

COUNCIL ACTION FORM

SUBJECT: **REQUEST FROM BARILLA FOR INCENTIVES
RELATED TO PROPOSED EXPANSION**

BACKGROUND:

Barilla has been a corporate citizen since 1997. Over the years the facility in Ames has been expanded so that it now accommodates six production lines operating three shifts, 24 hours per day. It currently employs 180 people at the Ames plant with a taxable value of approximately \$38,644,000. The company currently is receiving a \$1,960,000 Industrial Tax Abatement on the existing improvements.

The company is now planning for its next major expansion project. This project will include: 1) a building expansion of 71,374 square feet to house two additional processing lines and associated packaging/feeding equipment, 2) a rail yard expansion to accommodate a larger number of train cars, and 3) six new silos to store wheat.

The total investment in this project is estimated to be approximately \$62 million including engineering/design work, construction, machinery, and equipment. When completed, the assessed value of the expansion project is estimated to be \$16,320,000. In addition, 41 new jobs will be added at the Ames site as a result of this expansion project. The plans are for construction to begin in May 2017 with the building completed by the spring of 2018.

Currently the company is considering two possible sites for this expansion project; Ames, Iowa and Avon, New York, the site of Barilla's other plant in North America. The consultant who is advising Barilla regarding the expansion project has informed City staff that the City of Avon is willing to grant Barilla a 100% tax abatement for ten years on the value of the new additions and a 50% tax abatement on their existing plant value for the same ten year period. They estimate the value of this tax abatement incentive to be \$8,000,000 over a ten year period.

The projected water consumption related to this expansion would be an additional 5,197,300 gallons annually with a daily average of 14,279 gallons. This amount of additional water consumption would be well within our new Water Plant's capacity to accommodate. Because the expansion is simply the addition of new pasta lines which currently pose no wastewater issues, the project should not be a problem for our Water Pollution Control Plant either.

STATE OF IOWA INCENTIVE PACKAGE:

The staff from the Iowa Economic Development Authority is recommending to their Board an incentive package totaling \$1,591,000. The package consists of: 1) \$375,000 in the form of a Forgivable Loan if the 41 jobs are created in a timely manner, 2) \$400,000 for an Investment Tax Credit, and 3) \$816,000 for State Sales Tax Credits.

CITY OF AMES INCENTIVE PACKAGE:

An expansion project like the one being proposed by Barilla would typically qualify for the five year, partial Industrial Tax Abatement Program from the City. Assuming that the assessed value of the expansion project will be \$16,320,000, the value of this tax abatement would be \$1,046,220 for the company.

According to the City's Economic Development Policy, the local incentive package could be increased to include a low interest or forgivable loan depending on how well the project scores on our Economic Development Funding Matrix. A review of the project by the Finance Director yielded enough points to justify a low interest loan, but not a forgivable loan (grant) to the company. One of the factors that contributes to the low score is the fact that only 9 of the 41 new jobs will be above the Ames laborshed pay rate.

WHAT MAKES THE BARILLA EXPANSION UNIQUE?

Staff believes a case can be made that this latest Barilla project is unique and worthy of incentives in excess from what would be traditionally offered similar projects. **The combination of following points would seem to justify some level of extraordinary incentives:**

- The Barilla complex is the second largest property tax contributor in the city.
- The company has made significant investments in our community over the years.
 - This initial project in 1997 included an estimated investment of \$137 million with 150 employees.
 - The latest addition of the gluten-free line in 2015 resulted in an estimated investment of \$26.5 million and 23 additional employees.
- There is sufficient land available on the site to accommodate future expansion beyond the project planned this year.
- This project includes the expansion of the existing rail yard to accommodate a 100 car unit train in 36 hours as compared to the 96 hour turnaround time that now exists with smaller track length. It is possible that this expanded rail capability could be made available to other companies in the area.
- The company will increase their number of manufacturing jobs by 41.

