	AGENDA ITEM EXECUTIVE SUMMARY						
	Title:	Recommendation to approve an Economic Development Incentive for AJR Filtration, Inc.					
	Presenters:	Matthew O'Rourke, Economic Development Division Manager					
Please check appropriate box:							
	Government Operations				Government Services		
X	Planning & Development (9/14/2015)				City Council		
Estimated Cost:	\$29,000.00 (Est.) Total Incentive Proposal		Budgeted:	YES		NO	X
If NO, please explain how item shall be funded:							
(See below)							
Executive Summary:							
<p>Background: Staff has been working with Venture One (Mark Goode), AJR Filtration, Inc. (AJR), and the St. Charles School District CUSD 303 to develop a property tax rebate economic development incentive for AJR as part of the City's ongoing business retention and expansion efforts. This incentive will assist AJR to relocate and expand their existing operations to a brand new facility in St. Charles, IL. AJR is a manufacturer of custom filters that are used in liquid processing, medical equipment, automotive, and natural gas applications. AJR has been located in St. Charles since 2001. Their first St. Charles location was in the building located 3635 Swenson. This company has continued to grow and they have expanded into additional buildings that surround their original location.</p> <p>At this point, AJR is out of room for expansion in their existing facilities. They are planning to construct a new 180,000 square foot manufacturing building with room for future expansion on an undeveloped property. They have examined locations throughout the Fox Valley both inside and outside St. Charles Corporate limits. They have identified a property on S. Kirk Road, directly west of the East Side Sports complex, which can accommodate their expansion needs. However, in order to ensure that this site remains competitive with other locations and is financially feasible for AJR, they have requested financial assistance in the form of a property tax rebate.</p>							
<p>Proposed Incentive: The details of the requested sharing agreement are as follows:</p> <ul style="list-style-type: none"> The total incentive requested is an estimated \$29,000 for a term of 7 years. AJR is requesting that these funds come from property tax rebates. The property taxes will be rebated to AJR after the facility has been constructed and occupied. Year 1 of the agreement will begin after the facility is constructed and property taxes will be rebated in the following amounts: <ul style="list-style-type: none"> Year 1 – 90% of property taxes are rebated to AJR. Year 2 – 80% of property taxes are rebated to AJR. Year 3 – 70% of property taxes are rebated to AJR. If AJR chooses to vacate this facility during the term of this agreement (7 years after construction is complete) they will be required to pay all or a portion of the amount of property taxes rebated back to the City. 							
Attachments: (please list)							
Proposed DRAFT Term Sheet; Incentive Application and Supporting Materials; Location Map; Proposed Building Plans							
Recommendation / Suggested Action (briefly explain):							
Review a the Economic Incentive Proposal and Recommendation to Direct Staff to Draft Formal Incentive Agreement Documents (AJR).							
For office use only:		Agenda Item Number: 3b					

City of St Charles

AJR filtration, Inc. Property Tax Rebate Incentive DRAFT Business Terms

September 3, 2015

PURPOSE:

The following proposed DRAFT term in response to an economic development incentive requires from AJR Filtration, Inc. (AJR) to relocate and expand their existing facility and operations in St. Charles, IL. AJR is a manufacturer of custom filters that are used in liquid processing, medical equipment, automotive, and natural gas applications. AJR has been located in St. Charles since 2001. Their first St. Charles location was in the building located 3635 Swenson, and as their company grew they have expanded into additional buildings that surround this initial location. At this point, AJR is out of room for expansion in their existing facilities. They are planning to construct a new 180,000 square foot manufacturing building with room for future expansion on an undeveloped property.

AJR has examined locations in the Fox Valley that are both inside and outside of St. Charles' corporate limits. Based on this site search, they have identified a location on S. Kirk Road in St. Charles that can accommodate their expansion needs. However, in order to ensure that this site remains competitive with other locations and is financially feasible for AJR, they have requested financial assistance in the form of a property tax rebate.

The relocation of this company to a new building in St. Charles would result in the following:

- Retention and expansion of an existing St. Charles business and employer.
- Retention of 250 full-time jobs.
- Planned expansion of an additional 150 full-time jobs in the next 2 to 5 years.
- Total Capital investment of approximately \$15.2 Million.
 - \$13 million in building and site infrastructure.
 - \$2.2 million in equipment, relocation, and workforce training.
- Increase in annual property taxes to the City (estimated at \$12,500 per year).

TERM OF ECONOMIC INCENTIVE AGREEMENT:

The proposed economic development incentive will have a maximum term of 7 years. The Property Tax Rebate Payment Period of the agreement will span and be limited to the first 3 years of the incentive. Years 1 through 7 will include an Early Termination Penalty Period which requires the applicant to repay all or a portion of property taxes rebated to AJR.

Year 1 of the property tax rebate will begin in the tax year immediately following verification that the new facility is constructed and has been fully occupied and assessed at the full rate.

CONTEMPLATED STRUCTURE OF PROPERTY TAX REBATE PAYMENT PERIOD:

The economic development incentive will be structured as a rebate with no upfront financial assistance. The City will rebate the agreed upon portion of the City's property taxes levied on the new AJR development site upon verification that the total tax year bill has been paid and funds have been received by the City. The City agrees to rebate a portion of its property tax levy on the property in the following manner:

- Year 1 – 90% of property taxes are rebated to AJR.
- Year 2 – 80% of property taxes are rebated to AJR.

DRAFT & CONFIDENTIAL

- Year 3 – 70% of property taxes are rebated to AJR.

EARLY TERMINATION PENALTY PERIOD:

Should the AJR Filtration, Inc. vacate the facility during the term of this agreement, they will refund all or a portion of property taxes payments that have already been rebated per the schedule listed below. The Early Termination Penalty Period shall begin in year 1 of the agreement as defined in the Term of Economic Incentive Agreement section. The amount of property tax rebate refund payments shall be as follows:

Early Termination Schedule:

- Years 1 through 4 – 100% of the property tax rebate payments received by AJR will be refunded.
- Year 5 – 75% of the property tax rebate payments received by AJR will be refunded.
- Year 6 – 50% of the property tax rebate payments received by AJR will be refunded.
- Year 7 – 25% of the property tax rebate payments received by AJR will be refunded.

TRANSFER OF PROPERTY TAX REBATE:

The terms of this property tax rebate agreement are not transferrable to any other company or entity other than AJR Filtration, Inc.



September 2, 2015

Matthew O'Rourke
Economic Development Division Manager
City of St. Charles, IL
2 East Main Street St.
Charles, IL 60174

Dear Mr. O'Rourke:

On behalf of AJR Filtration, Inc. (AJR), we are requesting real estate tax assistance in connection with a proposed new manufacturing/production facility to be located in St. Charles, IL on the east side of Kirk Road, just north of Division Avenue. (See attached location maps). Venture One Real Estate (Venture One) is providing Development services to AJR for the proposed new facility.

The new facility would be constructed on a 15.10 acre site which is currently zoned "M-2, Limited Manufacturing". The site has been utilized previously for agricultural purposes. The new facility will be a 180,121 square foot modern manufacturing facility and will also include over 15,000 square feet of corporate headquarters office space. The building will be constructed of architectural precast concrete and accent glass, and will have a 30' clear height. The building will have 10 truck dock doors and 3 drive-in doors, as well as 272 parking spaces to accommodate both office and production employees operating on multiple shifts. (See attached Site Plan and Architectural Rendering/Perspective).

The new facility will represent an investment of over \$13 million by AJR, not including equipment and moving expenses for the new facility. The project will be financed through a combination of corporate investment and long-term bank financing. Construction is projected to begin in late September, 2015 and will be complete by late August, 2016. (See attached Preliminary Milestone Schedule).

Regarding the history and operations of AJR, the company was started by an immigrant family that emigrated from Croatia to North Carolina in 1979. Jakob Rukel, the company's founder, first worked in a textile factory where he was a maintenance engineer, eventually advancing into a production role. While working at the plant, Jakob mastered the intricacies of the textile and media industry, especially filtering and absorbency technologies.

In the late 1980s, Jakob re-located to Illinois where he and a partner created a new business based in the Chicago area close to the customer base. The company eventually merged with a group of other related businesses to form a large (\$100m) presence in the filtration industry. Jakob eventually sold his interest in that original group and in 1997, formed AJR Enterprises. In short order, Jakob became known as an industry expert in filtering and absorbency technologies and consulted to Gerber on the development of a breast pad manufactured for nursing mothers. Through that connection, Jakob was sought out by Sage Products in Cary to manufacture shampoo caps and that opportunity developed into a close relationship with Sage to the point where today, AJR is the largest supplier to Sage Products and the only one manufacturing finished items for them.



