

COUNCIL ACTION FORM

SUBJECT: ENDORSEMENT OF IOWA ECONOMIC DEVELOPMENT AUTHORITY APPLICATION FOR FINANCIAL ASSISTANCE FOR BOEHRINGER INGELHEIM VETMEDICA, INC., WITH LOCAL MATCH IN THE FORM OF INDUSTRIAL PROPERTY TAX ABATEMENT

BACKGROUND:

Boehringer Ingelheim Vetmedica, Inc. (BIVI), is a subsidiary of Boehringer Ingelheim USA based in Ridgefield, Connecticut. BIVI is part of the German Boehringer Ingelheim Group, a global pharmaceutical company. BIVI develops, manufactures, and markets veterinary pharmaceutical products. The Ames facility, located in the ISU Research Park, operates a health management center and diagnostic laboratory and conducts biological research. The company also operates a large manufacturing facility in Fort Dodge and has smaller operations in Sioux Center and Riverside.

The company has selected Ames as a location for expansion. BIVI has applied for economic development assistance from the Iowa Economic Development Authority (IEDA), with a local match provided by the City of Ames limited to our existing Industrial Property Tax Abatement program.

This project will include construction of a 52,088 square foot building in Phase II of the ISU Research Park. The new building will include 32,000 square feet of lab space. Total investment expected for the project is over \$11.9 million, including \$ 166,790 in High Quality Job Program tax credits from the IEDA. Though the company is committing only one additional job with the expansion, the expectation is that there will be several new jobs in Ames in addition to the 54 at the current facility. The IEDA has an open economic development incentive project with BIVI approved late in 2010 with statewide employment requirements. BIVI intends to use the employment growth generated by the Ames project to meet its commitments under the earlier agreement. The City of Ames is a small part of the 2010 incentive agreement that included large expansions by BIVI in Fort Dodge and Sioux Center.

IEDA will review the BIVI application for assistance later in December. For the IEDA to continue consideration of this project, the City Council must adopt a resolution supporting submittal of the BIVI application for IEDA assistance. For BIVI to receive the local match, the company will need to apply for the City's Industrial Abatement Program and the project must qualify with the terms of that program.

ALTERNATIVES:

1. Adopt a resolution supporting the submittal of an application from Boehringer Ingelheim Vetmedica, Inc. requesting economic development assistance from

IEDA through the High Quality Jobs Program, with the local match limited to Industrial Property Tax abatement incentive which is contingent upon the City Assessor's determination of eligibility.

It should be emphasized that the determination as to whether or not the project qualifies for the Industrial Tax abatement incentive is made by the City Assessor. The Assessor recently advised staff that, based on the assumption that Boehringer Ingelheim will be conducting research and development at their proposed facility, it would qualify for the Industrial Exemption as defined in Iowa Code 427B.1 "*Research-service facilities*".

2. Do not adopt a resolution of support for the Boehringer Ingelheim Vetmedica, Inc. application.

MANAGER'S RECOMMENDED ACTION:

BIVI is global leader in animal health. It has selected Ames as a location to make a significant investment of capital to expand its office/lab space in the ISU Research Park from 21,000 square feet to 52,088 square feet without any additional cost to City infrastructure. **Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1 as described above.**

It is important to note that previous local matches for projects that received State of Iowa funding was 10%. Staff has been informed that this will continue to be the case if the State provides actual funding to a project. However, in those instances where a company receives tax credits from the State, the City will be expected to offer the five year industrial tax abatement program. In this case, in return for the \$166,790 in tax credits from the State, the value of the City's tax abatement is estimated to be \$1,184,446 based on the estimated assessed value for the new building at \$17,660,000.

Normally, this local incentive would not be an issue because the City Council has previously passed an ordinance that makes this tax abatement incentive available to any project in the City that qualifies. What makes this abatement significant is that it is being offered in the TIF District from which tax revenues are needed to pay for Phase III infrastructure improvements at the Research Park. As was mentioned in a previous staff report, the City could have negotiated terms with the Research Park Corporation to prohibit tax abatement in Phase II, but it was decided not to pursue that option.



Debi V. Durham, Director
Iowa Economic Development Authority

Business Financial Assistance Application

Business Finance - Business Development Division
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Telephone: 515.725.3134 Email: businessfinance@iowa.gov

Application Instructions

To Complete Electronic Form: Click on TEXT BOX to add text. Double click on YES/NO boxes and select "Checked".

1. All applicants must complete the Business Financial Assistance Application and attach only those additional sections for the components to which the applicant is applying.

<u>STATE of IOWA – Financial Assistance Programs</u>	
<input type="checkbox"/> Enterprise Zone Program (EZ) <i>Supplemental info required– Section G - EZ Supplement</i>	High Quality Jobs Program (HQJP) <input checked="" type="checkbox"/> Tax Credits <input type="checkbox"/> Direct Financial Assistance

2. Before filling out this application form, please read all applicable sections of the Iowa Code and Iowa Administrative Code (rules). www.legis.state.ia.us/IowaLaw.html
3. Only typed or computer-generated applications will be accepted and reviewed. Any material change to the format, questions, or wording of questions presented in this application will render the application invalid and it will not be accepted.
4. Complete the applicable sections of the application fully. If questions are left unanswered or required attachments are not submitted, an explanation must be included.
5. Use clear and concise language. Attachments should only be used when requested or as supporting documentation.
6. Any inaccurate information of a significant nature may disqualify the application from consideration.
7. The following must be submitted to Business Finance at IEDA in order to initiate the review process:
 - One **original**, signed application form and all required attachments
 - One **electronic** copy of the application form and all required attachments

Facsimile copies will not be accepted.

Applications must be submitted to IEDA Business Finance before 4:00pm on the fourth Monday of the month.

Applications will be reviewed by the IEDA Board on the third Friday of the following month.

Public Records Policies

During the application process, the information submitted by you to IEDA is exempt from disclosure under the “industrial prospects” exemption found in Section 22.7(8). However, once you receive an award, the industrial prospects exemption no longer applies and *all documents submitted and generated during the application and negotiation process become public records* under Iowa’s Open Records Law ([Iowa Code, Chapter 22](#)), unless

- 1) The information belongs to one of the classes of records automatically treated as confidential; or
- 2) You have applied for and received written notice that your information will be treated as confidential.

Automatically Confidential Records

IEDA automatically treats the following records as confidential and will withhold them from public inspection even without a request for confidential treatment:

- Tax Records and Tax Liability Information
- *Quarterly Iowa Employer’s Contribution and Payroll Report* prepared for the Iowa Workforce Development Department
- Payroll Registers
- Business Financial Statements and Projections (unless those statements are already publicly available elsewhere, e.g., 10-K filings)
- Personal Financial Statements

Exemptions to the Open Records Law

If you wish to have additional information treated as confidential, you must fill out the [confidential treatment request form](#). Under the Open Records Law, IEDA may lawfully treat certain information as confidential if that information falls within an exemption to the Open Records Law. The following exemptions represent records which may lawfully be treated as confidential under the Open Records law and which are most often applicable to the information submitted to IEDA:

- Release of information would give an unfair advantage to competitors – Iowa Code Sec. 15.118
- Trade secrets – See Iowa Code section 22.7(3), see also Iowa Code Ch. 550
- Information on an industrial prospect with which the IEDA is currently negotiating – See Iowa Code section 22.7(8)
- Communications not required by law, rule or regulation made to IEDA by persons outside the government to the extent that IEDA could reasonably believe that those persons would be discouraged from making them to IEDA if they were made available for general public examination – Iowa Code section 22.7(18)

Non-Confidential Information

Information that is submitted to IEDA as part of the application process or that is contained in a contract for program benefits is generally considered material to the eligibility requirements of the program or to the amount of incentives or assistance to be provided. Such information is generally not given confidential treatment. Such information includes but is not limited to, the number and type of jobs incented, the wage levels for the incented jobs, your company’s employee benefit information, and your project budget.

Additional Information Available. Copies of [Iowa’s Open Record law](#) and IEDA’s [administrative rules](#) relating to public records are available from the IEDA upon request.

SECTION B

Business Information

1. **Provide a brief description and history of the Business. Include information about the Business' products or services and its markets and/or customers.**

Boehringer Ingelheim Vetmedica, Inc. ("BIVI" or "the Company") is a subsidiary of Boehringer Ingelheim USA Corporation, based in Ridgefield, Connecticut, and a member of the Boehringer Ingelheim ("BI") group of companies. BIVI is a world leader in developing, manufacturing and marketing an extensive line of high quality biological and pharmaceutical products for its core segments: cattle, swine, horses and pets. The Company acts as a center of competence in biological research, development, and manufacturing for the worldwide animal health business.

BIVI produces a wide-range of high quality biological and pharmaceutical products addressing a plethora of animal health needs. For example, BIVI's Ingelvac CircoFLEX continues to be the standard vaccination for piglets around the globe. Also, METACAM®, a product for the management of pain and inflammation in dogs and cats, is has been one of the fastest-growing brands in the United States. BIVI has also had recent success with the introduction of two new improved lines of vaccines in 2013 including FLEXcombo and Vetera® XP. FLEXcombo® made it easier to vaccinate swine against two of the most economically important swine diseases in a single injection. The new Vetera® XP line of vaccines contains the most relevant strains of equine influenza virus (EIV) that affect horses today. The Company's focus on research and development is a key factor in its continued success.

BIVI's core segments maintain strong market positions within the United States and Europe. The Company's products are available to a wide-range of customers from the individual pet owner to veterinarians and large scale producers.

2. **Business Structure:**

<input type="checkbox"/> Cooperative	<input checked="" type="checkbox"/> Corporation	<input type="checkbox"/> Limited Liability Company
<input type="checkbox"/> Partnership	<input type="checkbox"/> S-Corporation	<input type="checkbox"/> Sole Proprietorship

3. State of Incorporation: Delaware

4. Identify the Business' owners and percent ownership: BIVI is a subsidiary of Boehringer Ingelheim USA Corporation (100%), based in Ridgefield, Connecticut, and a member of the Boehringer Ingelheim group of companies

5. Does a woman, minority, or person with a disability own the Business? ☐ Yes ☒ No

6. List the Business' Iowa locations and the most current number of employees at each location.

As of October 21, 2014

Fort Dodge 5th Street – 444 (does not include 6 contract employees and 11 temporary relocations)

Riverside Operations - 128

Ames –54

Sioux Center –15

Sales Representatives (throughout state) - 20

7. What is the Business' worldwide employment? (Please include employees of parent company, subsidiaries, and other affiliated entities in this figure.) more than 47,400

Project Information

8. **Project Street Address:** 2501 N Loop Dr.
Project City & Zip Code: Ames, Iowa 50010 **Project County:** Story

9. **Type of Business Project:**

☐ Startup

☒ Expansion of Iowa Company

☐ New Location in Iowa

10. **Describe the proposed project for which assistance is being sought. (Include project timeline with dates, facility size, infrastructure improvements, proposed products/services, any new markets, etc.)**

Currently, BIVI leases a 21,000 square foot facility near ISU's campus in which it operates a health management center diagnostic laboratory and biological research. BIVI is considering building a large research facility to:

- expand efforts in all five target species (swine, equine, cattle, companion animals, and poultry)
- continue to research other diseases with an unmet therapeutic need for larger livestock, and
- enhance privacy and security.

The proposed plans for the new research facility include a new build-to-suit 52,088 square foot building in the last plot available in the existing ISU Research Park. The lessor, ISU Research Park, has estimated total construction cost to be roughly \$22 million. BIVI plans to enter into a triple-net lease arrangement is for 15 years with options to renew. The proposed building will increase the amount of lab space from 10,000 square feet to 32,000 square feet. BIVI plans to continue to lease a small space (~1,800 sq. ft.) in the current building to house office related functions. BIVI will commit to hiring one new scientist as result of this project

Ideally, the project would break ground before the end of 2014 and the building would be ready for occupancy in January 2016

11.

Project Timeline <i>(add additional rows as needed)</i>	Beginning Activity Date	Activity Completion Date
Site Preparation	Q4 2014/Q1 2015	Q1 2015
Building Construction	Q1 2015	Q1 2016
Equipment Installation & Move-in	Q1 2016	Q4 2016

12. **Has any part of the project started*?**

☐ Yes

☒ No

If yes, please explain.

* For IEDA's purposes, starting the project includes: the start of construction or rehabilitation, the purchase of a building, the execution of a lease, or the installation of equipment to be used in the project.

13. **Identify the Business' competitors.** If any of these competitors have Iowa locations, please explain the nature of the competition (e.g. competitive business segment, estimated market share, etc.) and explain what impact the proposed project may have on the Iowa competitor.

Leading animal health companies located in Iowa include but are not limited to: Novartis (Larchwood), Pfizer (Charles City), and Sirrah (Ames). BIVI does not foresee an adverse impact on its competitor's Iowa operations as a result of this project.

14. **Will any of the current Iowa employees lose their jobs if this project does not proceed?R**

If yes, please explain why and identify those jobs as "retained jobs" in the Project Jobs Section E.

15. **Is the Business actively considering locations outside of Iowa?**

☒ Yes

☐ No

If yes, where and what assistance is being offered?

Each R&D Project across all BI global operations vie to secure funds through a rigorous and highly competitive process to prove need and justify cost to the parent's Capital Expenditure Management Committee (CEMCom). One alternative location is at BIVI's new production facility in China.

SECTION C

Applicant's Project Budget

1. Does the Business plan to lease the facility? ☒ Yes ☐ No

If yes, please provide the Annual Base Rent Payment (lease payment minus property taxes, insurance, and operating/maintenance expenses) for three years in the budget below, and only major renovation costs your company expects to incur. Administrative rules require that the lease be in place for a minimum of five years.

