

PUBLIC ASSISTANCE REQUEST: MENARD, INC.

City Commission
January 19, 2016

Presentation



- ❖ Project Overview
- ❖ Assistance Request
- ❖ Eligibility
- ❖ Analysis
- ❖ Other Considerations
- ❖ Future Actions

Project Overview

- ❖ 90.5+ Acre Manufacturing Campus at LVP
- ❖ 184,000 S.F. of Facility Space
- ❖ \$15+ Million Real Property Investment
- ❖ 100 Net New Full-Time Jobs
- ❖ Starting Wages Averaging \$14.61/Hour with First Year Wages Averaging \$17.30/Hour
- ❖ 94% of Goods Sold Outside Community
- ❖ Cash Purchase of LVP Land with 10-Year Total of Special Assessments Paid Up Front

Assistance Request

- ❖ 10-Year, 50% Tax Abatement
 - ❖ City and County Aid in Defraying Partial Special Assessments (paid over 10-years)
 - ❖ Bulk Warehouse Building (former Farmland Indus. Building)
- Approximate Value = \$2.29 Million

Eligibility

❖ Tax Abatement Policy Criteria

Lawrence: Tax Abatement Policy Criteria			
Item #	Policy Requirement	Threshold	Project Delivers
1	Business is environmentally sound	Not specified	Project will incorporate many environmentally friendly products and practices including, energy star certified roofing, doors, and light fixtures; efficient radiant floor heating from a boiler system fueled partly by recycled waste wood generated by the facility; defect and returned concrete blocks produced by the facility will be recycled and reintroduced into the manufacturing process; facility will produce zero waste water and virtually no other waste.
2	AVERAGE WAGE: 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.	Community average for all Production jobs is \$16.78/hr.	Average company annual wage is \$17.30 for full-time, permanent positions.
3	WAGE FLOOR: The business pays all covered employees a wage, at or above, an amount which is equal to 130% of the federal poverty threshold for a family of 3, as established by the United States Department of Health and Human Services	\$12.56/hour (2015)	Lowest wage paid is \$13.84 for full-time, permanent employees. Average starting hourly wage is \$14.61 for full-time, permanent positions.

Eligibility

❖ Tax Abatement Policy Criteria (continued)

4. HEALTH INSURANCE REQUIREMENTS, The business provides one of the following:			
4-A	(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 70% of the cost of such policy	70% of policy cost	Company will pay 50% of healthcare premium for 100% of employees + HAS contribution
4-B	(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 Item #3 above.	\$14.06 (\$12.56 + \$1.50 for 2015)	Average starting company wage is \$14.61. \$17.30 as the average wage during the first year of employment.
5	Positive Benefit/Cost ratio	1.25 or higher	1.25 ratio exceeded for all taxing jurisdictions.

Eligibility %

Tax Abatement: % Eligible				
% Available	Description	Meets	Eligibility %	Notes
50%	Company investing over \$7M in 2009 adjusted dollars (\$7,710,523 in 2015 dollars), minimum 30 new jobs created	Yes	50%	Over \$15 million to be invested in building and other real property improvements. 100 new full-time, permanent positions to be created within first two years of operation.
	Company has been on the Douglas County property tax rolls for more than 3 years, is investing over \$5M in 2008 adjusted dollars (\$5,476,346 in 2015 dollars), minimum 20 new jobs created	--	--	--
10%	Company has been on Douglas County Property Tax rolls for at least 3 years	--	--	--
5%	Capital investments exceeds \$10M in 2009 adjusted dollars (\$11,015,033 in 2015 dollars)	Yes	5%	Total real property capital investment is over \$15 million
5%	Project constructed to LEED certification or Silver standards	--	--	--
10%	Project constructed to LEED Gold or Platinum standards	--	--	--
5%	Unique site constraints or construction requirements make development difficult	Yes	5%	Site has multiple monitoring wells that will need continual accessibility to meet KS Health & Energy Department requirements. Applicant will need to design building and site area to accommodate city staff access for performing on-going environmental monitoring. Site has topological design challenges.
5%	Project is seen as a catalyst for future projects in an economic development area	Yes	5%	Project to be first large-scale development and will serve as anchor tenant at Lawrence VenturePark.
5%	Project located in a targeted development location or development-ready site	Yes	5%	Located in Lawrence VenturePark
10%	Project provides exceptional wages	--	--	--
TOTAL Eligible Percentage			70%	

Eligibility

❖ Eligibility Conclusion:

- ❑ **City Tax Abatement Policy Criteria**—The project as proposed and requested public assistance package appears to meet policy criteria thresholds.
- ❑ **Tax Abatement % Eligibility**—The applicant's request for a 50% tax abatement appears to fall within the abatement percentage allowed under City policy.
- ❑ **Model Results**—Model results show that the cost-benefit threshold of 1.25 can be met for all taxing jurisdictions, given the applicant's request for assistance.

