering and a registered offering. The founders and seed capital offerings will consist of raising equity from local and Iowa investors and will be structured so that they are exempt from federal registration with the SEC. The registered offering will involve generating equity through a public offering that will be federally registered through the SEC. The minimum required investment in the

founders, seed capital and registered offerings is \$50,000. The registered offering's focus will be the Des Moines metropolitan area.

Vision Fuels is in process of selecting its preferred lender from a group of large national banks that lend extensively in the ethanol industry. In addition, it is working with local lenders to create a participant group which would allow financing to be provided locally.

Environmental Impact and Economic Feasibility

Vision Fuels Des Moines, LLC's administrative office and site will meet Leadership in Energy and Environmental Design (LEED) certification standards with a goal of reaching LEED silver status. The developer will design the entire facility with energy efficiency as a foremost concern in order to promote its commitment to renewable energy and environmental sustainability. In addition, the developer will contract with the City of Des Moines to allow use of the Learning Gallery and an associated tour of the facility on a weekly basis to educate the public about renewable energy and sustainability.

The company will fuel its ethanol facility 100% with natural gas. It is exploring a partnership with Environmental Reclamation and Recycling, LLC (6600 Westown Parkway, West Des Moines), a biomass technology provider that James Myers owns and operates. The company has researched the potential of using a fluidized bed boiler that would allow it to reduce its natural gas usage by 60%. It is in process of conducting a cost-benefit analysis to determine if the capital cost of this technology is justified.

On November 22, 2006, the Iowa Department of Natural Resources provided the City with a letter regarding the potential environmental impact related to a proposed dry mill ethanol production facility. They concluded that it is feasible to obtain air quality permits for either a natural gas or a coal-fired plant at the proposed project site. In either case, there will be no exceedances of the air quality standards, which are designed to protect the public health. There will be no visible signs of pollutants that emanate from the stacks, other than steam.

The City has retained Schmidt Associates, Inc., a power plant consultant, to address environmental and economic viability issues. Mr. Schmidt will attend the December 4, 2006 Council meeting to answer questions.

Fiscal and Economic Impact

<i>ONE-TIME INVESTMENT</i>	<i>VISION FUELS DES MOINES, LLC</i>
<i>Land price</i>	<i>\$1,792,000</i> Purchase of 128 acres @ \$14,000/acre.
<i>Regional storm water detention</i>	<i>\$ 369,000</i> The developer will design and construct at its expense the storm water management system to accommodate 26.5 acre-feet of storage needed for the City's regional detention basins south of Vandalia Road, in accordance with City standards.
<i>Land assemblage and infrastructure fund</i>	<i>\$ 809,000 (Net Present Value)</i> The developer will contribute \$1 million, which will be structured into payments of \$200,000/year over the next five years. The first payment will commence on the date construction begins. Funds are to be used for acquisition, relocation and demolition of blighted properties and/or investment in regional storm water management.

<i>Additional payments</i>	<i>\$1,500,000</i> The developer offers \$500,000/year for each of three years. <i>\$1,600,000</i> The developer offers an additional cash payment of the total acreage determined by survey to be purchased multiplied by \$12,500. The cash payment will be contributed to the land assemblage and infrastructure fund upon receipt of the associated construction permits to commence construction of the facility.
<i>Road infrastructure</i>	<i>Amount to be determined.</i> The developer offers to share costs with the City for the pro-rated portion of Vandalia Road and SE 43 rd Street improvements when justified by the applicable traffic study correlated with need for improvements. The developer will pay all costs related to improvements needed for its facility, including the construction of a turning lane on SE 43 rd Street.
<i>TOTAL ONE-TIME INVESTMENT</i>	<i>\$6,070,000</i>

<i>RECURRING PAYMENTS</i>	<i>VISION FUELS DES MOINES, LLC</i>
<i>Minimum taxable value and projected annual tax revenue</i>	<i>\$1,908,000</i> Projected Annual Tax Revenue (Total minimum taxable value for the development of 128 acres = \$41,538,800). This is based on a minimum of \$7.45/sf with no tax abatement for all acres to be purchased, including the projected 12.5 acres the developer intends to deed back to the City for the regional storm water detention basins south of Vandalia Road.
<i>Estimated annual franchise fee – electricity and natural gas</i>	<i>\$ 100,000</i> (\$2 million in electricity costs x 5%) <i>\$1,500,000</i> (\$30 million in natural gas costs x 5%) The developer offers to pay the current 5% franchise fee for electricity and natural gas and will not file an application seeking a rebate for an industrial or manufacturing facility for three years. The developer offers to pay a 1% franchise fee for electricity and natural gas for three years if the City is legally prevented from collecting it. If the fee is reduced, the developer offers to pay a 1% franchise fee above the legally established limit for electricity and natural gas for three years, which total shall not exceed 5%.
<i>PROJECTED RECURRING PAYMENTS (FOR AT LEAST THREE YEARS)</i>	<i>\$3,508,000</i>

MidAmerican Energy’s Ability to Deliver Natural Gas to Site

On November 27, 2006, MidAmerican Energy provided a letter that stated it has the infrastructure to be able to provide the requested 30# gas service in the location Vision Fuels specified in its preliminary drawings. Furthermore, it indicated it would be able to complete installation within six months after the company accepts MidAmerican Energy’s proposal and the company’s business plans and financial statements are approved.

