



Mayor Rob Chestnut &
City Commissioners
City of Lawrence
202 6th St.
Lawrence, Kansas 66044

Dear Commissioners:

On behalf of the Lawrence Chamber of Commerce, its Board of Directors and its 1250 members I would like to take this opportunity to thank you for your continued support of the Chamber and its mission to increase the economic opportunities in our community.

Today I am writing to you regarding a community vision that was articulated by community leaders several years ago. That vision was to create an environment where the intellectual research capabilities of KU could be focused to create a bioscience industry presence in Lawrence/Douglas County. For too many years KU's bioscience and drug discovery/formulation research has been sold off to large pharmaceutical companies and the Lawrence community has not received any of the commercial benefits from these discoveries. The jobs, businesses and tax base that these discoveries created have gone to communities other than Lawrence.

This group of community leaders set into action a plan in 2003 to change that dynamic with the creation of the Lawrence Douglas County Bioscience Authority (LDCBA). The LDCBA has spent the first few years getting the lay of the bioscience land, building its relationship with the research groups at KU and developing a long range plan to make Lawrence/Douglas County the center of the bioscience industry in the plains states. The City of Lawrence and Douglas County have invested in the future of the LDCBA by committing \$200,000 annually to underwrite the operation of the Authority. LDCBA has successfully developed a formal relationship with KU and with Lawrence Regional Technology Center (LRTC). In 2008, LDCBA brokered a collaborative plan between the City, County, KU and the Kansas Bioscience Authority (KBA) to construct a \$7.25 million bioscience incubator formally known as The Bioscience & Technology Business Center on KU's West Campus, which commenced construction in October of 2009 and will open for business in May 2010. The Bioscience & Technology Business Center will provide a variety of business resources for commercialization and viability for bioscience research emerging from the University of Kansas.

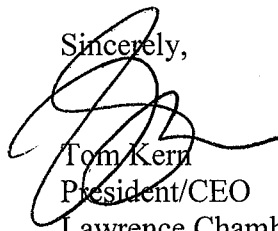
After a bioscience company has been in The Bioscience & Technology Business Center for a period of time it will need a permanent location for its operation. This is where the issue you are considering this evening becomes critically important. Of the 17 companies that have spun out of KU over the last 10 years only 4 have remained in Lawrence. The other companies left because of lack of lab space. Those companies took with them the jobs and the tax base that could have remained here in Lawrence if we had the facilities

to support them. The West Oread Lab will provide that lab space needed keep the companies that spin out of KU and The Bioscience & Technology Business Center in Lawrence. This acquisition will allow us to retain an existing bioscience company in Lawrence that has commercial and job creation potential. In addition the West Oread Lab building will provide Lawrence/Douglas County the opportunity to nationally market the lab space available for bioscience companies.

The action that you are considering this evening is another step in the process that this community began several years ago when it created the vision to become a bioscience community. It is interesting to note that in the recent community forum on job growth, which was attended by more than 115 community residents, cited commercialization of KU's bioscience capabilities as our community's highest positive attribute when it came to job growth potential.

I encourage you to approve the request before you this evening as the next logical step along the way to Lawrence becoming the bioscience center of the Great Plains.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Kern', is written over the typed name and title.

Tom Kern
President/CEO

Lawrence Chamber of Commerce

I wanted to make sure that I voice my support for keeping Criti Tech in Lawrence. Sam Cambell is an entrepreneur, this is a good thing. This does not mean that he simply sees an opportunity and acts on it for some quick personal gain. (See attached copy of Drug approval Process) Sam has embodied a vision for as long as I have personally known him to invest and reinvest in the future of Lawrence. Sam looks to the long term.. Sam knows that mining brain power is one of the areas we need to promote. He has helped facilitate the transfer of technology, long before it was in fashion. The Chambers recent town meeting identified fostering the exact thing in there recent gathering.

I believe the fact that Sam has an interest in the building is a very positive thing. Sam helped keep this building alive after another company's initial failure in the high tech field. Now because of these investors placing there confidence and capital in the future of Lawrence, the building is available to begin a new life. They are entitled to a profit, and our gratitude.

Criti Tech has assembled an impressive board of committed professional that should add confidence to the success of this proposal. They represent different skill sets, but all are tested veterans in there field. The advisory board is staffed by world renowned patent holders and renowned scientists.

Areas of past concern addressed by this proposal.

- 1) Clean company, environmentally friendly.
- 2) Living wage...above average wages with the potential for spin off at similar levels of pay.
- 3) Increased dollars circulating in community to drive sales tax, helping reduce property tax burden.
- 4) Prevents brain drain from the state of Kansas and creates a net positive inflow.
- 5) Compliments the long standing desire to keep innovation developed in our back yard....in our back yard , when they becomes commercially viable.
- 6) Helps foster the efforts of many to develop this area into part of a corridor of Science, complimenting work done in other Kansas universities and businesses.

I strongly support this Proposal. Please look very closely at all aspects of the proposal. Please consider the points I have made.

Thank you for your consideration.

Ernie Cummings
Owner
Kizer- Cummings Jewelers.