After the success with Sage, Jakob re-entered the filter manufacturing business where the company established a competitive advantage providing best quality, best value pricing and short lead times to a diverse group of customers. This was essential to the company's growth and led to the firm becoming recognized as one of the largest custom filter manufacturers in the country serving customers in liquid processing, medical, automotive and natural gas exploration. Today, AJR serves filtration customers across the country, with largest concentrations in the Mid-East Region, Texas/Louisiana, Dakotas, Canada and more recently Colorado. The company operates under the umbrella of Rukel Management, LLC the principals of which consist of Jakob Rukel, Barbara Rukel, Angelo Rukel and John Rukel. (See attached Principal Profile).

When AJR began in 1997, the company operated in a 3,500 square foot space. In 2001, the firm moved into the building at 3635 Swenson. Initially only occupying 25,000 square feet of the 40,000 square foot 2-tenant building, in 2006 AJR expanded into an additional 15,000 square feet space as they began manufacturing more products for Sage. In 2008 the company further expanded the warehouse adding 25,000 square feet of storage space and freeing up more space for manufacturing. Facing another shortage of space in 2010, the company leased all the available space surrounding their facilities. Presently, the company has about 130,000 square feet of space consisting of owned and leased buildings in St. Charles.

AJR has reached an inflection point in that they are at a shortage of space and have three different business units operating in multiple facilities. The company was formed in Illinois but is competing against other manufacturing operations for business in markets across the nation. Current and potential growth opportunities caused the company to re-evaluate human capital and real estate costs and associated supply chain constraints from being based in St Charles, and the end result was the realization that a new facility would be required where all operations could be consolidated under one roof.

The new facility will retain approximately 250 full-time jobs for the area. Moreover, there is a potential to add approximately 150 additional jobs over the next 2 to 5 years. In addition to the substantial investment needed to construct the new facility, it is estimated that an additional \$2.2 million investment will be made by the company for property and equipment installation, as well as moving, hiring and training costs connected with the new facility. To help off-set these substantial costs resulting from the consolidation, the company is requesting real estate tax assistance from the City of St. Charles. The assistance would consist of a reduction of real estate taxes on the basis of 90% reduction in year 1, 80% reduction in year 2, and 70% reduction in year 3. The property would then be taxed fully in year 4.

The benefits accruing to St Charles as a result of AJR remaining in the community include:

- Increased school tax revenue without impacting school capacity
- Employment opportunities for graduates of local the High School, Community College and Universities.
- Increased industrial/commercial tax base.
- Establishment of a long-term, stable revenue source.
- Increased job base in St. Charles.
- Indirect long-term benefits from sales tax revenue growth, jobs/stability and secondary job growth (retail, services and construction).



Thank you sincerely for considering this request. Please contact me with any questions or comments.

Sincerely,

Mark Goode

Mark Goode
Venture One Real Estate

PROJECT DATA:

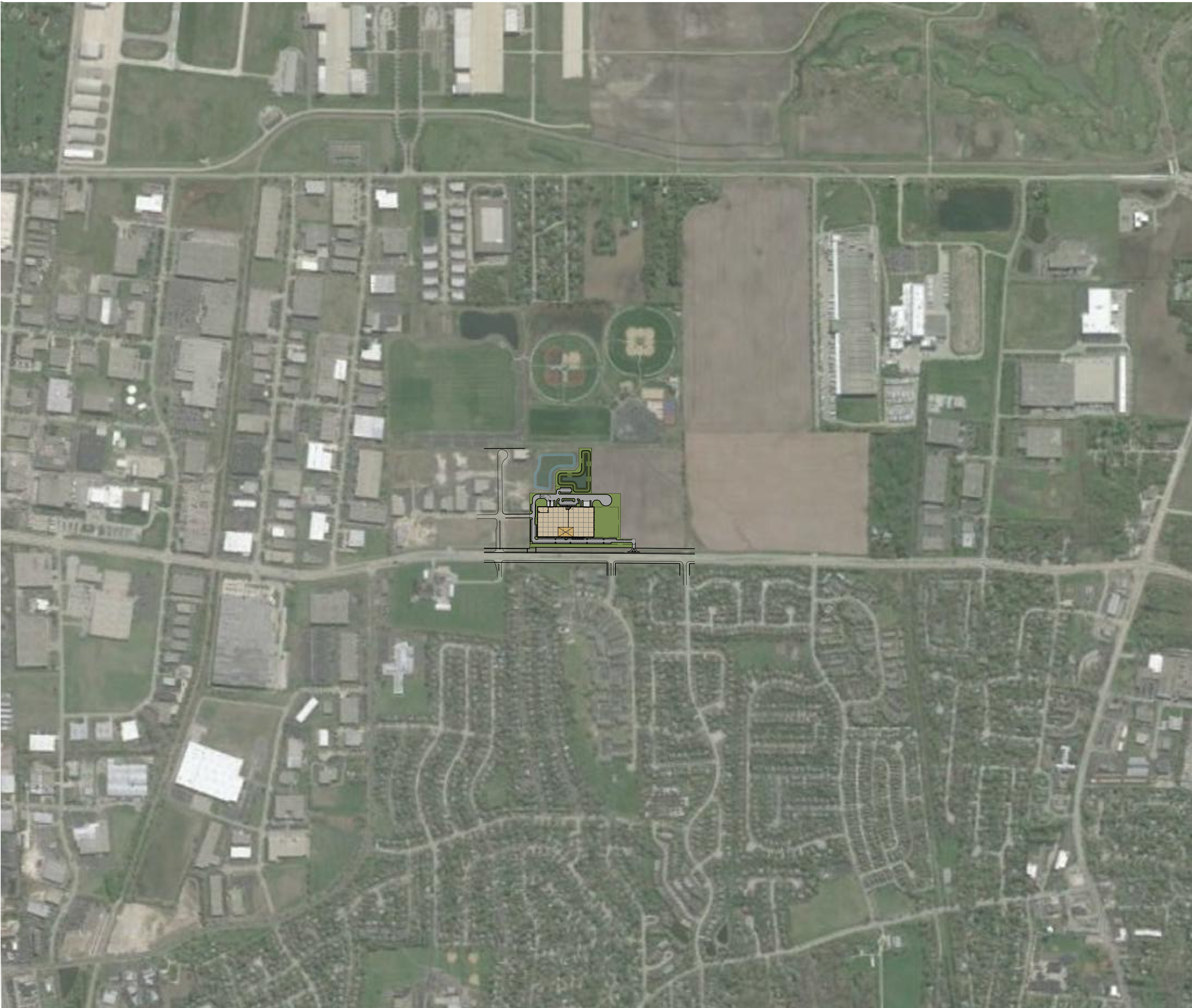
GROSS SITE AREA:	
SITE:	553,085 SF (12.70 AC)
DTNTN 'A':	104,775 SF (2.41 AC)
TOTAL:	657,860 SF (15.10 AC)

NET SITE AREA: 581,320 SF (13.35 AC)
(LESS ON-SITE DETENTION)

TOTAL BUILDING AREA: 180,121 SF

NET COVERAGE: 0.310

DOCK DOORS:	10 POSITIONS
DRIVE-IN DOORS:	3 POSITIONS
AUTO PARKING:	272 STALLS





PROJECT DATA:

GROSS SITE AREA:	
SITE:	553,085 SF (12.70 AC)
DTNTN 'A':	104,775 SF (2.41 AC)
TOTAL:	657,860 SF (15.10 AC)

NET SITE AREA: 581,320 SF (13.35 AC)
(LESS ON-SITE DETENTION)

TOTAL BUILDING AREA: 180,121 SF

NET COVERAGE: 0.310

DOCK DOORS: 10 POSITIONS
DRIVE-IN DOORS: 3 POSITIONS
AUTO PARKING: 272 STALLS

PROJECT DATA:

SITE AREA:	
GROSS:	14.99 AC (652,966 SF)
NET:	13.23 AC (576,426 SF)
(LESS SLOPES, DETENTION 'A')	
BUILDING AREA:	180,121 SF
F.A.R.	.31 (NET)
DOCK DOORS:	10 POSITIONS
DRIVE-IN DOORS:	3 POSITIONS
AUTO PARKING:	272 STALLS



SITE LEGEND:

- ◀ DOCK HIGH TRUCK DOOR W/ LEVELER
- GRADE LEVEL TRUCK DOOR

