

**City of Chicago
Department of Housing and Economic Development**

**STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
April 12, 2011**

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name: Finkl Steel Relocation/Expansion

Applicant Name: A. Finkl & Sons Co.

Project Address: 1355 E. 93rd Street

Ward and Alderman: 8th Ward: Alderman Michelle Harris

Community Area: Burnside: Community Area #47

Redevelopment Project Area: Stony Island Commercial and Burnside Industrial Corridors
Tax Increment Financing Redevelopment Area

Requested Action: TIF Developer Designation

Proposed Project: Industrial – Steel forging plant relocation and expansion

TIF Assistance: \$20,500,000 (Approximately 14% of Total Project Costs of
\$150,000,000)

II. PROPERTY DESCRIPTION

Address: 1355 E. 93rd Street

Location: E. 93rd/S. Kimbark Avenue

Tax Parcel Numbers: Multiple PINs

Land Area: Approximately 60 acres

Current Use:	The site is partly improved with several buildings that were formerly occupied by Verson Steel as well as parking areas, railroad tracks and vacant land.
Current Zoning:	Part M1-2 (Limited Manufacturing/Business Park District); part M2-2 (Light Industry District), and; part M3-2 (Heavy Industry District).
Environmental Condition:	The site was granted a No Further Remediation (NFR) Letter from the State of Illinois Environmental Protection Agency in 2008. The NFR letter is based on a Remedial Action Completion Report completed by V3 Companies in 2008.

III. BACKGROUND

A. Finkl & Sons Co. was founded in 1879 and moved to its present location at 2011 N. Southport Avenue in 1902. Finkl is the world's leading supplier of forging die steels, plastic mold steels, die casting tool steels and custom open-die forgings, processing 100,000 tons of steel each year. With more than 100 patents to its credit, Finkl's steel formulations and steelmaking technologies set worldwide standards.

In the late 1990s, as the U.S. steel industry faced severe challenges, including the bankruptcy of 40 U.S. steel producers and significant unemployment, Finkl reviewed its Southport Avenue operations and recognized that the company's continued success depended on a larger, modernized facility. Finkl began working with the City's Department of Planning and Development to evaluate potential locations in Chicago in late 2003. The company reviewed multiple Chicago sites throughout 2004 and, in early 2005 Finkl identified a former stamping press manufacturing facility at 1355 East 93rd Street as a viable option and purchased the property from Verson Inc. in 2006. The site, 1355 E. 93rd Street, currently consists of approximately 60 acres of land with a history of heavy industrial use. The southern portion of the property contained a railroad turntable that was built prior to 1897 and was used as a maintenance facility and machine shop for the New York, Chicago, and St. Louis Railroad. In 2004, Finkl also acquired Sorel Forge in Quebec, Canada, and, in 2007, Finkl was acquired by Schmolz & Bickenbach, a German company that provided Finkl with an instant global distribution network, including Europe, Korea, Thailand, Taiwan, and China.

Today, Finkl has finally outgrown its Southport Avenue campus and must move. There is no more room to expand at its current facility, the existing configuration is inefficient and electric power is limited on the north side of Chicago. Finkl must re-locate to a new location at which it can expand and modernize its operations within a state-of-the-art facility. Finkl, under the direction of its parent company, looked at the costs of relocating to the facility in Quebec, Canada, versus the costs involved with relocating to the 93rd Street site. The costs involved with

the Quebec site were over \$60M less than relocating to 93rd Street. However, due to Finkl's long history in Chicago and their commitment to the City they met with DHED officials to discuss financial incentives that would narrow the \$60M+ gap and allow them to stay in the City.

In October, 2009, to help complete the proposed campus on the South Side, CDC recommended the sale of six City-owned parcels largely on the periphery of the Finkl site that are necessary for a rail line relocation project, stormwater detention, landscape buffering and materials storage. The sale of these parcels was approved by City Council in November, 2009, and the transaction closed in October, 2010. Work on the rail line relocation is nearly complete as of today.