ALTERNATIVES:

- 1) As part of the incentive package to Barilla to entice the company to locate its next expansion project in Ames, the Council could decide to offer **a five year, partial Industrial Tax Abatement incentive**. The value of this incentive based

on an incremental assessed value for the expansion project of \$16,320,000 would be \$1,046,220.

Under this incentive program, the City would be paid \$1,278,714 over this same five year period.

No action is required under this alternative. If the project qualifies for the incentive as determined by the Assessor, this incentive is automatically provided.

- 2) As part of the incentive package to Barilla to entice the company to locate its next expansion project in Ames, the Council could decide to offer a **ten year, partial tax abatement incentive under the Urban Revitalization Program**. The value of this incentive based on an incremental assessed value for the expansion project of \$16,320,000 will be \$2,045.942.

Under this incentive program, the City would be paid \$2,603,926 over this same ten year period.

To accomplish this alternative, the City Council will need to create an Urban Revitalization Plan and area and to adopt a resolution approving the plan and an ordinance approving the area for the Barilla site.

- 3) As part of the incentive package to Barilla to entice the company to locate its next expansion project in Ames, the Council could decide to offer a **Tax Increment Financing (TIF) Rebate incentive to the company for ten years or up to \$3,000,000, whichever comes first**.

Assuming a \$16,320,000 assessed value for the incremental value of the expansion project and that the tax rate and assessed value remains the same over a ten year time frame, \$3 million of tax rebates will be generated for the company in ten years. However, if the tax rate and/or the assessed value increases in the future, \$3 million of tax rebates could be generated sooner for the company.

Under this incentive program, the City would be paid \$491,314 over this same ten year period.

To accomplish this alternative, the City Council must establish an Urban Renewal Area, prepare a developer agreement for the company to sign agreeing to create the 41 new jobs within three years, and create a minimum assessment agreement for the company to sign equal to \$16,320,000 which is the estimated value of the new improvements associated with the expansion project.

CITY MANAGER'S RECOMMENDED ACTION:

Responding to this request for an incentive package is challenging for the City since the request by the company is not based on need. Rather, in making their final decision, the company is attempting to compare the direct and indirect benefits that they have identified from the proposals submitted by Avon/State of New York with Ames/State of Iowa. The staff has been told that the total value of the incentive package that is being offered by Avon is \$12,450,000. This total includes the ten year tax abatement incentive that quite frankly is too generous for most other cities throughout the country to justify.

In this instance, City staff can justify going above and beyond the five year industrial Tax Abatement incentive because, 1) as reflected in the points identified above, this project is unique and a precedent should not be established with this type of response, and 2) an additional investment of this magnitude at the Ames plant should reflect favorably on this site should further expansion possibilities in the future cause a similar competition between Ames and Avon.

In keeping with this reasoning, the City Manager suggested to the company that he could recommend a ten year, partial tax abatement schedule that is available under the Urban Revitalization Program. The value of this incentive would equal \$2,045,942. While company representatives were appreciative of this position, they indicated that if the City would be willing to increase the tax abatement to \$3,000,000, thus bringing the total incentive package being offered by Ames/State of Iowa to approximately \$6 million, they would be prepared to recommend the Ames site over the Avon location to their Board of Directors.

Obviously, there are other benefits to expanding in Ames other than the direct financial incentives being offered by the state and local governments. However, it was indicated that by providing a \$3,000,000 local property tax abatement incentive, the Ames/State of Iowa proposal would meet the company's goal of obtaining 10% of the project funding from incentives.

Assuming the City Council desires to support the expansion of one of our major corporate citizens without establishing a precedent regarding the magnitude of the tax incentive being offered and wants to assure a favorable recommendation from Barilla staff to their Board regarding the siting of the expansion project in Ames, it is the recommendation of the City Manager that the City Council approve Alternative #3. This action will require company officials to enter into a contract with the City agreeing to a minimum assessment of \$16,320,000 for the incremental value of the expansion project so that \$3,000,000 will be rebated to Barilla in ten years or less and to create the 41 new manufacturing jobs within three years.