2. Please complete the budget below. Include only costs the company plans to incur directly:

Use of Funds	Est. Cost	Source A	Source B	Source C	Source D	Source E	Source F
Base Rent (4 years)	\$6,663,020			\$6,663,020			
Tenant Improvements							
Land Acquisition							
Site Preparation							
Building Acquisition							
Building Construction							
Building Remodeling							
Mfg. Machinery & Equip.							
Other Machinery & Equip (R&D Equipment).	\$1,387,650			\$1,387,650			
Racking, Shelving, etc. ¹							
Computer Hardware	\$176,640			\$176,640			
Computer Software							
Furniture & Fixtures	\$1,247,726			\$1,247,726			
Working Capital							
Research & Development**	\$2,000,000			\$2,000,000			
Other***	\$518,160			\$518,160			
TOTAL	\$11,993,196	\$	\$	\$11,993,196		\$	\$

¹ Racking, shelving and conveyor equipment used in distribution center projects only

**Increase in R&D supplies and wages over a 4-year period

*** Backup Electrical, Moving Fees, Consulting Fees

3. Please complete the chart below with proposed financing for the project (tax benefits should be reflected as indirect financing under #5 below):

PROPOSED FINANCING					
Source of Funds	Est. Amount	Form of Funds	Rate and Term	Commitment Status	Conditions/Additional Information
Add additional lines as needed		(Loan, Grant, In-Kind, Donation, etc.)			Include when funds will be disbursed; If loan, whether payments are a level term, balloon, etc
Source A: IEDA (see #4 below)	\$				
Source B: Local Government	\$				
Source C: Business	\$11,993,196	Cash/Equity		Approved by parent	
Source D: ISU Research Park	\$				
Source E: Other Source	\$				
Source F: Other Source	\$				
TOTAL	\$11,993,196				

4. Direct financial assistance (loans/forgivable loans) must be secured with acceptable collateral. Please select the type of collateral your company will pledge to secure the IEDA financing, and document its value in Attachment A5. *

NOT APPLICABLE

No collateral, funding disbursed at the end of the 5-year contract	<input type="checkbox"/>	Explain:
Irrevocable letter of credit	<input type="checkbox"/>	
Dedicated certificate of deposit (CD)	<input type="checkbox"/>	
Surety bond	<input type="checkbox"/>	
Mortgage on real estate	<input type="checkbox"/>	
Corporate guaranty	<input type="checkbox"/>	
Personal guarantee	<input type="checkbox"/>	

* The IEDA Board has the final discretion on what collateral will be accepted.

5. Please complete the chart below with tax credits and other indirect financing expected for the project:

TAX CREDITS AND INDIRECT FINANCING		
Source of Funds	Amount	Description
Investment Tax Credit	\$136,790	HQJP
Sales, Service & Use Tax Refund		
Research Activities Credit (3%/10%)	\$30,000	HQJP
Local Property Tax Exemption	\$1,184,446	City of Ames – 427B
Tax Increment Financing		
260E Job Training Funds		
In-kind Contribution		
Other		
TOTAL	\$1,351,236	

6. There are three justifiable reasons for providing assistance. Check the box next to the reason why assistance is needed to complete this project.

☐ **Financing Gap** - A gap exists between the financing required and the financing on-hand and the provision of tax incentives or assistance is necessary to fill the gap.

☒ **Rate of Return Gap** –The likely returns of the project are inadequate to motivate a company decision maker to proceed with the project even if sufficient debt or equity can be raised to finance the project, and the project's risks outweigh its rewards, making the provision of tax incentives or assistance necessary to reduce the project's risks.

☐ **Location Disadvantage (Incentive)** –The business is deciding between a site in Iowa (“Iowa site”) and a site in another state (“out-of-state site”) for its project and the cost of completing the project at the out-of-state site is demonstrably lower, making tax incentives or assistance necessary to equalize the cost differential between the two sites. Note: The authority will attempt to quantify the cost differential between the sites.

7. Please provide a brief explanation of the need for assistance.

The business of developing and manufacturing animal biologicals and pharmaceuticals involves significant capital investment and expenditures for R&D. As such, BI continually invests more than 10% of net sales of the Animal Health business in R&D. As the pharmaceutical industry's returns on R&D investment have fallen for the fourth year in a row, its German parent is very cautious and strategic on which R&D projects to support. Consequently, expansion opportunities are subject to intense global competition among affiliated companies within the BI group, many of which operate in countries that have favorable business climates and offer significant financial incentives. Each R&D project across all of BI global operations must vie to secure funds through a rigorous and highly competitive process to prove need and justify spend.

Given these reasons, the Company is currently seeking incentive assistance from the State of Iowa and the City of Ames. Specifically, these incentive benefits will offset some of the costs required by the project and will improve the overall business case for the project to occur in Ames. In addition, the assistance will demonstrate the willingness of Iowa to partner with BIVI and would be favorably looked upon during the upcoming final decision making process with its parent company.
