

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: November 14, 2017
RE: Boys and Girls Club of Lawrence request for an IRB sales tax exemption on construction materials for the Center for Great Futures project

Please See List of Attachments at end of memo.

Project Overview

The Boys and Girls Club of Lawrence is planning construction of a larger teen facility, to be an addition to the new College and Career Center at 2910 Haskell Avenue in Lawrence, Kansas. The school district has offered to provide the land. Key spaces for the Center can be shared with rather than duplicated by the school. The new facility will be used to expand services to middle and high-students, offering an estimated 17,433 square feet for the Boys and Girls Club to provide age-appropriate supervisions and programming. Project construction is anticipated to start this year and be completed in time for the start of the 2018 school year. See project brochure for additional details.

Incentive Request

On November 2, 2017, Staff received an application from the Boys and Girls Club of Lawrence requesting Industrial Revenue Bond (IRB) financing to access a sales tax exemption on project construction materials related to the development of the Center for Great Futures at 2910 Haskell Avenue. The applicant is requesting approximately \$4,520,000 in industrial revenue bonds to cover project costs. Of that amount, approximately \$2,000,000 is estimated to be spent on construction materials.

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.	Expansion of local Boys & Girls Club services. 4 new full time and 4 new part time jobs are created with this project. BGCLK will have the capacity to serve 5 times as many teens.	Yes
Encourage existing industry to expand.	Expansion of local Boys & Girls Club services. 4 new full time and 4 new part time jobs are created with this project. BGCLK will have the capacity to serve 5 times as many teens.	Yes
Assist new business start-ups	Does not apply	No
Recruit new companies from out-of-state and internationally	Indirectly: May assist companies by providing additional services to working parents. Workforce development programming offered by BGCLK may also be a draw to companies.	Yes
Encourage high technology and research based businesses.	Indirectly: May assist companies by providing additional services to working parents. Workforce development programming offered by BGCLK may also be a draw to companies.	Yes
Encourage training and development of Lawrence area employees	Substantial employee training provided by Boys and Girls Club, highlighted by a strong partnership with USD 497's College & Career Center and Peaslee Tech Vocational Training Center. Indirectly: higher earning power for parents and future employees.	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.	Indirectly: Businesses considered to be good "corporate citizens" may be more willing to stay in our community if the workforce is skilled appropriately. It is also a draw to businesses if their parent employees have trustworthy child care which allows them to work.	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> ;	Yes, 1. higher earning power for parents and future employees, 2. lower societal costs, 3. more jobs
	(b): The project enhances Downtown Lawrence;	No: Project 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;	Yes: In-fill development on site next to existing College and Career Center
	(d): The project incorporates environmentally sustainable elements into the design and operation of the facility;	Yes
	(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. <i>See also</i> Section 1.8.8:	No competitive advantage: BGC is non-profit organization with a unique mission in serving the local community. New project is anticipated to provide many intangible benefits, including enhancing the quality of life for residents.
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 since BGC is non-profit with a unique mission for serving the community
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
(d) the potential of the proposed project to expand and create additional jobs in the future;	Indirectly aids job creation by providing services to accommodate working parents.
(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;	Indirectly supports local jobs
(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.	n/a
(g) the beneficial impact the proposed project will have on a particular area of the City, including designated enterprise zones and areas of needed revitalization or redevelopment; or	n/a
(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.	Will use existing infrastructure/existing public services. In-fill on existing school district site. Project will be directly attached to district's College and Career Center.

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

Previously Authorized IRBs

The City has provided support for organizations seeking bond financing for projects not directly related to economic development, including non-profits such as Lawrence Presbyterian Manor.

Historical Bond 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 .

The below table summarizes more recent support for IRBs that have been authorized previously for economic development related purposes, either in conjunction with a tax abatement or for purposes of accessing a sales tax exemption on project construction materials.

2017 IRBs: Outstanding					
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
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*	May 2015	9111	2017	\$1,600,000	Technical Training Center
800 New Hampshire: Series 2016*	April 2016	9210	2018	\$7,800,00	Mixed-Use Commercial/Multi-Family Residential
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
Vermont Place	See Note ¹				Mixed-Use Commercial/Residential

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

2017 IRBs: Matured (no longer outstanding)					
Company	Date of Issue	Issuing Ord #	Matured	Amount Authorized	Project
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

* 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.

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 \$4,520,000 and using the most recent (July 2017) Kansas Department of Revenue countywide sales tax ratios, staff estimates the total value of exempted sales taxes to be \$181,000.

Total Construction Costs **Materials %** **Estimated Materials Cost**
 \$4,520,000 44.25% \$2,000,000

Center for Great Futures: Estimated Sales Tax Savings		
Taxing Jurisdiction	Tax Rate (Jul 2017)	Est Sales Tax Amount
City	1.55%	\$31,000
County	1.00%	\$20,000
City Portion of 1% Countywide Sales Tax		\$11,372
County Portion of 1% Countywide Sales Tax		\$7,304
Other County Municipalities Portion of 1% Countywide Sales Tax		\$1,324
State	6.50%	\$130,000
Total	9.05%	\$181,000

Of this total exemption, the City is estimated to forego a little over \$43,000 in sales tax revenues and the County is estimated to forego a little over \$7,000 in sales tax revenues. The State would forego approximately \$130,000 in sales tax revenues.

Summary of Estimated Sales Tax Savings: Boys & Girls Club			
City	Tax Rate	Est Sales Tax Amount	Total
City Sales Tax	1.55%	\$31,000	\$42,372
City Portion of Countywide 1% Sales Tax	0.57%	\$11,372	
County	Tax Rate	Est Sales Tax Amount	Total
County Portion of Countywide 1% Sales Tax	0.37%	\$7,304	\$7,304
State	Tax Rate	Est Sales Tax Amount	Total
State	6.50%	\$130,000	\$130,000
Other	Tax Rate	Est Sales Tax Amount	Total
*Other County Municipalities Portion of Countywide 1% Sales Tax	0.07%	\$1,324	\$1,324
Total	9.05%	\$285,728	\$181,000

City Commission Receipt of Request

The City Commission received the request at their November 7, 2017 meeting and referred it to the Public Incentives Review Committee (PIRC) for review and recommendation.

PIRC Requested Action

Consider and provide recommendation on the Boys and Girls Club of Lawrence request for IRB financing to obtain a sales tax exemption on construction materials for the Center for Great Futures, to be located at the College and Career Center.

List of Attachments

1. Application & Request Letter
2. Project Brochure