



## AGENDA MEMORANDUM

Future Item for the City Council Meeting of January 27, 2015  
Action Item for the City Council Meeting of February 10, 2015

**DATE:** January 15, 2015  
**TO:** Ronald L. Olson, City Manager  
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### First Amendment to the Business Incentive Agreement Sam Kane Beef Processors, LLC

#### **CAPTION:**

Resolution approving the First Amendment to the Business Incentive Agreement between the Corpus Christi Business and Job Development Corporation ("Type A Corporation") and Sam Kane Beef Processors, LLC ("Sam Kane") to accelerate the incentive payments for the creation and retention of jobs at their beef packing plant in the City of Corpus Christi extra territorial jurisdiction.

#### **PURPOSE:**

Accelerate the payment of the incentive agreement to Sam Kane Beef Processors, LLC

#### **BACKGROUND AND FINDINGS:**

In June 2013 the City Council approved a Type A grant in the amount of \$3,000,000 for Sam Kane Beef Processors, LLC for the creation of 100 new jobs and the retention of 739 jobs with an annual payroll of approximately \$21 million. The agreement states the incentive will be paid out in five annual payments of \$600,000.

In June 2014 Sam Kane was in compliance with the agreement and had retained 739 jobs, created 27 jobs and paid annual wages of \$26,431,048, far exceeding their stated goal. They received their first incentive payment of \$600,000.

The turnaround of Sam Kane Beef has been successfully implemented but they have simultaneously endured the effects of historic lows in the U.S. cattle supply and overcapacity in the industry. In 2014, Sam Kane recruited a strong team from across the industry and set up a new performance measure system. In addition, they have added significant new customers which have just begun taking products in quantity. Sam Kane is now seeing the results from this work and will be performing better than the market average on sales as they head into 2015. Their challenge will continue to be weathering the market; however indicators show that relief will begin early in 2015 and they expect profitability will return strongly in 2016.

Drought conditions for much of the last 8-10 years have forced ranchers to sell off most of their herds. This is a typical cycle in the cattle industry, although it has been much deeper this time than in past years. Recent rainfalls in the last several months have resulted in the beginning of recovery for the cattle industry. Sam Kane keeps a detailed inventory of cattle in feed yards going out six months. They currently have enough cattle available to support their current run rate, with availability rising through the summer months, which is typical of the season. The herds will rebound due to supply and demand. With cattle bringing record prices, the ranchers will look to sell some but also to hold some back to generate more inventory. This is according to the Cattle Fax, National Cattlemen's Association, National Cattle Buyers Association, North American Meat Institute — all parties agree that herd rebuilding is underway.

Sam Kane continues to make capital investments at the facility to ensure maximum reliability and efficiency. In addition the owners have recently made an additional investment of \$8 million to help cover operating costs.

Sam Kane is requesting that the remaining balance of the Type A grant (\$2,400,000) be accelerated and paid out this year to assist the company while the market rebounds.

The Type A Board voted to approve the accelerated payment at their January 19, 2015 meeting.

**ALTERNATIVES:**

The Council may disapprove this request. Sam Kane will likely not have the capital to see them through the recovery and as a result may be forced to close the facility and lay off their entire workforce of 700 employees. In addition this closure will also affect approximately 33 feed yards within the South Texas region that provide cattle to Sam Kane, transportation companies, and farmers.

**OTHER CONSIDERATIONS:**

Sam Kane is the last beef processing facility in South Texas. The increased transportation costs of shipping cattle, and the general stress on cattle due to travel would shut down the cattle industry in South Texas directly affecting feed lots and ranchers.

**CONFORMITY TO CITY POLICY:**

This project is consistent with the City's stated goals of promoting economic development and incentivizing business to expand and thrive in Corpus Christi.

**EMERGENCY / NON-EMERGENCY:**

Non-emergency

**DEPARTMENTAL CLEARANCES:**

Legal

**FINANCIAL IMPACT:**

Operating       Revenue       Capital       Not applicable

<b>Fiscal Year: 2014-2015</b>	<b>Project to Date Expenditures (CIP only)</b>	<b>Current Year</b>	<b>Future Years</b>	<b>TOTALS</b>
Line Item Budget		3,000,000	0	3,000,000
Encumbered / Expended Amount		600,000	0	600,000
This item		2,400,000	0	2,400,000
BALANCE		0	0	0

Fund: 1140 Type A Large Project

**RECOMMENDATION:**

Staff recommends approval of the pre-payment to Sam Kane Beef Processors, LLC in the amount of \$2,400,000.

**LIST OF SUPPORTING DOCUMENTS:**

Resolution  
Sam Kane Type A Agreement