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November 9, 2009

Members of the Lawrence City Commission
City Hall

Re: Proposal to Purchase and Lease 4950 Research Parkway

Commissioners,

This letter raises a number of issues that should be resolved as the City of Lawrence, Kansas considers the purchase and operation of 4950 Research Parkway.

Background

The Lawrence Douglas county Biosciences Authority (LDCBA) proposes that the city purchase the property at 4050 Research Parkway for \$2,900,000.

This purchase would be financed through issuing general obligation bonds.

LDCBA would operate as the property manager and leasing agent. The property would be leased, in part, to the firm CritiTech. Other firms would be sought to lease the remainder of the building.

The financial projections for the property anticipate that it would not generate sufficient income to cover the costs of operation and that the taxpayers of Lawrence and Douglas County would subsidize the property to cover the losses.

Issues

1. Purchase price

The proposed purchase price is \$2,900,000. The financial projections for the property show the property generating a net operating income of about \$12 per square foot. It also assumes a capitalization rate (net operating income / property value) of about 6 percent which is too low. Capitalization rates should reflect the cost of borrowing, the return on equity invested in such properties, and the risk associated with this type of space. This suggests a capitalization rate of 8 percent or higher. With a capitalization rate of 8 percent, the purchase price of the property should be \$2,300,000, and this

assumes that the building can maintain 89 percent occupancy. If the occupancy falls to a lower level, the value of the property will be lower, possibly much lower.

2. Identity of interest between the seller and the tenant

The purchase price becomes immediately suspect because one of the current owners of the property is a principal in the CritiTech firm which is to be a subsidized occupant of the property. The sellers have an interest in obtaining as high a price as possible for the property, even a price higher than it can command in the private market. CritiTech as an occupant has an interest in leasing the space at a low lease rate, even a rate that is below the market rate because it is subsidized. With no arm's length separation between the seller and the tenant, the taxpayer cannot trust either the purchase price or the lease rate.

This suggests that the city should closely investigate the calculations of the purchase price and lease rates to ensure that the taxpayers are not being asked to provide more subsidies than are necessary.

3. Form of financing

The proposal is for the city to issue general obligation bonds to finance the purchase of the property. This obligates the city to cover all principal and interest payments on the debt if the property does not generate sufficient income.

It is more common for projects of this type to be financed with revenue bonds. With revenue bonds, the city promises only the revenues from the project for payment of the debt. Revenue bonds insulate the taxpayers from a heavy financial burden if the project fails.

This is a highly risky project. This risk will raise the interest rate on revenue bond debt, if the debt can be issued at all. If the project is too risky to be financed with revenue bonds, it suggests that the project is too risky for to be undertaken.

If the city wants to purchase this property, the city needs to explore financing mechanisms that minimize the risk absorbed by the taxpayers.

4. Projected occupancy

The financial projection for the property assumes that the project will achieve 89 percent occupancy after 4 years and will maintain that level of occupancy for the remaining 21 years of the bond financing.

This is an eleven year old property with a checkered history. The property's occupancy levels over its life need to be detailed. It seems highly unlikely that this property will suddenly transform from a poor performing property to a fully occupied property and remain fully occupied for over two decades.

The city should closely examine the occupancy history of the property and should examine the market for such laboratory space. The market is saturated with facilities

being offered to bioscience firms. It is unlikely that this property will attract firms from outside of Lawrence; all of the firms are likely to come from spin-offs of KU.

A compelling case needs to be made that KU will produce sufficient firms to maintain 89 percent occupancy in this property for over two decades, despite the fact that KU has not produced these firms in the past.

5. Property taxes

The LDCBA proposal states that the property will remain a taxable property. This is not correct. If the city is to own the property, it is not a taxable property. Under some circumstances, a tenant could be charged a lease rate that is high enough to cover the debt on the property and an amount that would be paid in property taxes had the property been taxable. This is usually referred to as a payment in lieu of taxes or PILOT.

The financial projection for the property shows a PILOT, but it also shows that the project will not generate sufficient revenue to cover its own costs. The losses are covered by the taxpayers.

It is disingenuous to claim that the property is on the tax rolls when it is publicly owned and generate losses that must be covered by the taxpayers.

The proposal should not mislead the taxpayers into thinking that this property will be anything other than a subsidized property.

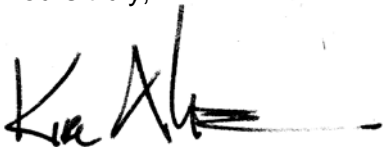
Recommendation

There is nothing wrong with the city exploring mechanisms to foster economic development in the biosciences. However, the city should exercise caution so as to not expose the taxpayers to unnecessary risk or unjustifiable costs.

This proposal merits further exploration, but there are many flaws and misrepresentations in the proposal. It can be seen as a starting point rather than an ending point. The city should negotiate for a better agreement. It is possible that a better agreement can be found that is mutually acceptable to all parties. The current proposal appears to be prohibitively flawed.

The City Commission should direct staff to study this property more closely and determine whether a feasible financial package can be constructed with minimal risk to the taxpayers.

Yours truly,

A handwritten signature in black ink, appearing to read "Kirk McClure", with a horizontal line extending to the right.

Kirk McClure