PREVIOUS COUNCIL ACTION(S):

Date: November 1, 2006

Roll Call Number: 06-2145

Action: [Approving](#) selection of a Preferred Redeveloper and an Alternate Redeveloper of Disposition Parcel No. 1 in the Des Moines Agrimergent Technology Park in the SE Agribusiness Urban Renewal Area, (continued from October 23, 2006). ([Council Communication No. 06-683](#)) Moved by Vlassis that the City Manager is hereby directed to negotiate with the two remaining redevelopers regarding the following issues related to their proposals, and to report back to the City Council at the meeting on December 4, 2006: 1. (a) The local participation in the construction of the facility; (b) The environmental impact and economic feasibility of using coal versus natural gas to power the ethanol plant; (c) The overall financial impact upon the City; and, (d) The ability of MidAmerican Energy to provide the natural gas required for the ethanol plant proposed by Vision Fuels. 2. That the City Council hereby declares its intent to select a redeveloper at the meeting on December 4, 2006, and to then schedule a public hearing to be held on December 18, 2006, to approve an agreement for the sale of Disposition Parcel No. 1 to the selected redeveloper for construction of an ethanol plant. Motion Carried 6-0.

Date: October 23, 2006

Roll Call Number: 06-2135

Action: [Selection](#) of Lincolnway Energy, LLC as the Preferred Redeveloper and Vision Fuels Des Moines, LLC as the Alternate Redeveloper of Disposition Parcel No. 1 in the Des Moines Agrimergent Technology Park in the SE Agribusiness Urban Renewal Area. ([Council Communication No. 06-663](#)) Moved by Vlassis to set a Special Council Meeting for Wednesday, November 1st at 6:00 PM. Each Redeveloper will make a presentation and Council will make a selection at that meeting. Motion Carried 6-0.

Date: August 21, 2006

Roll Call Number: 06-1713

Action: [Resolution](#) for Competitive Process and Minimum Development Requirements and Competitive Criteria for the redevelopment of Disposition Parcel No. 1 in the Des Moines Agrimergent Technology Park in the SE Agribusiness Urban Renewal Area. ([Council Communication No. 06-529](#)) Moved by Kiernan to approve. Motion Carried 5-1.

Date: July 10, 2006

Roll Call Number: 06-1368

Action: [From](#) Vision Fuels, LLC regarding proposed ethanol facility in the Des Moines Agrimergent Technology Park. ([Council Communication No. 06-401](#)) Moved by Brooks to receive and file letter and refer to the City Manager for further action. Motion Carried 5-2. Absent: Kiernan and Vlassis.

Date: April 24, 2006

Roll Call Number: 06-799

Action: [From](#) Lincolnway Energy, LLC regarding a proposed ethanol facility in the Des Moines Agrimergent Technology Park. ([Council Communication No. 06-214](#)) Moved by Brooks to receive and file letter and refer to the City Manager for further action. Motion Carried 7-0.

Date: December 3, 2001

Roll Call Number: 01-3577

Action: On proposed Des Moines Agrimergent Technology Park Plan, generally between SE 30th and SE 43rd Streets in vicinity of Vandalia Road. ([Council Communication No. 01-599](#)) Moved by Brooks to adopt. Motion Carried 6-1. Absent: McPherson.

Date: December 6, 1999

Roll Call Number: 99-3720

Action: Approving Offer to Purchase approximately 166 acres owned by Archer Daniels Midland, ([Council Communication No. 99-512](#)) Moved by Brooks to adopt. Motion Carried 5-2. Absent: Daniels and McPherson.

BOARD/COMMISSION ACTION(S):

Date: October 19, 2006

Roll Call Number: N/A

Action: Urban Design Review Board recommended selection of Lincolnway Energy, LLC as the preferred redeveloper and Vision Fuels Des Moines, LLC as the alternate redeveloper of Parcel No. 1 in the Des Moines Agrimergent Technology Park.

Date: August 15, 2006

Roll Call Number: N/A

Action: Urban Design Review Board recommended approval of the Minimum Development Requirements and Competitive Criteria for Disposition Parcel No. 1 in the Des Moines Agrimergent Technology Park.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

On December 18, 2006, the City anticipates entering into the urban renewal contract.