

March 2, 2021

Single Series Bonds
Hedge 175 Associates, LLC
Industrial Revenue Bond & Tax Phase-In Project
Executive Summary

Located on 45% the following parcel:
DF231421-4001



Introduction

The City has received an approximately \$65,000,000 industrial revenue bond application from Hedge 175 Associates, LLC (“Applicant”) for construction of a bulk distribution, industrial and warehouse facility on 56.1 acres near the northwest corner of 175th Street & Hedge Lane. The Applicant anticipates construction of a 1,123,470 square foot facility for industrial uses. The Applicant seeks to have the project, which will be constructed on a 56.1-acre parcel in the 175th Street Commerce Centre, 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, Master Resolution of Intent No. 08-1122 as amended by Resolution No. 11-1058 for applicant Hedge 175 Associates and approved on November 1, 2011.

Bonds for this project are expected to be issued in one series. The series of bonds to be issued would allow the Applicant to construct 1,123,470 square feet of bulk distribution, industrial and warehouse space on 56.1 acres of a 123.17-acre parcel. The Applicant requests issuance of an amount not to exceed \$65,000,000 of industrial revenue bonds for construction of this building. The proceeds from the bonds would be divided as follows: \$6,000,000 of the bonds would cover costs to acquire the land for the project, \$59,000,000 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 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 560 new jobs over the next 10 years. The average salaries are expected to be \$31,329 in the first year. These jobs would create approximately \$176,288,396 in total new wages to the Olathe economy over the next 10 years.

Machinery & Equipment

The application does not include 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 a single series of bonds under the Master Resolution of Intent No. 08-1122 as amended by Resolution No. 11-1058 for applicant Hedge 175 Associates and approved on November 1, 2011. The single series request is to issue industrial revenue bonds for the construction of a 1,123,470 square foot facility not to exceed \$65,000,000. 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 20-1069 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 (56 acres, 45% of a 123-acre parcel) (all jurisdictions): \$1,819 (\$49,840 total appraised value for 2020 and \$14,952 total assessed value for 2020). Special assessments on 2020 tax bill: \$54,991.95. Olathe's current tax revenue from the property is \$365. 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 \$44,000,000 (75% of real property investment). This investment will result in approximately \$1,338,755 in annual property taxes at full value for all taxing jurisdictions, and \$268,840 in property taxes to the City. With a 50% property tax abatement, the tax revenue will be approximately \$6,693,775 for all jurisdictions over the 10-year abatement period, and \$1,344,200 to the City over the 10-year abatement period.

Sales

The project is expected to facilitate \$1,685.205 in new annual sales for the expected tenant each year throughout the term of the abatement. A total of \$16,852,050 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 two special assessments associated with this project that will not be abated. (South Cedar Creek Phase I sanitary sewer benefit district and South Cedar Creek Phase II/III sanitary sewer benefit district).

Franchise Fees

It is expected that the project will generate \$88,245 in new franchise fees the first year and \$882,450 in franchise fees over the 10-year period.

Water, Sewer & Garbage

The applicant anticipates generating an additional \$5,587 in revenue from increased water and sewer service during the 10-year abatement period.

Local Competition

The applicant will be in competition with other developers of large industrial space.

Annual Purchases

The applicant has projected that the project would generate approximately \$3,000,000 in new operating expenditures to be purchased in the first year and \$600,000 in each year thereafter during the abatement. Those purchases will total \$8,40,000 over the 10-year period, approximately 15% which will potentially be subject to sales taxes in the City of Olathe 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 1.28 to 1 for the City of Olathe, which translates into an annual rate of return on the City's investment of taxes abated of 128.19%. The payback period for incentives and taxes abated will be approximately 5 years.

County & School District Impact

It is expected that the project will bring approximately 560 total new jobs (direct and in-direct) to the City, with 835 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, 40% are expected to move into the Gardner Edgerton School District. The impact on the school district would be about 98 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 the northwest corner of 175th Street & Hedge Lane. The minimum targeted expenditures would be approximately 80% of the projected bond issuance for both phases of this project, or \$52,000,000.