In addition, to provide the electrical service necessary to power Finkl's arc furnaces, the City worked closely with Com Ed and Finkl to craft an easement agreement to accommodate the proposed utility route. This transaction was approved by City Council and closed in 2010. Work is nearly complete on this project as of today.

IV. PROPOSED DEVELOPMENT TEAM

Development Entity: A. Finkl & Sons Co. is a Delaware-organized publicly registered business corporation, authorized to conduct business in Illinois. The business address of Finkl is 2011 N. Southport, Chicago, Illinois. The CEO of Finkl is Bruce Liimatainen.

Finkl is 100%, wholly-owned by Schmolz & Bickenbach, USA Holdings, Inc., an Illinois-organized publicly registered business corporation. Schmolz is wholly-owned by S & B Edelstahl GmbH, which in turn is wholly-owned by Schmolz & Bickenbach AG, a publicly-held company.

The developer's organization chart is included in the exhibits.

Consultants: Sonoc Architects is the architect for the project. Sonoc has multiple years of experience and is based in Chicago, Illinois.

The General Contractor for the project will be A. Finkl & Sons Co.

V. PROPOSED PROJECT

Project Overview: The overall proposed project consists largely of the rehabilitation of the industrial facility at 1355 E. 93rd Street that formerly housed Verson Steel, Inc, in the Burnside Community Area and Burnside Industrial Corridor. The facility consists of eight existing structures which amount to a total of approximately 500,000 square feet. The overall site is approximately 60 acres in size. The property is located in the easternmost section of the Burnside Community Area adjacent to the Calumet Heights Community Area. It is surrounded by residential uses as well as industrial users, including Naylor Pipe.

Upon project completion, the south side facility will include significant equipment upgrades and will allow for a 25% increase in the under-roof work area as compared to the Southport Avenue campus. Finkl anticipates constructing approximately 106,000 sf of space in four new buildings/expansions on the existing campus. These new buildings will be necessary to accommodate a melt shop, Com Ed substation, waterplant and furnace/forging area.

Vehicular access to the site will remain at 93rd/Kimbark, which provides access to Stony Island Avenue via the 94th Street diversion. Approximately 236 parking spaces will be provided on site. In addition, the project site will be improved with significant additional landscaping, parking capacity enhancements and internal building access/connection improvements. The project will fully comply with the City's landscaping ordinance and stormwater management ordinance.

Railroad access to the site, currently provided by the Norfolk Southern Railroad, is being altered to accommodate the new east side addition planned for the campus. The existing rail line is being moved to the east approximately 30 to 90 feet, to accommodate the new east side furnace/forging building planned. Additional trackage realignments are also planned within the site all of which are necessary to accommodate the delivery within the site of scrap steel. The entire campus, including the area near the relocated rail line, will be heavily buffered with landscaping against the existing residential land uses.

Upon completion, the campus will consist of a completely modernized and efficient steel forging plant, *doubling* the production capacity of the north side plant.

A site plan and elevation drawings are provided as exhibits to this report.

Environmental Features: The project will fully comply with the City's Sustainable Development Policy - Industrial Category and will exceed the City's stormwater management ordinance by at least 20%.

VI. FINANCIAL STRUCTURE

As stated earlier, Finkl purchased a steel forging plant in Quebec in 2004. The cost of the South Side project is significantly more than relocating to Quebec. The proposed financial assistance represents an attempt to close that financial gap, which will keep Finkl in Chicago and double its capacity as a steel forging plant, preserving 300 jobs.

During 2009-2010, DCD, working with the State of Illinois and City Council received approval to extend the life of the Stony Island/Burnside TIF District 12 additional years to help facilitate this project. Under the proposed terms of the City's RDA with Finkl, the City will provide TIF assistance in the following manner: 1) \$500,000 at closing, to cover costs of the City-owned

utility easement property; 2) \$20,000,000 in TIF Notes, split into a taxable and tax exempt note, each with an interest rate tied to an appropriate index, and: 3) 50% of any incremental property taxes generated by the project in excess of note principal and interest payments. The amount of excess increment currently forecasted is minimal. The Note payments will be tied to ongoing compliance, which will be measured by the number of jobs retained. This \$20.5M total of TIF assistance represents approximately 14% of the total project costs of \$150,000,000.

