

April 7, 2020

Single Series Bonds
Lineage Logistics, LLC
Industrial Revenue Bond & Tax Phase-In Project
Executive Summary

Located on the following Parcel:
DF231415-2007



Introduction

The City has received an approximately \$110,400,000 industrial revenue bond application from Lineage Logistics, LLC ("Applicant") for construction of a refrigerated warehouse facility on 60.44+/- acres at the northwest corner of 167th Street and Lone Elm Road. The Applicant anticipates construction of approximately 4000,000 square feet of space to accommodate the refrigerated warehouse. The Applicant seeks to have the project, which will be constructed on a 60.44+/- acre parcel, 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 stand-alone abatement, Resolution 19-1071 and Policy F-5 with an investment over \$10 million for new businesses.

Bonds for this project are expected to be issued in one series. This series of bonds to be issued would allow the Applicant to construct a 4000,000 square foot of refrigerated warehouse space on a 60.44-acre parcel. The Applicant requests issuance of an amount not to exceed \$110,400,000 of industrial revenue bonds for construction of this building. The proceeds from the bonds would be divided as follows: \$6,588,450 of the bonds would cover costs to acquire the land for the project, \$73,811,550 of the bonds would cover costs to construct the building and other costs, and \$30,000,000 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 building planned for construction and was derived from the attached application materials.

Employment

The project is expected to create 134 new jobs over the next 10 years. The average salaries are expected to be \$49,756 in the first year and decreasing slightly to \$49,142 in the final year. This decrease is due to the new hires each year. These jobs would create approximately \$60,650,120 in total new wages to the Olathe economy over the next 10 years.

Machinery & Equipment

The application includes a request for \$30,000,000 in bond revenues for furniture, fixtures and equipment to outfit the facility for this first phase project.

IRB Request

This request is for a resolution to be created in an amount not to exceed \$110,400,000. The request is to issue industrial revenue bonds in a single series for the construction of 400,000 square feet of space not to exceed \$110,400,000. 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 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 under the City's tax abatement policy, Resolution No. 19-1071, as the industrial park will result in an investment over \$10 million.

Taxes

Current property taxes at this site (all jurisdictions): \$1,066 (\$28,840 appraised value for 2019 and \$8,652 assessed value for 2019). Olathe's current tax revenue from the property is \$211. 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 \$55,058,663 (building only). This investment will result in approximately \$1,712,765 in annual property taxes at full value for all taxing jurisdictions, and \$335,816 in property taxes to the City. With a 50% property tax abatement, the tax revenue will be approximately \$8,563,825 for all jurisdictions over the 10-year abatement period, and \$1,679,082 to the City over the 10-year abatement period.

Sales

The project is not expected to facilitate any direct sales due to the nature of this operation. As stated by the applicant - With respect to the increased capacity and sales tax questions, although the new facility will create approx. 60,000 new pallet positions in the market (and, in turn, increased revenues for Lineage), the company's business model doesn't generally yield sales tax. Instead, they sell space within the facility – in this case, to a single dedicated food producer as contemplated.

Special Assessments

There are currently no special assessments associated with this property.

Franchise Fees

It is expected that the project will generate \$76,000 in new franchise fees the first year and \$760,000 in franchise fees over the 10-year period.

Water, Sewer & Garbage

The applicant anticipates generating an additional \$192,000 in revenue from increased water and sewer service during the 10-year abatement period.

Local Competition

The applicant is not expected to be in competition with any other local firms.

Annual Purchases

The applicant has projected that the project would generate approximately \$500,000 in new operating expenditures to be purchased in the first each year and increasing slightly over the 10-year period to \$597,546 in the final year. Those purchases will total \$5,474,860 over the 10-year period, approximately 75% 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 1.88 to 1 for the City of Olathe, which translates into an annual rate of return on the City's investment of taxes abated of 187.72%. The payback period for incentives and taxes abated will be approximately 3 years.

County & School District Impact

It is expected that the project will bring approximately 174 total new jobs (direct and in-direct) to the City, with 119 new residents moving into Johnson County over the next 10 years. This project will be located in the Gardner-Edgerton School District. Of the new residents, 30% are expected to move into the Gardner-Edgerton School District. The impact on the school district would be about 41 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 northwest of the 167th Street and Lone Elm Road intersection. The minimum targeted expenditures would be approximately 80% of the projected bond issuance for this project, or \$88,320,000.