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Legislation Details (With Text)

File #: 13-0566 **Version:** 1 **Name:** Triumph forgivable loan
Type: Resolution **Status:** Passed
File created: 7/15/2013 **In control:** Board of Sedgwick County Commissioners
On agenda: 7/24/2013 **Final action:** 7/24/2013
Title: APPROVAL OF A RESOLUTION AUTHORIZING A FORGIVABLE LOAN TO TRIUMPH AEROSPACE SYSTEMS-WICHITA, INC. OF WICHITA FOR ECONOMIC DEVELOPMENT INCENTIVES, AND AUTHORIZING THE INTRA-FUND TRANSFER OF BUDGET AUTHORITY.
Presented by: Sherdeill Brethett, Economic Development Coordinator.

RECOMMENDED ACTION: Approve the resolution and authorize the Chairman to sign.

Sponsors:

Indexes:

Code sections:

Attachments: 1. forgivable loan resolution - Triumph, 2. Forgivable Loan Agreement - Triumph- 071213.pdf

Date	Ver.	Action By	Action	Result
7/24/2013	1	Board of Sedgwick County Commissioners	Approved	Pass

APPROVAL OF A RESOLUTION AUTHORIZING A FORGIVABLE LOAN TO TRIUMPH AEROSPACE SYSTEMS-WICHITA, INC. OF WICHITA FOR ECONOMIC DEVELOPMENT INCENTIVES, AND AUTHORIZING THE INTRA-FUND TRANSFER OF BUDGET AUTHORITY.

Presented by: Sherdeill Brethett, Economic Development Coordinator.

RECOMMENDED ACTION: Approve the resolution and authorize the Chairman to sign.

Triumph was founded as Lee Aerospace in 1989, was acquired by the Triumph Group in October 1999, and officially became Triumph Aerospace Systems in June 2006. The Wichita location designs, developments, tests and manufacturers a variety of assemblies including aircraft windows, sheet metal assemblies (wing spars and leading edges), pilot control wheels, cockpit sunvisors, and autoclave/oven cured composites parts for the aerospace industry. Triumph builds complex assemblies for aerospace companies including programs such as the Cessna CJ4 tail and main fuselage, and Cessna CJ & TEN wing spar assemblies, among others. Triumph Aerospace Systems currently employs about 180 employees at their 34th Street facility, as well as additional employees at sister operations at other locations in Wichita and Wellington. Greater Wichita Economic Development Coalition ("GWEDC"), Sedgwick County, the City of Wichita and the State of Kansas have developed an incentive package, subject to approval by governing bodies, which includes forgivable loans from the county and city.

The company is asking for approval of the Economic Development Loan Agreements at this time. The city agreement is scheduled to be considered by City Council on August 6th.

Triumph is currently bidding on two phases of a work package from a Canadian OEM (in business

since 1970), that could result in significant growth, adding in excess of 100 jobs in the first phase of the project. The work packages would include fuselage assembly for a small aircraft. The aircraft has a current backlog of about 100 requiring Triumph to move quickly to bid on the work with their Canadian customer. The aircraft is suited for search and rescue, border patrol, special missions, and regional commuter transport. There are no other US competitors for this type of aircraft and would open up a new segment of work for the Triumph Aerospace Systems - Wichita facility. Triumph is seeking assistance with incentives that would help their overall competitiveness in bidding on these packages, specifically to assist with upfront tooling costs, installation of small equipment, assembly jigs, and training for the new assembly team. Triumph is competing with Tier 1 suppliers in Eastern Europe, Taiwan, China and India, as well as the option of the client choosing to leave the final assembly in Canada at the present location. Note: An India firm has already won the wing assembly on this aircraft since the project negotiations began in June 2012.

The final assembled fuselage would be exported via truck to Canada for final completion. The new contract would help solidify future growth opportunities at this Wichita facility on other related aircraft, as well as provide possible new work at subcontractors for up to 3100 individual components.

Capital Investment: The company has committed to investment of at least \$2,000,000 in new equipment, machinery and/or building improvements during the term of the loan, but plans to invest more than the minimum.

Total Planned Investment:	
Final Assembly Jig's (FAJ's)	\$ 750,000
Mechanic Training Labor	\$ 450,000
Detail Tooling Fab & NRE	\$ 400,000
Part Moving Equipment (PME)	\$ 400,000
Facilities Upgrade	\$ 250,000
Misc Hand Tools	\$ 150,000
Part Mark Machine	\$ 75,000
Total Costs	\$2,475,000

New Jobs: 100 Total over 5 years at the rate of 20 per year.

85% Direct Labor @ \$15-\$20/hour, 15% Salaried @ \$50,000 to \$80,000/year

Blended Average Wage: \$19.56/hr; \$40,684 / year at the end of the term.

Incentive Policy Wage Comparison: NAICS 336413 Average is currently \$47,073 or \$22.63 (local average minus aviation jobs is \$18.26)

Sedgwick County and City of Wichita have partnered to offer economic development assistance to Triumph. Sedgwick County and the City will provide \$78,000 each in forgivable loan funds to offset build-out and capital investment costs, subject to governing body approval. Loan principal will be forgiven in equal annual installments at the end of each year, provided that the employment and wage commitments set forth in the agreement have been met. Unforgiven principal will carry forward and any un-forgiven principal remaining at the end of the loan term shall be immediately due and payable. In the event Triumph ceases operations in Wichita during the term of the loan, the entire original principal will be immediately due and payable, plus interest from the start of the loan at 12% annual percentage rate (APR).

Alternatives:

The Commission could decline to approve the incentive.

Financial Considerations:

The forgivable loan of \$78,000 will be provided to Triumph from funds budgeted in the General Fund for economic development incentives in 2013. Upon authorization, \$78,000 of spending authority will be transferred from fund center 77005-110 (economic development reserve) to fund center 47001-110 (economic development) and the loan will be charged to that fund center. No other local incentives, including property tax exemption, are included in this project.

Using an econometric model developed by the Center for Economic Development and Business Research at Wichita State University, the ratio of public benefits to public costs was calculated for the proposed incentive package.

City of Wichita	1.33 to one
Sedgwick County	1.31 to one

Legal Considerations: The attached Forgivable Loan Agreement has been approved as to form by the County Legal Department.

Policy Considerations: The Economic Development Incentive Policy jointly approved by Sedgwick County and Wichita provides guidelines with which to determine the eligibility of companies for publicly-funded incentives and tax exemptions, and specifies a minimum expected return under normal circumstances of \$1.30 of benefits for every \$1.00 of cost to taxpayers from incentives. The proposed forgivable loan exceeds this minimum expected return.

Outside Attendees: Jim Lee, President - Triumph Aerospace Systems.

Multimedia Presentation: