



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

00-367

SYNOPSIS -

AGENDA:

AUGUST 7, 2000

On the August 7, 2000 Council agenda is a roll call to approve several actions to assist a proposed new \$24 million economic development project for Kemin Industries, 2100 Maury, Des Moines, IA.

SUBJECT:

The Council is being asked to approve:

ECONOMIC
DEVELOPMENT
ASSISTANCE FOR
KEMIN
INDUSTRIES, INC.

- 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. Submission of a State of Iowa Community Economic Betterment Account (CEBA) Application for a \$2.7 million, zero interest Float Loan;
- 3. Preliminary approval for a City economic development forgivable loan for \$33,750 to Kemin Industries, Inc.; and
- 4. Recommendation to the Des Moines Enterprise Zone Commission of Kemin Industries' Application for Enterprise Zone Benefits and authorize Enterprise Zone Property Tax Exemption regarding a project in the Des Moines Agribusiness Enterprise Zone.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

RICHARD CLARK
DEPUTY CITY
MANAGER

Kemin Industries continues to grow and expand its Des Moines manufacturing and worldwide corporate office complex. Kemin is proposing a new \$24 million expansion project that involves investments in a new \$1.5 million, 20,000 square foot production building, setting up several new manufacturing lines at an investment of \$13.6 million and increased investments totaling \$9 million into new product research and development, and market development over the next three years. The expansion will result in the creation of 76 new positions at an average starting wage of \$16.73 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 MidAmerican Energy have proposed a \$6.7 million financial assistance package to provide gap financing so this expansion will occur at the Des Moines complex. Additionally, LaSalle Banks has agreed to lend the company approximately \$8 million for the project and Kemin Industries proposes to increase its investment in research and development and market development by \$9 million over the next three years. Without the proposed gap financing, 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 is an economic development forgivable loan for \$33,750 to cover costs associated with obtaining an Irrevocable Letter of Credit required as a condition of the CEBA Float Loan application. The City's participation will be funded from the SE AgriBusiness Urban Renewal Area Tax Increment Financing District revenues generated from the Kemin Industries project. The project's value-added improvements to real property will be eligible for tax abatement under the City's Urban Revitalization ten-year declining schedule. It is anticipated that the new value-added improvements will provide net new property tax revenues (after tax abatement and the economic development forgivable loan) over ten years of \$267,000.

The majority of Enterprise Zone benefits is State of Iowa corporate income tax credits and will have no effect on the General Fund. The enterprise zone tax exemption schedule provides for \$1 of tax exemption on the project's new value-added improvements per year for ten years, which will have no fiscal impact on the General Fund.

RECOMMENDATION -

Approval of the roll calls 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. Submission of a State of Iowa CEBA Application for a \$2.7 million, zero interest Float Loan;

3. Preliminary approval for a City economic development forgivable loan for \$33,750 to Kemin Industries, Inc.; and

4. Recommendation to the Des Moines Enterprise Zone Commission of Kemin Industries' Application for Enterprise Zone Benefits and authorize Enterprise Zone Property Tax Exemption regarding a project in the Des Moines Agribusiness Enterprise Zone.

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.

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. The company also provides health and dental insurance, disability insurance, profit sharing plans, and educational reimbursement within its employee benefit program.

Kemin Industries continues to be the first major agribusiness expansion within the Des Moines Agribusiness Enterprise Zone. Kemin Industries' continued expansion supports developing the critical mass needed for further agribusiness expansions in the zone.

Good Neighbor Task Force

On July 17, 2000, 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. On July 25, 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 ten full-time positions, the Kemin project will create 76 new positions; (c) the payment of an average wage of at least \$9.50 per hour, the Kemin project will pay an average starting wage of at least \$16.73 per hour; and (d) pay at least 80 percent 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 10 percent 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. The enterprise zone tax exemption schedule provides for \$1 of tax exemption per year for ten years on the project's new value-added improvements. The City must provide a partial tax exemption on the project's value-added improvements in order for the company to obtain the State of Iowa investment tax credit.

CEBA Float Loan, Polk County Loan, and City Forgivable Loan

To fill the project's financing gap, it is proposed that the State of Iowa and Polk County provide loans that will be repaid by Kemin Industries. It is proposed that the State of Iowa provide a \$2.7 million, zero interest rate loan for a term of 30 months, and Polk County provide a \$1.2 million, zero interest rate loan for a term of 36 months. Both loans will be repaid by Kemin Industries.

The State of Iowa loan will be funded out of the CEBA program using funds that have been obligated, but not drawn upon. A requirement for the CEBA Float Loan program is that all float loans are secured by an Irrevocable Letter of Credit. LaSalle Bank has agreed to issue the letter of credit to the State of Iowa for a fee. To reduce the overall financing costs for the project, it is proposed that the City provide a forgivable loan in an amount sufficient to cover the cost of the letter of credit estimated not to exceed \$33,750.

Company History

Kemin Industries, Inc. (Kemin) 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, and Mexico). Kemin Industries continues to refine and develop new products as feed additives for the poultry, swine, dairy and beef cattle industries, and is in the process of bringing to market a new trace mineral feed additive for use primarily within the swine industry.

Two new affiliates were established, Kemin Foods in January 1996, and Kemin Biotech in 1997. Kemin Foods manufactures and sells human food additives and 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. Other new products under research and development include the development of new food preservatives and an all-natural appetite suppressant made from potatoes. Kemin Biotech serves as a worldwide research company to take Kemin into the 21st century. Kemin Biotech is in research and development of several new processes focused on the extraction of corn enzymes for use in feed additives and other processes.