

Memorandum

City of Lawrence

City Manager's Office

TO: Tom Markus, City Manager
CC: Diane Stoddard, Assistant City Manager
Casey Toomay, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: April 23, 2018
RE: Lawrence Humane Society request for Industrial Revenue Bond financing to obtain a sales tax exemption on project construction materials for the new Lawrence Humane Society facility.

Project Overview

The Lawrence Humane Society (LHS) is planning the construction of a new animal shelter at 1805 E 19th Street in Lawrence, Kansas to replace the existing aged and obsolete shelter located on the same parcel.

The facility will provide approximately 22,000 square feet of new space and be built on the Lawrence Humane Society's 4 acres of land at 1805 E 19th Street in Lawrence, Kansas. Project construction is anticipated to start in May 2018, with the facility being operational in summer 2019. Total construction costs for the project are estimated at \$7.5 million, with approximately \$3.8 million subject to sales tax.

Once in place, the new shelter will accommodate all LHS operations, providing a veterinary clinic, adoption center, space for community education and interaction, and animal housing that incorporates industry best practices. The new facility will allow for improved efficiencies in operations and services, accommodate the development and enhancement of new animal welfare programs and services, broaden community education, and help meet long-term goals and objectives. See project brochure for additional details.

Until the new facility is operational, animal shelter services will continue to be provided at the existing facility located on the same parcel site.

Incentive Request

Staff received an application from the Lawrence Humane Society on April 9, 2018, requesting Industrial Revenue Bond (IRB) financing to access a sales tax exemption on project construction materials. The applicant is requesting \$7.5 million in industrial revenue bonds to cover total project costs. Of that amount, approximately \$3.8 million is estimated to be spent on project materials subject to sales tax. Although the Lawrence Humane Society is a designated nonprofit animal shelter, this designation is not one of the 14 designations (schools, hospitals, religious organizations, zoos, etc.) automatically eligible for a Project Exemption Certificate by the State.

Note this IRB request is not affiliated with a property tax abatement. (State statutes require a benefit-cost analysis be performed for a tax abatement, but not for a sales tax exemption IRB.)

About Industrial Revenue Bonds

Industrial Revenue Bonds (IRBs) are an incentive established by the State of Kansas to enhance economic development and improve the quality of life. Considered a "conduit financing mechanism" whereby the City can assist companies in acquiring facilities, renovating structures, and purchasing machinery and equipment through bond issuance, IRBs can be useful to companies in obtaining favorable rate financing for their project, as well as providing a sales tax exemption on project construction materials.

IRBs are repayable solely by the company and place no financial risk on the City. When IRBs have been issued, the municipality owns the underlying asset and the debt is repaid through revenues earned on the property that have been financed by the bonds. If the company defaults, the bond owners cannot look to the City for payment.

IRB Eligibility

According to City policy (Resolution No. 7184, dated January 15, 2017), the City may consider, and from time to time issue IRBs when a proposed project furthers the economic goals and objectives of the City, as outlined in Horizon 2020 (the City’s Comprehensive Plan).

Economic goals of the City as set forth in policy and Horizon 2020 (Comprehensive Plan of Lawrence and Douglas County):		
<i>Horizon 2020 Goals</i>	<i>Project Notes</i>	<i>Qualifies (Y/N)</i>
Place high priority on retention and expansion of existing businesses.	The LHS is a local, existing non-profit business with 28 full-time employees.	Yes
Encourage existing industry to expand.	In preparation of the new facility, LHS has been strategically growing its staff to accommodate full and immediate implementation of the programs and services upon occupancy of the new shelter. With the completion of the new facility, LHS may look to add additional positions to support increased programming that will improve community animal welfare.	Yes
Assist new business start-ups	Does not apply	No
Recruit new companies from out-of-state and internationally	The Lawrence Humane Society is strategically located along the Animal Health Corridor, which houses the majority of animal health companies (pet food, pharmaceuticals, etc.). As a small-to-midsized shelter leader, the Lawrence Humane Society attracts participation via partnerships from many of these companies, including several located out-of-state.	Yes
Encourage high technology and research-based businesses.	The Lawrence Humane Society's new shelter will improve quality of life for Lawrence residents by improving public safety, enhancing community health, and assisting with savings in societal costs by offering strategic programming to the community. All these factors and more will assist in making Lawrence a more attractive community for businesses seeking a new home.	Yes
Encourage training and development of Lawrence area employees	Employees are provided with training on animal handling, risk management, customer service, safety, diversity and inclusion and more.	Yes
Encourage location and retention of businesses which are good "corporate citizens" that will add to the quality of life in Lawrence through their leadership and support of local civic and philanthropic organizations.	The Lawrence Humane Society partners with local veterinary hospitals, pet-friendly and pet-focused businesses, and social service agencies to improve the lives of pets and the people who love them in the community. Through these strategic partnerships, the Lawrence Humane Society facilitates improvement in community health and wellness and the advancement of community animal and human welfare.	Yes