In addition to the TIF assistance, Finkl is seeking assistance from the State of Illinois, including an EDGE Credit and Job Training funds as well as a federal Green Furnace Grant. Finkl may also seek a utility tax exemption from the City of Chicago.

All of these public financing sources, including the TIF assistance, are being sought to help close the financial gap between the Quebec site and the site on the South Side. If approved, they will be layered in over time, as the project is being funded upfront through an internal loan through Finkl’s parent company as well as a Bank of America credit facility.

The following table identifies the sources and uses of funds.

<u>Sources</u>	<u>Amount</u>
Internal Debt (Schmolz & Bickenbach)	
And Bank of America Credit Facility	\$150,298,177
Total Sources	\$150,298,177

<u>Uses</u>	<u>Amount</u>
Land Acquisition	\$9,800,000
Plant Infrastructure (Com Ed)	\$9,279,589
Equipment and Finkl Infrastructure	\$110,076,406
Administration, Permits and Licenses	\$256,092
General Construction	<u>\$20,886,090</u>
Total Uses	\$150,298,177

VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits.

Property Taxes: The project will expand the tax base because the investment in the property will result in an increase in its assessed value.

Environmental Features: The project will fully comply with the City’s Sustainable

Development Policy - Industrial Category and will exceed the City's stormwater management ordinance by at least 20%.

Permanent Jobs: The project is estimated to retain 300 permanent jobs in the steel forging industry, including administrative, technical and labor positions. The department's workforce development specialists will work with the developer on job training and placement.

Construction Jobs: The project will produce 300 temporary construction jobs.

Affirmative Action: Finkl is committed to exceeding the requirements of Chicago's affirmative action ordinance, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). Finkl, along with Alderman Harris' office, the Chatham Business Association and the Target Group, held a M/WBE job fair on January 14, 2010 to reach out to MBE and WBE sub-contractors that will perform the construction work.

Approximately 95 firms pre-registered for the conference, 100 firms attended and 20 firms have been hired for various project roles.

City Residency: The developer will comply with the requirements of Chicago's city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman Harris endorses the project and has provided a letter of support (see exhibits for copy). The project has been presented to various community groups, residential associations and business associations at multiple meetings held over the last several years. In addition, Finkl has taken area residents to see its north side plant in operation as well as the beautification efforts undertaken there by Finkl over the years. In general, the community is very excited about this project. Several community organizations have endorsed the project. (See exhibits for a copy of support letters).

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located in the Stony Island Commercial and Burnside Industrial Corridors Tax Increment Financing Redevelopment Project Area. The proposed project will satisfy the following goals of the area's redevelopment plan:

- The attraction of new industrial and business development and the creation of new job opportunities within the Project Area;
- Employ residents within and surrounding the Redevelopment Project Area in jobs in the Redevelopment Project Area and in adjacent redevelopment project areas.

The proposed project also conforms to the plan's land use map, which calls for industrial development at the subject site.

X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, DHED will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is DHED policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action.

Closing of the financing transaction will not occur before the City Council has approved the redevelopment agreement, the developer has completed any necessary due diligence and obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The documents will include a development timetable.

XI. RECOMMENDATION

The Department of Housing and Economic Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and DHED recommends that the CDC recommend to the City Council the designation of A. Finkl & Sons Co. as Developer for the development of a steel forging plant at 1355 E. 93rd Street, Chicago, Illinois.

EXHIBITS

Organizational Chart
Redevelopment Area Map
Neighborhood Map or Aerial
Site Plan
Front Elevation or Rendering
MBE/WBE Outreach Conference Flyer
Community Letters of Support
Alderman's Letter of Support