

ITEM: 31
DATE: 03-03-15

COUNCIL ACTION FORM

SUBJECT: NEWLINK GENETICS CORPORATION REQUEST FOR EXTENSION OF EMPLOYMENT REQUIREMENTS FOR FORGIVABLE LOAN AGREEMENT

BACKGROUND:

In September 2005, City Council approved a \$200,000 forgivable loan to NewLink Genetics Corporation. At the time, NewLink was in the research phase of developing pharmaceutical products with a focus on cancer. The assistance was primarily to provide funding for growth in office, lab, and limited production space but was delayed as NewLink continued through the research stage of product development. The company grew to the point where additional space was needed, and on October 13, 2009, City Council directed staff to draft a forgivable loan agreement with the following general terms:

- NewLink commits to a five-year lease with an option for extension to ten years for an existing building at the ISU Research Park with a minimum size of 20,000 square feet.
- Create/retain 150 new jobs averaging \$40,000/year over five years.
- City to provide \$200,000 forgivable loan with funding at the following milestones:
 - \$100,000 upon finalization of a building lease agreement between NewLink and the ISU Research Park
 - \$50,000 when the leased building is occupied by NewLink
 - \$50,000 when NewLink reaches a total of 70 qualified jobs in Ames

The Ames Economic Development Commission (AEDC) also provided a \$200,000 forgivable loan matching the funding provided by the City.

NewLink met all terms for funding of the loan and is now approaching the loan forgiveness close-out date in mid-March. **The company has reported that it is short of the 150 employees required for forgiveness of the loan, with 124 employees at the Ames location. NewLink has requested a one year extension to meet the employment requirement for loan forgiveness.** The company is currently seeking candidates for 15 full-time positions in Ames and has indicated that it expects to meet the employment requirement of the agreement with a one year extension.

The terms of the agreement provide for partial loan forgiveness based on the employment attained. For each job short of 150, the company is required to pay a penalty of \$3,130.58.

The Iowa Economic Development Authority (IEDA) also had a forgivable loan agreement with NewLink but with different job requirements and measurement dates. The IEDA loan was in the amount of \$6,000,000 and required 315 jobs. NewLink did not meet the terms of the agreement and in March of 2012 reached a settlement with IEDA providing 0.50% royalty payment to IEDA on gross revenues from all products brought to market until cumulative payments reached \$6,800,000.

The City Council can deny the request and staff will enforce the terms of the agreement or grant the request and extend the term for employment compliance by one year, or propose other terms. The AEDC has agreed to extend the term for employment compliance by one year. Since the City and AEDC entered the agreement jointly as lenders, both would need to agree to any changes in terms.

ALTERNATIVES:

1. Approve the NewLink Genetics Corporation request for extension of employment requirements of their forgivable loan agreement for a term of one year.
2. Deny approval of the extension.
3. Direct staff to counter the NewLink request with other terms.

MANAGER'S RECOMMENDED ACTION:

NewLink is a pharmaceutical company in Ames with relatively high paying jobs consistent with the economic development goals of the City Council. The company is still in process of developing products for market but has made substantial progress towards meeting employment requirements of the forgivable loan agreement and expects to meet the requirements within the requested extension.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, approving the NewLink Genetics Corporation request for extension of employment requirements of its forgivable loan agreement for a term of one year.