Analysis

❖ Assumptions:

Assumptions Summary	
Building Size (sf):	184,000
Location:	Lawrence VenturePark
Lot:	Block C, Lot 1+
Lot Size (ac):	90.542
Appraised Land Value:	\$794,329
Business Type:	Industrial/Manufacturing (NAICS 327331)
Estimated Construction End:	July 2017
First Full Tax Year After Construction Completed:	2018
Assessment Ratio:	0.25
Capital investment (New Construction):	\$14,477,300
Total Real Property Capital Investment, including land + existing warehouse + new construction on building (does not include machinery, equipment, or other personal property)	\$15,557,592
Special Assessments Value	\$1,084,018
Total value land + SA	\$1,878,347
Total FT Jobs over 2 years	100
Average salary without benefits	\$30,384 (starting wage) to \$35,979 (1st year average)
Benefits:	Company paid 50% healthcare premium + HSA contribution. Employees also eligible for dental and life insurance benefits (50% paid by company).
Estimated Appraised Real Property Valuation for Taxing Purposes (per DG Appraisers):	\$7,837,239
Net City Costs on Land:	\$244,268
Appraised Warehouse Building Value (Aug. 2015):	\$285,963

Analysis

❖ Assumptions:

☐ Capital Investment

Menards: Phase I Acquisition and Investment	
Description	New Real Property Capital Investment
Land	\$794,329
Improvements	\$14,477,303
Total	\$15,271,632

Analysis

❖ Assumptions:

❑ Job Creation & Wages

Job Creation: Phase I			
Year	# Jobs	Starting Hr. Wage	SUMProd
Site Manager	1	\$18.19	\$18.19
HR Coordinator	1	\$13.84	\$13.84
Plant Manager	3	\$17.22	\$51.66
Asst. Plant Manager	10	\$16.71	\$167.10
Controller	2	\$15.17	\$30.34
Manager Trainee	5	\$16.20	\$81.00
Maintenance	3	\$14.91	\$44.73
Area Superv	10	\$15.17	\$151.70
Production	65	\$13.88	\$902.20
Total	100		\$1,460.76
Avg. Hr.	\$14.61		
Avg. Annual	\$30,383.81		

Analysis

❖ Assumptions:

❑ Property Tax History

- Previously exempt during remediation
- Will go on the tax rolls in 2015 (~\$26,000 property tax due from city)

Analysis

❖ Assumptions:

❑ Market Valuation and Special Assessments

Market Valuation: Land						
Block	Lot	Lot Size (Acres)	Lot Size (SF)	Market Land Value	Special Assessments	
					\$/SF	Total
C (area with SA)	1	75.411	3,284,903	\$661,584	\$0.33	\$1,084,018
C (area no SA)		15.131	659,106	\$132,745	\$0.00	\$0
Total		90.542	3,944,010	\$794,329		\$1,084,018

Market Value: Bulk Warehouse		
Description	Size	Value
Land	1.6 acres	\$14,037
Building	33,158 sf	\$285,963
Total Market Value:		\$300,000

Analysis

❖ Assumptions:

❑ Market Valuation for Taxing Purposes

Valuation Estimates for Property Tax					
Income Valuation Methodology	Per SF	Building Size	Building Appraised Value	Land Appraised Value	Total
New Construction: Class A, Large Industrial Manufacturing	\$42.00	184,000	\$6,938,430	\$794,329	\$7,837,239
Existing Building: Bulk Warehouse Building		33,158	\$104,480		
Estimated, appraised value estimates from Douglas County, Appraisal Office					

Analysis

❖ Results

JT Public Assistance Request	
Description	Value
50% Tax Abatement, 10 Years	\$1,256,270
City Grant (10 year, SA)	\$549,350
County Grant (10 year, SA)	\$200,000
City Bulk Warehouse	\$285,963
Total package value:	\$2,291,583

Cost-Benefit Ratios					
Description	City	County	USD 497	State	Total Package Value
50% Tax abatement, City provided bulk warehouse (~\$286,000 value), City (\$549,350 total value) and County (\$200,000 total value) grants: total grant amounts to be divided by 10 and payable in equal, annual installments over 10-year abatement period.	1.28	1.26	4.82	N/A	\$2,291,583

Assumes JT purchases land at market (appraised) value and pays SA

Analysis

❖ Estimated Net Revenues

Estimated Cash Flow						
Description	Menards	City	County	USD	State	
Land Purchase ⁽¹⁾	(\$794,329)	\$794,329	--	--	--	
Special Assessments						
Original Parcel	(\$1,084,018)	--	--	--	--	
City Grant for SA on Drainage/Detention Areas*	--	(\$250,000)	--	--	--	
City Grant (paid over 10 years toward special assessments)	--	(\$549,350)	--	--	--	
County Grant (paid over 10 years toward special assessments)	--	--	(\$200,000)	--	--	
Property Taxes Out (Abated/Paid over 10 Years)	(\$1,256,270)	(\$308,337)	(\$401,756)	(\$350,246)	(\$195,931)	Represents foregone tax revenues for taxing jurisdictions
Property Taxes In (Net Revenues)						
Commercial (received over 10 years)		\$308,337	\$401,756	\$350,246	\$195,931	Represents net property tax revenues received by taxing jurisdictions from taxes paid by company
Residential ⁽²⁾ (received over 10 years)		\$386,646	\$649,649	\$439,199	⁽³⁾	
TOTAL Gains	(\$3,134,617)	\$381,625	\$449,649	\$439,199	\$0	Net property tax proceeds to taxing jurisdictions over 10 year abatement period is approximately \$1,270,500

Figure does not include the overall economic impact of this investment in the community, nor the effect that the project could have on development in the remaining parcels of Lawrence VenturePark.

Considerations

❖ Additional Policy Considerations:

❑ **Future expansion/additional job creation:**

Estimated 100 net new, full-time positions on site, with potential for additional jobs added during future expansion phases

❑ **Utilization of local products in business: ~**

57% of operating expenditures will be made in Lawrence.

Considerations

□ **Environmental Impact:**

- *Project will utilize energy star certified steel roofing, doors and lighting fixtures.*
- *Heat will be provided using efficient radiant floor heating from a boiler system fueled in part by recycled waste wood generated by the facility.*
- *Defect and returned concrete blocks produced by the facility will be recycled and reintroduced into the manufacturing process.*
- *Facility will produce zero waste water and virtually no other waste.*
- *A large portion of inbound raw materials are delivered by rail, reducing road congestion and CO² emissions.*
- *Reduced transportation distances to retail store locations throughout the region helps reduce truck traffic and resulting emissions.*

Considerations

❑ **Area Economic Impact:**

- *Strong Anchor Tenant, Sizable Presence at LVP*
- Well known, large national company—Can be catalyst for additional industrial development within and around LVP
- Rebuilding Rail Spur—will allow other tenants access
- Likely future expansion with additional buildings and employment opportunities
- Estimated support of 10-15 local, full-time security and trucking jobs by 3rd party employers.
- Trucking operations should benefit local gas stations and provide spin off economic benefits for truck services and sales.
- Concrete plant will use sand and gravel and cement purchased from local suppliers (~\$500,000 in new raw materials sales).

Considerations

- ❑ **Compatibility with land use and City development plans, Availability of existing infrastructure:**
 - *Compatible with zoning, land use, and development plans for LVP property.*
 - *Park has all necessary infrastructure and public services in place.*
- ❑ **Meeting Policy Economic Development Objectives:**
 - *Recruitment of companies from out of state: Menard's 1st manufacturing plant within Kansas. Provides product to stores in Kansas and neighboring states.*
 - *Encourage Good Corporate Citizenship: 60+ year history of communities it calls home. Participation in many community projects and regular sponsor of local events and groups.*
 - *Horizon 2020 specifies business within select industries, including "light manufacturing & Distribution" should be a focus of economic development for the community.*

Other Considerations



- ❑ **Parcels are some of the least desirable topographically.**
- ❑ **RCRA Site: requires on-site monitoring wells**
- ❑ **Least desirable parcels for visibility.**

Performance Provisions

- ❖ If a tax abatement is authorized, a Performance/Development Agreement will be needed to tie compliance performance categories to incentives earned.

- 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

Actions to Date

- ❖ Public Incentives Review Committee (PIRC) reviewed the request on 12-8-15 and voted unanimously to recommend City and County public assistance as per the request.
- ❖ County Commission received PIRC recommendations at their 12-9-15 meeting and voted unanimously for County participation in a \$200,000 grant, to be paid in equal installments over 10 years.

Purchase Agreement

- ❖ Menards to purchase the 90.5 acre parcel for \$794,329.00, subject to contingencies, including:
 - ❖ Securing approval of public assistance requested
 - ❖ Execution of Development Agreement between City, County and Menards
- ❖ Menards to pay special assessments of \$1,084,018.00

City Commission Requested Action

- ❖ Receive PIRC recommendation
- ❖ Vote on Ordinance authorizing a City grant of \$549,350, to be paid over a 10 year period, and City special assessment prepayment grant not to exceed \$250,000.
- ❖ Hold a public hearing, consider and vote on a 10-year, 50% tax abatement for property at Lawrence VenturePark.
- ❖ Authorize the Mayor to execute a Purchase and Sale Agreement with Menard, Inc., for property at Lawrence VenturePark, if appropriate.

Questions & Discussion



Thank you!