Additional eligibility criteria, as stipulated in the Policy, are outlined below, along with notes on related project qualifications:

2.5 IRBs REVIEW CRITERIA		
Public Benefits		Project Notes
2.5.1	In considering whether to approve an application for an IRB, the Governing Body shall determine if the proposed project achieves one or more of the following public benefits:	
	(a): The project meets the economic development goals and objectives of the City, as outlined in this policy and in <i>Horizon 2020, the Comprehensive Plan for the City of Lawrence and Unincorporated Douglas County</i> ;	Supports full-time jobs with benefits, enhances local quality of life, and lowers societal costs.
	(b): The project enhances Downtown Lawrence;	Project is not located in Downtown
	(c): The project promotes infill through the development of vacant lots, the rehabilitation of deteriorated properties, or the adaptive reuse of historic properties;	In-fill development on site of existing, deteriorated facility
	(d): The project incorporates environmentally sustainable elements into the design and operation of the facility;	New facility will include many environmentally friendly features.
	(e): The project provides other benefits to the City or meets other goals of the City, particularly those set forth in <i>Horizon 2020, the Comprehensive Plan for the City of Lawrence and Unincorporated Douglas County</i> .	Yes: See H2020 Table
Benefit/Cost Threshold		Project Notes
2.5.2	When considered in conjunction with a property tax abatement, it is the policy of the City to view more favorably those applications requesting the City to issue IRBs where the proposed project is projected to result in a positive benefit/cost ratio of 1.25 or greater, over a 15-year period, as determined by application of the benefit/cost model described in more detail in Section 1.8.1, above.	n/a: No property tax abatement requested
Competitive Advantage		Project Notes
2.5.3	It is the policy of the City to view more favorably those applications requesting the City to issue IRBs, where the project generates revenues from outside this community and enhances the quality of life for residents of this community. The City does not favor those applications requesting the City to issue IRBs, where the project primarily will compete with existing businesses. See also Section 1.8.8:	Project will enhance local quality of life and will not compete with existing businesses. LHS is non-profit organization with a unique mission in serving the local community.
1.8.8	No Unfair Advantage: It is the policy of the City to deny any application or petition requesting economic development incentives where, in the judgment of the Governing Body, the economic development incentive, if granted, will provide a business with an unfair competitive advantage over another existing business that competes in the same local market for the same consumers.	No unfair advantage produced since LHS is non-profit with a unique mission for serving the community.

Continued

Targeted Businesses		Project Notes
2.5.4	It is the policy of the City to view more favorably proposed projects involving targeted business as set forth at Section 1.3.3:	
	1.3.3 (a): Life Sciences/Research	No
	1.3.3 (b): Information Technology	No
	1.3.3 (c): Aviation and Aerospace	No
	1.3.3 (d): Value-added Agriculture	No
	1.3.3 (e): Light Manufacturing and Distribution	No
Retail and Residential Projects		Project Notes
2.5.5	It is the policy of the City to decline to issue IRBs for projects that are largely retail or residential in nature, except that:	
	(a): City may consider the issuance of IRBs for proposed projects that are primarily retail in nature, if the applicant demonstrates that the proposed project is exceptional and that it is likely to add to the City's retail base by attracting additional retail sales to the community or by capturing retail sales that are leaking from the community to other markets.	n/a: No retail
	(b): City may consider the issuance of IRBs for proposed projects that are primarily residential in nature, if the primary purpose of the proposed project is to provide affordable housing, multi-family dwellings, senior living, or a mixed-use development.	n/a: No residential
2.5.6	If the proposed project requesting the City to issue IRBs includes any residential dwelling units, then the proposed project must comply with the City's policy regarding economic development incentives and affordable housing as set forth in Section 1.8.3.	n/a: No residential

City policy also mentions other project qualities that are favored or preferred when issuing IRBs. Those aspects are outlined below, along with project notes.

