

Tax Abatement Request from Grandstand Sportswear and Glassware

City Commission
September 20, 2011



Overview of Request

- 65% annual property tax abatement over 10 year period
- \$5,000,000 property value, including improvements made during abatement period
- 83 net new full-time jobs created
- 95% of goods sold outside community
- 40% of expenditures spent within community

Property Tax Collection History 3840 Greenway Circle

Table 1—Property taxes under previous tax abatement program

Year	Tax Amount
1999	\$44,000
2000	\$43,000
2001	\$47,000
2002	\$45,500
2003	\$46,900
2004	\$46,300
2005	\$48,500
2006	\$50,900
2007	\$51,000
2008	\$56,700
2009	\$176,000

Source: Douglas County Appraiser

The property was fully on the tax rolls in 2010, at which time property taxes were \$186,900

At 65% abatement based upon current values, the property tax collected would be \$65,415.

Tax Abatement Policy Criteria Review

Policy Requirement	Threshold	Project Delivers
Business is environmentally sound	Not specified	Building will meet Energy Star criteria.
Business pays all employees in the abated project an average wage per employment category that meets or exceeds the average in the community as determined annually by the Kansas Department of Human Resources Wage Survey.	\$36,500 ⁽²⁾	\$38,495 ⁽³⁾
The business pays all covered employees a wage, at or above, an amount which is equal to one hundred thirty percent (130%) of the federal poverty threshold for a family of three (3), as established by the United States Department of Health and Human Services.	\$11.58/hour ⁽¹⁾	\$10.00/hr starting wage for 90 day training period. \$12.00/hr wage after training.

Tax Abatement Policy Criteria Review (continued)

Policy Requirement	Threshold	Project Delivers
The business provides one of the following:		
(A) The availability of covered employees to obtain an employer-sponsored health insurance policy, pursuant to employer guidelines, in which case the employer provides a minimum of seventy percent (70%) of the cost of such policy	70% of policy cost	High deductible plan: 100% of costs paid for employee Low deductible plan: 94% of cost paid for employee
<i>-OR-</i>	<i>-OR-</i>	
(B) As an alternative to offering an employer-sponsored health insurance policy, the employer shall pay the covered employee a wage which is at least \$1.50 per hour above the amount required in (3.) above.	\$13.08 (\$11.58 + \$1.50)	n/a
Positive Benefit/Cost ratio	1.25 or higher	1.43

Tax Abatement Eligibility Review

Abatement Amount	City Policy	Project Eligibility	Meets Requirement
Up to 50%	Minimum 3 years on DC Tax Roll	Paid since 1988	Yes
	Minimum \$5,000,000 investment	\$5,000,000 (est.)	
	Minimum 20 new jobs that meets or exceeds the requirements outlined in Section 1-2122.	83 net new full-time jobs, Average annual salary of \$38,500	Yes
Additional 10%	Minimum 3 years on DC Tax Roll	Paid since 1988	Yes
Additional 5%	Located in a targeted development location as defined by the City Commission, or a site that already has infrastructure in place such as an existing business park.	Property located in East Hills Business Park	Yes

Total Incentives and Benefit-Cost Ratios by Taxing Jurisdiction

Jurisdiction	Revenues with Incentives (discounted)	B-C Ratio
Lawrence	\$364,196	1.43
Douglas County	\$294,891	1.87
USD 497	\$577,218	4.33
State of Kansas	\$1,993,896	n/a
Total	\$3,230,202	

Total Abatement Impact

Total Returns (discounted)	
Returns without Incentives	\$3,951,805
Returns with Incentives	\$3,230,202
Incentives Impact on Property Taxes	(\$721,603)

Additional Considerations

- The potential of the business for future expansion and additional job creation
 - *Applicant estimates that the project will add 83 new jobs, expanding their employee base from 51 current employees to 134 employees over the abatement period.*
- The degree to which the ultimate market for the business products and services is outside the community, recognizing that outside markets bring “new money” to the local economy.
 - *Applicant estimates that 95% of new goods produce in Lawrence will be sold outside of Lawrence and Douglas County.*
- The beneficial impacts the business may have by creating other new jobs and businesses, including the utilization of local projects or the materials and substances in manufacturing and creation of niche businesses.
 - *Applicant estimates that 40% of additional operating expenditures for the business will be made in Lawrence.*

Other Economic Policy Considerations

- Encouraging existing industry to expand
- Encouraging training and development of Lawrence area employees
 - *Employees participate in formal training, including operation and maintenance of machines, one-on-one instruction on graphics design for artist, on-the-job training in customer service, quality assurance, machine operation, warehousing, shipping and receiving, purchasing, creative art, production, and pre-press preparation.*
 - *In addition, the Applicant will be participating in the Kansas Industrial Training Program (KIT) administered by the Kansas Department of Commerce, Workforce Services. This program helps firms creating new jobs with on-the-job and/or classroom training.*
- *Horizon 2020 specifies that business within select industries should particularly be a focus of economic development efforts, including “Light Manufacturing and Distribution”*

Industrial Revenue Bonds

- Tax abatement request needs to be considered in conjunction with an Industrial Revenue Bond (IRB) issuance due to proposed subleasing involved
- IRBs are a conduit financing mechanism which the City issues, with the company being fully responsible for principal and interest payments on the bonds
- Requires 100% abatement with a 35% annual payment in lieu of tax required, equal to 65% abatement, as requested

Annual Compliance Calculation for Performance Agreement

- Capital Investment
- Job Creation
- Wages
- Health Insurance Benefits

Averages →

Blended Percentage Range	Amount of incentive to be received
90-100%	100%
80-89%	85%
70-79%	75%
Below 70%	No incentive

Recommendations

- Given the City's policy guidelines and the project's alignment with overarching economic development goals and objectives, staff recommends approval of Grandstand's request for an annual 65% property tax abatement for a period of 10 years.
- On September 13, 2011, PIRC voted 7-0 to approve Applicant's request for an annual 65% property tax abatement for a period of 10 years.

Next Steps

- *City Commission to hold public meeting:*
 - Consider adopting Resolution 6947,
 - Authorize the issuance of up to \$5 million in industrial revenue bond financing for 3840 Greenway Circle, LLC for the property located at 3840 Greenway Circle
 - Approval of a 65% net property tax abatement to support the expansion of Grandstand Sportswear and Glassware, if appropriate.
- *In the future (~October) City Commission to consider an ordinance, including a performance agreement, to issue bonds.*