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Redevelopment Agency

Staff Report

RDA Item No. 14

To: Lemoore Redevelopment Agency Board
From: Judy Holwell, Redevelopment Project Manager
Date: August 28, 2007
Subject: Leprino Owner Participation Agreement

Discussion:

As you know, staff has been working with Leprino Foods Company to develop the terms of a Second Amendment to Owner Participation Agreement (OPA) for their planned Expansion Project at the west plant, which is in a redevelopment project area. As an incentive for Leprino to locate this Project in Lemoore and for the large number of jobs that will be added to the community, Leprino is requesting reimbursement of up to \$6,000,000 for costs it will incur on upgrades to the Expanded Wastewater Pretreatment System. If excess pretreatment capacity exists, it will be available to other industrial users as well. Attached is a revised OPA which details the terms associated with the Expansion Project. Mike Reidy from Leprino Foods will once again be in attendance to answer any questions you may have.

To summarize the extent of the Expansion Project, it will consist of nearly 246,000 square feet of new facilities to be constructed in three phases at an estimated cost in excess of \$180,000,000 and will create at least 175 new jobs in Lemoore. The milk production is estimated to increase from 6,000,000 to 10,000,000 pounds per day. And, it will not decrease the production of cheese or the number of jobs at the Leprino East Plant. Before this Project can move forward however, approximately \$7,500,000 in upgrades to the Expanded Wastewater Pretreatment Plant are necessary in order to handle the increased flows into the City's system.

Staff has calculated a reimbursement method, as outlined in the attached OPA, to pay for the incentive listed above, which minimizes the risk to the RDA. The calculations are based on the increased cash flow available to the RDA from the annual property tax increment it will receive as a result of the expansion. Ninety-five percent of this new incremental tax revenue is proposed for the reimbursement payment. There will be no effect to the Low-Moderate Income (LMI) Housing Fund, which receives the first 20 percent set-aside of the total incremental tax revenues, and there will be no impact on the RDA's obligation and ability to make payments to other public agencies that receives subsequent shares of the tax. As shown on the attached spreadsheet, an annual payment will be determined by taking the actual Kings County Assessed

Valuation and deducting the amount required for any outside agency, including the LMI fund; this will reveal the amount of gross funds available to the RDA. From that total, the 10-year incentive payments to Leprino, (according to the 2002 First Amendment to OPA) will be calculated and paid leaving a net dollar amount available to the RDA.

In calculating the new dollars available to the RDA, staff needed to calculate a hypothetical assessed valuation, which is based on the existing West Plant's assessed value without the expansion. This provided us with a baseline number with which to calculate the new dollars attributable to the expansion. It is only with the increase in tax increment, less payment to the LMI fund and outside agencies that will be used to calculate the annual reimbursement. As you can see on the spreadsheet, by year 2020, the new dollars to the RDA is estimated to be \$6,663,413 which is more than sufficient to cover the payments. To eliminate any risk to the RDA, a contribution will only be made if there is an increase over and above what the RDA would have received if the expansion had never taken place.

Safeguards have been put in place to protect the RDA's financial interest in this project. Calculations are based solely on the actual increase in assessed value as reported by the Kings County Assessor. Deductions will be taken if the number of new full-time employees drops below 175. The total reimbursement will be permanently reduced by the amount of the deduction beginning with the 2012 payment and thereafter. In addition, payments will end if 1) either the west or east plants cease to operate as fully functioning dairy product manufacturing plants, 2) the assessed value drops below the its current assessed value (as of 1/1/07), or 3) the RDA no longer collects tax increment, whichever first occurs.

This Expansion Project was presented at the August 27th, Planning Commission Meeting. City staff, Harry Tow and representatives from Leprino provided an extensive review of the project and answered all questions satisfactorily, including impacts concerning traffic, odor, noise and others. Mitigation measures for such issues were covered in depth. Following the presentations, the Planning Commissioners approved the Site Plan Review and Mitigated Negative Declaration.

Budget Impact:

The RDA Capital Projects Fund will be impacted by up to \$6,000,000 plus interest at 3% over an estimated 20-year period. This obligation will be paid by an annual payment of 95 percent of the new net tax increment actually received by the RDA following the completion of the Expansion Project and once all 175 employees are hired.

Recommendation:

That the RDA Board approve the Second Amendment to Owner Participation Agreement between the Lemoore Redevelopment Agency and Leprino Foods Company to provide up to a \$6,000,000 incentive for the creation of 175 jobs in the community.