

March 3, 2020

Single Series Bonds
BCB Olathe Holdings LLC
(Builder's Stone & Masonry Inc.)
Industrial Revenue Bond & Tax Phase-In Project
Executive Summary



Located on 54% of the following Parcel:
DF241317-2007

Introduction

The City has received an approximately \$10,200,000 industrial revenue bond application from Builder's Stone & Masonry Inc. ("Applicant") for construction of an office, showroom and warehouse facility on 8.47 acres at 11730 Kansas City Road. The Applicant anticipates construction of approximately 70,000 square feet of space to accommodate office, showroom and warehouse uses. The Applicant seeks to have the project, which will be constructed on a 8.47-acre parcel BCB Olathe Holdings LLC planned development, receive a 10-year, 50% property tax phase-in 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 master resolution abatement, Resolution 19-1071 and Policy F-5 with an investment over \$5 million for existing businesses. The master resolution will have an overall investment of \$25 million in land, buildings, FF&E and infrastructure cost.

Bonds for this first phase project are expected to be issued in one series. This series of bonds to be issued would allow the Applicant to construct 70,000 square foot of office, showroom and warehouse space on a 8.47-acre parcel. The Applicant requests issuance of an amount not to exceed \$10,200,000 of industrial revenue bonds for construction of this building. The proceeds from the bonds would be divided as follows: \$1,300,000 of the bonds would cover costs to acquire the land for the project, \$7,400,000 of the bonds would cover costs to construct the building and other costs, and \$1,500,000 would be allocated to cover costs to purchase machinery and equipment for the building.

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

Employment

The project is expected to create 160 new jobs over the next 10 years. The average salaries are expected to be \$74,000 in the first year and growing to \$98,428 in the final year. These jobs would create approximately \$98,460,210 in total new wages to the Olathe economy over the next

10 years. This project also retains 164 existing Olathe jobs with this expansion. The company has double in size since 2018.

Machinery & Equipment

The application includes a request for \$1,500,000 in bond revenues for furniture, fixtures and equipment to outfit the facility for this first phase project.

IRB Request

This request is for a master resolution to be created in an amount not to exceed \$25,000,000. The first series request is to issue industrial revenue bonds in a single series for the construction of 70,000 square feet of space not to exceed \$10,200,000. 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 phase-in 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 phase-in for existing businesses under the City's tax abatement policy, Resolution No. 19-1071, as the industrial park will result in an investment over \$5 million (existing Olathe business application).

Taxes

Current property taxes at this site (8.47 acres portioned out of a 15.7 acre site) (all jurisdictions): \$1,293 (\$40,700 appraised value for 2020 and \$10,215 assessed value for 2020). Olathe's current tax revenue from the property is \$248. 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 \$5,325,000 (building only). This investment will result in approximately \$169,098 in annual property taxes at full value for all taxing jurisdictions, and \$32,478 in property taxes to the City. With a 50% property tax phase-in, the tax revenue will be approximately \$845,490 for all jurisdictions over the 10-year abatement period, and \$162,390 to the City over the 10-year abatement period.

Sales

The project is expected to facilitate \$7,500,000 in new annual sales the first year and varying throughout the term as growth is projected. Sales level off at \$3,000,000 in the final four years of the abatement. A total of \$33,000,000 in new sales is expected over the 10-year life of the abatement project as a result of the facility being constructed.

Special Assessments

There are currently no special assessments associated with this property.

Franchise Fees

It is expected that the project will generate \$10,300 in new franchise fees the first year and \$103,000 in franchise fees over the 10-year period.

Water, Sewer & Garbage

The applicant anticipates generating an additional \$96,000 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 manufactured stone companies. The master application will be in competition with other local developers to fill the three pad sites.

Annual Purchases

The applicant has projected that the project would generate approximately \$1,000,000 in new operating expenditures to be purchased in the first each year and decrease to \$250,000 in the final seven years. Those purchases will total \$3,750,000 over the 10-year period, approximately 100% 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 6.00 to 1 for the City of Olathe, which translates into an annual rate of return on the City's investment of taxes abated of 599.53%. The payback period for incentives and taxes abated will be during the construction period.

County & School District Impact

It is expected that the project will bring approximately 208 total new jobs (direct and in-direct) to the City, with 354 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, 70% are expected to move into the Olathe School District. The impact on the school district would be about 123 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 11730 Kansas City Road. The minimum targeted expenditures would be approximately 80% of the projected bond issuance for this project, or \$8,160,000.