Other Policy Considerations	
1.8.1.2 In addition to the foregoing nonexclusive factors, in performing the benefit/cost analysis the City may also consider one or more of the following nonexclusive factors:	Project Notes
(a) the degree to which the proposed project improves the diversification of the City's economy;	n/a
(b) the kinds of job the proposed project will create in relation to the kinds of skills available in the local labor market	n/a
(c) the degree to which the ultimate market for the proposed project's products or services reside outside the community, recognizing that outside markets bring "new money" to the local economy;	n/a: LHS provides services that enhance quality of life for the local area.
(d) the potential of the proposed project to expand and create additional jobs in the future;	As the Lawrence Humane Society moves into its new facility, there is potential for new programming to create additional jobs.
(e) the beneficial impact the proposed project may have on the City, resulting from its creation of other new jobs and businesses, from its use of local products or other materials and substances in manufacturing, or from its creation of niche businesses, such as those in the bioscience arena;	The Lawrence Humane Society has contracted local companies to fill the roles of architect and construction manager and will select local subcontractors for the construction project where expertise and costs allow.
(f) the beneficial impact the proposed project may have on the environmental quality of the region or, through its products or services, nationally, as well any efforts the proposed project makes to promote sustainability or to mitigate environmental harm.	Project will incorporate many environmentally friendly features, including optimized HVAC and light energy performance; energy-efficient LED lighting; water-efficient plumbing fixtures; natural daylighting; Low-VOC finish materials and fresh air ventilation for improved air quality energy recovery ventilation system to reduce heating and cooling requirements.
(g) the beneficial impact the proposed project will have on an area of the City, including designated enterprise zones and areas of needed revitalization or redevelopment; or	Overall building design, floor, plan, mechanical systems, lighting and plumbing systems will work together to reduce energy and resource consumption, increase staff efficiency, reduce animal stress, and mitigate odor and disease transmission.
(h) the compatibility of the location of the proposed project with land use and development plans of the City and the availability of existing infrastructure facilities and essential public services.	The project has gained the necessary zoning and site plan approvals to proceed.

As indicated above, the proposed project appears to meet City eligibility criteria for support.

Previously Authorized IRBs

The below tables summarize City IRB support on community development and economic development projects for not-for-profit and for-profit companies.

Recently Authorized IRBs					
Company	Date of Issue	Issuing Ord. #	Year Matures	Amount Authorized	Project
Bowersock: Series 2011B & 2011C	2010/2011	8607 & 8620	2037	\$27,000,000	Hydro-Electric Facility
Rock Chalk Park	Oct. 2013	8862	2023	\$40,000,000	Commercial Recreational Facility
826 Pennsylvania Street*	Dec. 2016	9316	2018	\$3,200,000	Mixed-Use Commercial/Multi-Family Residential
Dwayne Peaslee Technical Training Center, Inc.: Series 2016*	Dec. 2016	9321	2019	\$2,000,000	Technical Training Center
Boys & Girls Club*	Dec. 2017	9431	2020	\$5,000,000	Teen facility addition to College & Career Center
Vermont Place*	See Note ¹				Mixed-Use Commercial/Residential

* Stand-alone IRB used for a sales tax exemption on construction materials

Recently Matured IRBs					
Company	Date of Issue	Issuing Ord #	Matured	Amount Authorized	Project
800 New Hampshire: Series 2016* (1)	April 2016	9210	2018	\$7,800,00	Mixed-Use Commercial/Multi-Family Residential
1101 Indiana Street (HERE KS)*	Nov. 2014	9053	2017	\$76,000,000	Mixed-Use, Retail and Student Housing
100 East 9th Street LLC (888 New Hampshire, North Project): Series 2015*	Mar. 2015	9093	2017	\$23,000,000	Mixed-Use Commercial/Residential
Dwayne Peaslee Technical Training Center, Inc.: Series 2015 (2)	May 2015	9111	2017	\$1,600,000	Technical Training Center
DST Systems, Inc: Series 2001	2001	7331	2012	\$9,000, 000	Acquisition & Renovation of Existing Office Building
Neuvant House II*	2013	8901	2014	\$2,500,000	Specialty Healthcare Facility
9th & New Hampshire LLC: Series 2012 (South Project)*	2012	8804	2015	\$17,250,000	Mixed Use Hotel (900 New Hampshire Street: South Project)
PROSOCO, Inc: Series 1998A (\$5,800,000) & Series 1998B (\$2,240,000)	1999	7060	2019	\$8,040,000	Manufacturing Facility
Pioneer Ridge*	Feb. 2016	9184	2017	\$14,500,000	Commercial, Independent Living Facility
Eldridge Expansion (705 Massachusetts Street)*	Oct. 2015	9161	n/a	\$12,500,000	Hotel expansion, did not proceed. Terminated by applicant in 2016.

* Stand-Alone IRB used for a Sales Tax Exemption on Construction Materials

¹ Resolution of Intent No. 7173 authorized 10-3-2017. Bond have not yet been issued.

Historical IRB Support						
Ord	Ord Date	Project	Bond Series	Bonds	Amount Authorized (up to)	Purpose
Ord 4948	7/25/1978	Prairie- Ridge	Series July 1, 1978	Revenue Bonds (Housing Development)	\$2,310,800	Senior Apartments , low income housing. Some HUD subsidized.
Ord 5045	5/15/1979	Vermont Towers	Series May 1, 1979	Revenue Bonds (Housing Development)	\$1,757,000	Apartments . Low-rent, subsidized
Ord 6553	5/31/1994	Drury Place at Alvamar	Series 1994	Revenue Bonds (Elderly Housing)	\$2,880,000	Acquiring, constructing, installing and equipping an Elderly Housing Apartment Project
Ord 6395	12/22/1992	Brandon Woods	Series 1993	Revenue Refunding Bonds (Multi-Family Housing Development)	\$6,000,000	Refund Multi-Family Housing development variable rate demand revenue bonds, Series 1987 Multi-Family Housing Development
Ord 5739	3/31/1987	Brandon Woods	Series 1987	Variable Rate Demand Revenue Bonds	\$6,000,000	Acquire, purchase, construct and install a Commercial Multi-Family Housing Project .
Ord 4627	11/11/1975	Lawrence Presbyterian Manor	Series 11-1-1975	IRB	\$2,000,000	Elderly Housing
Ord 5706	7/1/1986	Lawrence Presbyterian Manor	Series 1986	IRB	\$3,500,000	Purchase, construct and equip certain additions and improvements to an existing Nursing Home Facility .

Estimated Sales Tax Savings

The costs of incentives are restricted to a sales tax exemption on construction materials for the project. Assuming a total project cost of \$7,500,000 and using the most recent (January 2018) Kansas Department of Revenue countywide sales tax ratios, staff estimates the total value of exempted sales taxes to be approximately \$348,000.

Breakout of Sales Tax Savings Estimations

Total Project Costs	Materials Expense %	Estimated Materials Cost
\$7,500,000	51.33%	\$3,850,000

Humane Society: Sales Tax Exemption		
Taxing Jurisdiction	Tax Rate (Jan 2018)	Est Sales Tax Amount
City	1.55%	\$59,675
County	1.00%	\$38,500
City Portion of 1% Countywide Sales Tax		\$21,933
County Portion of 1% Countywide Sales Tax		\$14,059
Other County Municipalities Portion of 1% Countywide Sales Tax		\$2,508
State	6.50%	\$250,250
Total	9.05%	\$348,425

Of this total exemption, the City is estimated to forego approximately \$88,600 in sales tax revenues and the County is estimated to forego a little over \$14,000 in sales tax revenues. The State would forego approximately \$250,000 in sales tax revenues.

Summary of Estimated Sales Tax Savings: Humane Society			
City	Tax Rate	Est Sales Tax Amount	Total
City Sales Tax	1.55%	\$59,675	\$81,608
City Portion of Countywide 1% Sales Tax	0.57%	\$21,933	
County	Tax Rate	Est Sales Tax Amount	Total
County Portion of Countywide 1% Sales Tax	0.37%	\$14,059	\$14,059
State	Tax Rate	Est Sales Tax Amount	Total
State	6.50%	\$250,250	\$250,250
Other	Tax Rate	Est Sales Tax Amount	Total
*Other County Municipalities Portion of Countywide 1% Sales Tax	0.07%	\$2,508	\$2,508
Total	9.05%	\$285,728	\$348,425

Actions To-Date:

City Commission Receipt of Request:

The City Commission received the request at their April 17, 2018 meeting and referred it to the Public Incentives Review Committee (PIRC) for review and recommendation.

PIRC Requested Action

Consider and provide recommendation on the Lawrence Humane Society request for IRB financing to obtain a sales tax exemption on construction materials for the new Humane Society facility, to be built at 1805 E 19th Street.