

August 4, 2020

Single Series Bonds
Business Garage Authority, Inc.
Industrial Revenue Bond & Tax Phase-In Project
Executive Summary

Located on the following six parcels:
DP42440000 0001, DP42440000 0002, DP42380000 0003
DP42380000 0004, DP42440000 0003, DP42380000 0006



Introduction

The City has received an approximately \$4,238,000 industrial revenue bond application from Business Garage Authority Inc. ("Applicant") for construction of flex industrial facilities on 3.32 acres at 15571 S. Mahaffie. The Applicant anticipates construction of approximately 48,000 square feet of space in two phases to accommodate start-up, small and intermediate size businesses. The Applicant seeks to have the project, which will be constructed on a 3.32 -acre parcel in Mahaffie Business Park, receive a 10-year, 50% property tax abatement in conjunction with the issuance of the City's industrial revenue bonds. This project is applying for and falls under the City's tax abatement policy for a series under a master resolution abatement, Resolution 19-1071 and Policy F-5 with an investment over \$3 million for new businesses locating in an existing park with an established abatement term.

Bonds for this project are expected to be issued in two series. The first series of bonds to be issued would allow the Applicant to construct 24,000 square foot of flex industrial space on a portion of the 3.32-acre parcel. The Applicant requests issuance of an amount not to exceed \$3,038,000 of industrial revenue bonds for construction of these buildings. The proceeds from the bonds would be divided as follows: \$463,000 of the bonds would cover costs to acquire the land for the project, \$2,575,000 of the bonds would cover costs to construct the building and other costs, and no funds would be allocated to cover costs to purchase machinery and equipment for the building.

The second series of bonds would allow the applicant to construct an additional 24,000 square feet of industrial flex space on a portion of the 3.32-acre parcel. The applicant requests that issuance not to exceed \$1,200,000 of industrial revenue bonds for construction of these buildings. The proceeds from the bonds would cover the cost of the construction of the two 12,000 square foot facilities, no funds would be allocated for land or machinery and equipment.

The following information about this request relates to the projected impacts of the first and second phases of building planned for construction and was derived from the attached application materials.

Employment

The project is expected to create 74 new jobs over the next 10 years. The average salaries are expected to be \$30,000. These jobs would create approximately \$19,170,000 in total new wages to the Olathe economy over the next 10 years.

Machinery & Equipment

The application does not includes funds for machinery and equipment, but it is expected future tenants would purchase items for the facilities and pay sales tax on those purchases.

IRB Request

This request is for two series of bonds under the Mahaffie Business Park master resolution in an amount not to exceed \$4,238,000. The first series request is to issue industrial revenue bonds for the construction of 24,000 square feet of space not to exceed \$3,038,000. The second series of bonds request \$1,200,000 to construct an additional 24,000 square feet of space. It is anticipated that the bonds will be taxable industrial revenue bonds backed by the revenue generated from the facility. The applicant plans to purchase the bonds.

Tax Abatement Request

The Applicant is requesting a 10-year, 50% property tax abatement for its project, under the City's Tax Abatement Resolution 19-1071 and Policy F-5. The abatement would be for the new investment in improvements associated with the request to issue bonds for the project. The level of capital investment meets the criteria for a 10-year property tax abatement for new businesses in an existing business park master resolution under the City's tax abatement policy, as the project will result in an investment over \$3 million required for new businesses locating in an existing park with an established abatement term.

Taxes

Current property taxes at this site (3.32 acres portioned out over six parcels) (all jurisdictions): \$1,322 (\$41,370 total appraised value for 2020 and \$10,360 total assessed value for 2020). Olathe's current tax revenue from the property is \$254. The future additional property taxes generated by this project have been computed using a targeted level of real property estimated appraised value at build out that is \$3,178,500 (75% of total investment). This investment will result in approximately \$134,579 in annual property taxes at full value for all taxing jurisdictions, and \$19,386 in property taxes to the City. With a 50% property tax abatement, the tax revenue will be approximately \$504,670 for all jurisdictions over the 10-year abatement period, and \$96,932 to the City over the 10-year abatement period.

Sales

The project is expected to facilitate \$300,000 in new annual sales the first year and growing to \$2,000,000 throughout the term of the abatement. A total of \$17,600,000 in new sales is expected over the 10-year life of the abatement project as a result of the facilities being constructed.

Special Assessments

There are currently no special assessments associated with this property.

Franchise Fees

It is expected that the project will generate \$5,800 in new franchise fees the first year and \$58,000 in franchise fees over the 10-year period.

Water, Sewer & Garbage

The applicant anticipates generating an additional \$28,800 in revenue from increased water and sewer service during the 10-year abatement period.

Local Competition

The first phase applicant will be in competition with other local area developers of small flex space.

Annual Purchases

The applicant has projected that the project would generate approximately \$50,000 in new operating expenditures to be purchased in the first each year and increase to \$100,000 in the final year. Those purchases will total \$750,000 over the 10-year period, approximately 90% which will potentially be subject to sales taxes over the abatement period.

Cost-Benefit Analysis

As required by Kansas law, staff completed a cost-benefit analysis of the project on the City of Olathe. The Kansas, Inc. model reflects the impact upon the city, county, school district, and state. A variety of information concerning the firm, the construction, and the community was input into the model.

The cost-benefit model shows that the facility will have a benefit to cost ratio of 5.16 to 1 for the City of Olathe, which translates into an annual rate of return on the City's investment of taxes abated of 515.89%. The payback period for incentives and taxes abated will be within two years.

County & School District Impact

It is expected that the project will bring approximately 96 total new jobs (direct and in-direct) to the City, with 115 new residents moving into Johnson County over the next 10 years. This project will be located in the Olathe School District. Of the new residents, 40% are expected to move into the Olathe School District. The impact on the school district would be about 17 new students over the next 10 years. Per Kansas law, the City will provide written information to the County and the School District pertaining to this request.

Performance Agreement

The applicant has been informed that a performance agreement will be required as part of a tax abatement for the project which is locating at 15571 S. Mahaffie. The minimum targeted expenditures would be approximately 80% of the projected bond issuance for both phases of this project, or \$3,390,400.