

**ECONOMIC DEVELOPMENT AND FINANCE
STANDING COMMITTEE MINUTES**

Monday, June 6, 2016

The meeting of the Economic Development and Finance Standing Committee was held on Monday, June 6, 2016, at 5:30 p.m., in the 5th Floor Conference Room of the Municipal Office Building. The following members were present: Commissioner McKiernan, Chairman; Commissioners Walker, Townsend, Murguia, Walters, and BPU Board Member Alvey. The following officials were also in attendance: Doug Bach, County Administrator; Gordon Criswell, Assistant County Administrator; Melissa Mundt, Assistant County Administrator; Patrick Waters, Senior Attorney; Kathleen VonAchen, Chief Financial Officer; Rick Mikesic, Accounting Manager; George Brajkovic, Economic Development Director; Marlon Goff, Urban Development Manager; and Charles Brockman, Management Analyst.

Chairman McKiernan called the meeting to order. Roll call was taken and members were present as shown above.

Chairman McKiernan said there was a revision to the original agenda. A blue sheet was distributed which contained the body of a draft letter from our Auditor's as well as the current draft of the Comprehensive Annual Financial Report.

Approval of standing committee minutes from April 4, 2016. **On motion of Commissioner Walters, seconded by Commissioner Walker, the minutes were approved.** Motion carried unanimously.

Committee Agenda:

Item No. 1 – 16605... PRESENTATION: 2015 CAFR

Synopsis: Presentation of the 2015 Comprehensive Annual Financial Report (CAFR), presented by Allen, Gibbs, and Houlik, LC, the UG's independent auditor, submitted by Rick Mikesic, Accounting Manager.

Information forthcoming.

It is requested that this item be fast tracked to the June 9, 2016 full Commission meeting due to it being time sensitive.

Kathleen VonAchen, Chief Financial Officer, said I'd like to introduce to you our audit team and our Accounting Manager. Rick Mikesic, Accounting Manager, our audit team from Allen, Gibbs, and Houlik, LC, is Shelly Hammond and Tara Laughlin. Tonight they're going to make a presentation on the audit process, any kind of findings they found, and issues related to the audit that's done every year. I just wanted to point out that at the June 9th meeting, we'll be presenting the CAFR for the full commission's acceptance and at that time I'll be making a presentation on the financial position of the Unified Government and include some historic years to provide more context to all of you as we enter into the long-range financial planning process. With that I will pass it on to Rick and Shelly who will be talking about this year's audit.

Shelly Hammond, Allen, Gibbs, and Houlik, LC, said Tara is on my left and you all already know Rick. As Commissioner McKiernan noted, there were two pieces of information that came out to you; sounds like you've got in your packet. One was a draft of the Comprehensive Annual Financial Report and the other was a draft of our letter. I'm going to spend the bulk of my time on the letter but I did want to address one item within the Comprehensive Annual Financial Report itself and that's the opinion that we provide that goes in that document.

Our opinion is what's referred to as an unmodified opinion. That's the terminology for it. In layman's terms that's often referred to as a clean opinion, which is usually what you want to hear from your auditors. The summary version it's about two pages long. The summary version of what that opinion says is that we are providing you as your external auditor's a reasonable assurance that the financial statement document prepared by your management team is free of any material misstatements and so that's kind of the summary version of what that opinion says. That will be the opinion on the CAFR itself.

The separate letter communicates to you a variety of items that were required to communicate to the governing body as a result of the audit process. The items that we're

communicating to you, the standards in terms of what we're required to talk to you about really haven't changed. For those of you who have been on this committee in the past, this letter probably looks somewhat familiar to you because it's the same types of things we report every year when we come before this committee.



Honorable Mayor and Board of Commissioners
Unified Government of Wyandotte County /
Kansas City, Kansas

We are pleased to present this report related to our audit of the financial statements of the Unified Government of Wyandotte County / Kansas City, Kansas (Unified Government) for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Unified Government's financial reporting process.

Generally accepted auditing standards require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Required Communications

Our Responsibilities with Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Single Audit Act; Subpart F of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Kansas Municipal Audit and Accounting Guide* have been described to you in our arrangement letter dated December 8, 2015. Our audit does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit responses to significant risks of material misstatement.

Accounting Policies and Practices

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Unified Government. The Unified Government's significant accounting policies are discussed in Note 1 to the financial statements.

For the year ended December 31, 2015, the Unified Government implemented the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement established accounting and financial reporting by state and local governments for pensions.

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What I'm going to do this evening is hit some of the highlights of some of the things that are maybe a little new or different compared to the past. If I skip over something though that you see in the letter that you have a question about or want me to talk on that I didn't, please don't hesitate to stop me and I'll be glad to address any questions that you have. The letter I'm looking at, the first page of the letter on the front of it says required communications, and at the bottom of that page one of the things we are required to talk to you about is if there have been any in accounting standards that affected the financial report.

There's a body called the Government Accounting Standards Board, it's a national group that puts out accounting standards that all governments have to adopt and they are continually putting out new guidance. April 20, 2015, the Unified Government had to adopt a new Standard along with all other governments that related to how the Unified Government reflects its pensions and in this case your participation in KPERS in the financial statements.

What the new requirements, the new Standard did is it said that for an entity like you that is participating in KPERS which is what's called Cost-Sharing Plan i.e. there are a whole bunch of entities participating in that. In Kansas, virtually all the cities, counties, school districts and other governmental entities participate in KPERS. There are very few entities in Kansas that don't participate in KPERS. It's a Cost-Sharing Plan; you're all kind of in a pool together. Any unfunded liability that KPERS has, you essentially share in part of that. What this Standard said is all entities that participate in KPERS should pick up, if you want to think of this way, their share of the pie. KPERS has roughly a \$9B unfunded pension liability for the pie as a whole. This year as a result of this new standard, the Unified Government had to pick up a slice of that pie. Your slice was \$144M. There is a new liability reported on the financial statements this year for \$144M. Let me give you a little bit of context for that number. I looked up before we came up here kind of how that compares to some other entities that also participate in KPERS just to give you some context. Johnson County, your neighbors down the road, their liability was \$167M. Sedgewick County, back where we're from in Wichita, their liability was \$122M so the large governmental entities in the state of Kansas, you're kind of in the same range as some of your compatriots so to speak. Again, every single participating employer in the state is doing the same thing as you; you're no different than anyone else. Everyone is picking up their share of the KPERS pie so to speak.

This isn't a new obligation. KPERS have been in this position for a number of years as I'm sure you all know. The obligation has always existed; it's just that because of the new accounting standard, it now shows up on your financial statement. It didn't show up there before even though it existed. The context of your financial statements if you were to look at them, they look a little worse compared to last year. If you just looked at the balance sheet, there's a new liability on there that makes the financial statements look a little worse but the economic reality is that nothing really has changed.

You as an organization, required by state statute, put in the amount that KPERS tells you to put into KPERS. You're funding exactly what you're told to fund every year. You're doing everything you need to do and right now KPERS has not made any changes to that, although there could be changes in the future with how KPERS puts their plan together and requests funding in the future, but you aren't really required to do anything differently as a result of the fact that this Accounting Standard now requires that you show it differently.

I wanted to also emphasize this is an accounting requirement. It makes your financial statements look a little bit different but the accounting requirement doesn't require you do anything differently in terms of how you're budgeting or planning, those things are still dictated to you essentially through what the contribution rate is that the state requires that you pay and that hasn't changed, that's staying how it's always been. That is a fairly significant change to the financial statement. Before I move through the rest of my letter I thought I would pause before I move on and just see if there are any questions on that item before I move on.

BPU Board Member Alvey asked does that effect ultimately bond ratings. **Ms. Hammond** said it has some potential to. Now obviously we're not bond rating agencies but we get that question a lot and I've been to a number of conferences where the bond rating agencies have spoken about this and I know some of them and I've had some conversations with some of them. What I have been told, and this is just verbal conversations with folks, is that this liability has always existed, therefore; they already knew about it, it just wasn't quantified. In a sense they were kind of already factoring that in. Additionally, because everybody is doing the same thing, everybody is impacted the same way.

A lot of what the bond rating agencies do as I understand it is compare you to other entities of comparable makeup. Well, if everybody's kind of impacted in a similar fashion,

everybody will have the same impact. I can't guarantee you in terms of how the bond rating agencies will look at it. There probably will be more questions that come out of that process but what I anecdotally heard is I would not necessarily expect that to have a significant impact. **BPU Board Member Alvey** said if the bond rating were to look at this differently, how would that be communicated back to this body. **Ms. Hammond** said that may be a better question for Kathleen to answer. **Ms. VonAchen** said there are three rating agencies and each of them has different criteria and different weights. It kind of depends on which agency you're going to for a credit rating but they've all expressed exactly what she's said here so it's unlikely, but the key issue here is actually the creditors, the people who actually buy the bonds, bondholders. They are typically institutional investors, they are big insurance companies and they have credit analysis on their staffs that look at the credits. So they look for this and now there's a consistent uniformed way of reporting it in the financial statements. Now they can compare apples to apples with all the various entities and it provides a lot better transparency. Then they figure out how much they're willing to pay for a bond on a secondary market. That also is an added benefit of providing this kind of transparent information to the public, to the creditors and the bondholders. **BPU Board Member Alvey** said again, so that we're not anticipating that there been any real material change or formal change in how it's looked at but if there were we would be made aware of that. **Ms. VonAchen** said the credit rating agencies, they release notes and notices to the governmental entities and you know our financial advisors and those of us who have a subscription to the *Bond Buyer*, we get this information and we incorporate it into our analysis but in defective if they decided—we think that the liability is already built into the price right now. If the price were to go up then we'd know about that too, next time you issue bonds. **BPU Board Member Alvey** said alright, thank you.

Commissioner Walker asked is Kansas significantly different in this aspect than most other states that you're familiar with or from the literature. Don't most states and municipalities have unfunded liability in their state? **Ms. Hammond** said this is again just anecdotal; I don't have specific data statistics to provide you. From all the other pension plans I have ever looked at and I wouldn't say that's a large population, it's a fairly small group, but I don't know that I've ever seen one that did not have some amount of unfunded pension liability. Now to provide you some perspective and this it out of KPERS' Annual Financial Report, KPERS, their plan and your

piece of that plan is roughly 65% funded or was as the end of their last year. Their last yearend was June 30, 2015. As of June 30, 2015, they were roughly 65% funded. That means they are unfunded by 35% if you want to look at it that way. There are plans that are worse than that believe it or not that are even funded at a lower ratio. There are obviously plans that are funded at a higher ratio but there are very few, I think maybe I've seen one ever that was even close to 100%. It's certainly not uncommon, the degree though in terms of are you 90% funded, 85% funded, 65% funded and 50% funded, that can vary, the amount of unfundedness, if you will, can vary. Does that answer your question? **Commissioner Walker** said yes, it does.

Chairman McKiernan said I do have just one. Does the fact that we're a Unified Government defy apples to apples in a little bit because we are reflecting both a city and the county's unfunded liability? You mentioned, for example, Sedgewick County and that's just the county. That's not Sedgewick plus the city of Wichita. **Ms. Hammond** said correct. That makes it a little bit challenging. It's a very good point to try to compare. If you were to do a comparison, you would almost have to look at, and I did not do this, the largest city that's in that county and maybe try to add those together. Shawnee County, for example, and the city of Topeka, you can maybe look at that on a combined basis. I did not do that but you're absolutely right. That makes it a little more difficult, although not impossible because the information is publically available. We could go find that information for the city and the county combined for those other entities and look at that on a combined basis. **Ms. VonAchen** said I can provide that to you at Thursday's meeting if you want. **Chairman McKiernan** said okay. I think it will be interesting because if we just look at the counties then we're kind of in-between Sedgewick and Johnson but if you added the biggest cities in those respective counties, I wonder what the comparison would look like then because certainly I would guess it changes the number of employees, therefore, it changes the pension coverage.

One thing you said I want to make sure I understood correctly, we have paid 100% of what KPERS has asked us to pay over all of these years. **Ms. Hammond** said correct. **Chairman McKiernan** said we don't have this liability because of anything that we have failed to pay. We've met our obligation. One of my concerns would be then, what's the likelihood that KPERS would say well, it's due and payable now. You need to give us some chunk of that unfunded liability and you need to do that in the next fiscal year. **Ms. Hammond** said I think

that is an extremely remote possibility if not impossible. The liability and, again, I'm not an actuary. I don't necessarily understand all the actuarial theory behind this but that is an actuarial determined number, the funded position of KPERS and what you pay in every year is actuarially determined and kind of the theoretical concept is that's an obligation that you would pay over the next 30 to 40 years as employees continue to work here and as retirees exist in retirement and enjoy their time off in retirement. It's a long-term view that you would have to take on that. There isn't any note to call. There's no obligation to pay tomorrow. KPERS have \$15B in the bank. It's not like they're going broke. They have money. It's just that if you look at it over a long period of time, there's a long-term issue in terms of funding that over a very long period of time but, again, we are talking about a very long period of time. They would not come to you tomorrow and say we need 10% of that next year. **Chairman McKiernan** said so as Commissioner Walters pointed out, they make us put the unfunded liability on our balance sheet but they don't ask us to estimate the potential future revenues that could be used against that liability over the next 30 years. It's just the liability that gets put there. **Ms. Hammond** said correct.

Chairman McKiernan said any other questions or comments on that particular piece because then you have the remainder of your report. **Ms. Hammond** said I have a few other things. Because that was such a significant change this year, I wanted to spend a little bit more time on that. If you think of other questions later, feel free to ask them later. I will be back for the commission meeting on Thursday and you can always, if you think of something later, ask me those at that time as well.

Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The implementation of GASB 68 had a material impact on the December 31, 2015 financial statements as it required the Unified Government to record its proportionate share of KPERS' collective net pension liability. As a result, the Unified Government's Governmental Activities recorded a \$137,597,631 net pension liability, \$12,924,813 of deferred inflows of resources, and \$12,334,854 of deferred outflows of resources as of December 31, 2015, and \$14,310,910 in pension expense for the fiscal year then ended. Business-Type Activities recorded a \$10,255,515 net pension liability, \$1,064,238 of deferred inflows of resources, and \$879,836 of deferred outflows of resources as of December 31, 2015, and \$959,816 in pension expense for the fiscal year then ended.

Significant or Unusual Transactions - We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Unified Government's December 31, 2015 financial statements:

- *Incurred but not reported claims for workers' compensation and health insurance:* The estimate for workers' compensation is based on information provided by the third-party administrator regarding outstanding open claims, and their estimates of reserves needed to cover those claims. As a basis for our conclusions, we obtained these reports, and compared the estimated reserves to prior year data and the Unified Government's history of claims expenses. Estimates related to health insurance claims are based on a past history of claims incurred, and estimates of the lag time between when a claim is filed and paid. We reviewed the information provided by the third-party administrator in comparison to the historical lag time for claim payments, to ensure amounts projected to be paid after year end were proper.
- *Allowances for uncollectible receivables, pertaining to accounts receivable billings in the EMS fund:* The Unified Government utilizes a third party administrator (TPA) to provide claims management services for billings generated from EMS services. The TPA provides agings of outstanding receivables, and historical information on collections as a percent of gross charges, write-offs, and payments broken down by payor category. As a basis for our conclusions, we reviewed this information in comparison to the estimate management developed for the amount of uncollectible receivables resulting from billings for services.
- *Net pension liability:* The Unified Government followed guidelines in GASB statement No. 68 for reporting its proportionate share of KPERS' collective net pension liability. This included obtaining KPERS' report on Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amount by Employer and Nonemployer as of June 30, 2015, which were audited by KPERS' auditors. The Unified Government compared contributions made by the Unified Government to amounts included in this report. As a basis for our conclusions, we reviewed KPERS' report for reasonableness and verified and recalculated the Unified Government's information provided in the report.

- *Net Other Post-Employment Benefit (OPEB) Obligation:* The Unified Government implemented the provisions of GASB 45 by hiring an external actuary to develop an estimate of the OPEB cost. This amount is then reduced by actual claims paid for retirees during the year, resulting in a net OPEB obligation at year-end to record as a liability. As a basis for our conclusions, we reviewed the actuarial report for reasonableness, and verified that the 2015 claims were those reported by the Unified Government's external third party administrator for claims processing. In addition, we reviewed the methods and assumptions used by the actuary to ensure comparability to prior year calculations to other actuarial calculations done for the Unified Government.
- *Landfill Obligations:* The Unified Government has an obligation for certain closure and post-closure activities related to the John Garland Park landfill. As a basis for our conclusions, we reviewed estimates to conduct these activities provided by management and compared to historical costs for monitoring activities.
- *Pollution Remediation:* The Unified Government has obligations for modifications to its combined sewer system and separate sanitary sewer system in connection with actions taken by the Environmental Protection Agency (EPA) under the Clean Water Act. Information pertaining to these obligations was provided by management, and included agreements entered into with the EPA, and information on projects budgeted in the Unified Government's 5-year capital maintenance improvement program. As of December 31, 2015, the Unified Government does not have a long-term obligation recorded for the estimated cost of implementing all modifications that may be required in the future by the EPA. As a formal plan is developed, costs associated with the implementation plan will be more reasonably estimable.

Audit Adjustments

Certain audit adjustments were made to the original trial balance presented to us to begin our audit. These included the following:

- adjust sales tax receivable to correct balance at year-end
- adjust sewer receivable to correct balance at year-end
- record net pension liability
- adjust for unspent bond proceeds
- record deferred refunding for public levee bond issuance
- adjust capitalized amount for Stadium improvements
- adjust intergovernmental receivable to correct balance at year-end
- reclassify Public Building Commission activity for 2015 bonds issued
- record capital lease proceeds for assets received on capital leases

Uncorrected Misstatements

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of financial position, results of operations, and cash flows, and to the related financial statement disclosures. These items are summarized in the attached Summary of Passed Journal Entries.

I'm moving on to pages two and three in our letter if you're following along with me. We do also include within here some discussion about different estimates that are within the financial

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statements. We are required to talk about this because any time you have an estimate in the financial statement, usually that means certain assumptions have to be made about how we're going to calculate that because it is an estimate. What this provides you is a very, very high level summary of here's kind of the process management goes through for determining that estimate and our process then on the audit side for how we evaluate the reasonableness of that process. What I will tell you without walking through each one of those in detail is that we found the process reasonable, the assumptions reasonable, the data that was being used was supported and as a result of those tests that we performed, we found the basis for those estimates to be reasonable. Again, if you were to have any specific questions on any particular item, I'd be happy to address those, but that's kind of the summary version of what we do on the accounting estimates.

On page three, about halfway down the page you will see we also communicate different audit adjustments. If we make a correction to the books and records during the course of our audit, we're required to just provide a summary of what those are. As we have noted in the past, we usually have a few. It's very uncommon to go through any audit with any client we have where we don't have some sort of audit adjustment that comes out of that process. Those are listed here. Probably the most significant of those was related to the new pension liability that we just talked about. We worked with management in helping them make sure that they got that new Standard implemented correctly.

Management Representations

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles. The representation letter also includes the more significant oral representations made by officers and employees during the course of the audit and includes specific representations, is intended to reduce the possibility of misunderstandings between us and the Unified Government and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

Other Disclosures

- We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements
- We are not aware of any consultations management had with other accountants about accounting or auditing matters
- No major issues arising from the audit were discussed with, or were the subject of correspondence with, management
- We did not encounter any significant difficulties in dealing with management during the audit

Internal Control Deficiencies

In planning and performing our audit of the financial statements of the Unified Government as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Unified Government's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Unified Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unified Government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

I'm going to move on to page 4. In the middle of the page there we have some just some good reminders that we like to bring up every year in case there were any issues, but there were not

but saying there were not issues in this area I think is very important. This includes things like we did not have any disagreement with management. We had no issues getting the information we needed. We didn't encounter any difficulties during the audit process. Those are all kind of like boiler plate things we tell you every year but they're very important things because it speaks to our cooperation that we get during the audit process and our ability to get the information we need during the audit process and we don't have any issues in that regard.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following control deficiencies to be significant deficiencies:

Accounting and Financial Reporting - The Unified Government's management is responsible for the accuracy, completeness, and fairness of data presented in the Comprehensive Annual Financial Report, including all disclosures. The deficiencies described below could result in misstatements to the basic financial statements. In January 2012, the Unified Government filled the Accounting Manager position, resulting in additional resources being available for completing the year-end closing process and preparation of the financial statements. This step taken by the Unified Government continues to provide substantial benefits to this process compared to prior years, as described in the items below:

- a) A deficiency exists related to the overall preparation of the basic financial statements and related footnotes for the Comprehensive Annual Financial Report. Our observation is that the Accounting Manager continues to provide substantial benefits related to the financial statement preparation process. We noted that the Accounting Manager continued to take steps during 2015 to develop improved controls and procedures over the preparation of the financial statements. This resulted in management continuing to complete the majority of the reconciliations and calculations needed in support of the year-end adjustments and financial statements with fewer adjusting entries being made during the audit process. Management was able to generate budgetary fund-level financial statements and assisted in compiling components of the footnotes and fund level statements that are in accordance with generally accepted accounting principles. The primary remaining areas of concern pertain to certain adjusting entries (described more fully in b) below), and the preparation of the government-wide financial statements and complete set of notes to the financial statements.
- b) A deficiency exists in controls over procedures used to initiate, authorize, record and process certain journal entries into the general ledger, and record recurring and nonrecurring adjustments to the financial statements as listed below. As noted previously, the Accounting Manager was active in preparing and/or reviewing year-end journal entries prepared by his staff. The remaining items we recommend to be focused on in future years include:
 - adjustments for general liability obligations for litigation or other legal matters
 - recording annual adjustment to the net pension liabilities
 - adjustments for intergovernmental receivable related to STAR bond activity
- c) In prior years, we noted a deficiency existed due to capital asset data that was found to include errors relating to the accuracy and completeness of the data related to economic development agreements. In 2015, no adjustments were made to add assets not previously identified by management; however, an asset was removed due to being sold under a development agreement.

Management's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. See Appendix A.

The second half of our letter talks about internal control matters. I would have you flip over to page 5. This is a similar issue to something we have been reporting the last few years. Without going through all the details on page 5 to kind of summarize what it overall talks about is the preparation of that Comprehensive Annual Financial Report; which is roughly 180 pages long. It's something your accounting team only does once a year. That presents a challenge just from having processes and procedures in place to do something you only do once a year. That is a very time intensive and long document to put together.

As we have reported in the past, we continue to have some recommendations for improvements that management can make to take a proactive role in putting more pieces of that together. There are still a few pieces of that document we assist in preparing. Over the last five years since Rick joined the accounting group in 2012, we've seen substantial improvement. For those of you who maybe don't know that history, prior to Rick joining that department, we were reporting this as what was called a Material Weakness which is the most severe kind of internal control deficiency we can have. It's no longer in that category. For the last three or four years we've called it a Significant Deficiency which means there are still things that need to be worked on but there has been substantial improvement. What we focused on in this year's letter was here are the remaining areas we would like management to continue focusing on and working on as they continue to take on more and more of the responsibility of putting that 180 page document together. I wanted to also provide a little bit of a historical context.

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Appendix A

**Unified Government of Wyandotte County / Kansas City, Kansas
Management Responses / Corrective Action Plans**

Accounting and Financial Reporting

The process that began in the Accounting Division in 2012 continues to provide improvements of the operations of the division, especially in the overall preparation of the basic financial statements and related footnotes for the Comprehensive Annual Financial Report. The successes realized since that point in time continue to build allowing for additional growth of the professionalism and output of the entire division.

The Accounting Division has limited staff of 6 personnel plus the manager. Recently, during the busiest time of the year, two members of the staff were lost due to retirement. Within a matter of months, the division lost 1/3 of its staff and nearly 60 combined years of service to the Unified Government. Due to the dedication and hard work of the remaining staff, the division was able to process all the daily work timely while also completing all the required year end work within the established deadlines.

Both of the vacancies created have been filled. One of the vacancies was upgraded to a Management Analyst position which allowed the division to bring in a candidate that will add ability and capacity to the division. The second vacancy was filled with an individual with the educational level and drive that will allow the division to get more out of the same position.

While 2015 was a challenge to the division due to the turnover and related vacancies, it is the expectation that the division will continue the trajectory of growth and progress with the additional resources the new employees bring to the division. This will be accomplished without the addition of any personnel. The Accounting Manager will continue to challenge the staff in professional growth, evaluate the various operations of the division and make the necessary changes to improve the overall operation and attain incremental progress.

The last thing I would point out as it relates to that item is that Rick in the Accounting Department did put together a management response which you will find on page 7 which speaks

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to kind of where they're at this year and what they plan to do going forward. That's always important to point that out to you so you can kind of see the steps that they're continuing to take going forward.

The last two things and you don't actually have a document in your packet on this. I wanted to mention to you that in connection with our audit contract that we have for the Unified Government, there are also two other small projects that we do unrelated to the audit although we kind of do them all at the same time. They are both compliance projects. One is to select a sample of transactions and make sure that the Unified Government is properly spending its STAR Bond money in accordance with how the state statute's outline that you should spend it. There is a statutory requirement that that review be done every year. We've been doing that for a number of years. We did not have any findings as a result of that project. We did not find any expenditures that were not in compliance with the state statute.

The second piece pertains to we also do a project where we look at the Unified Government's process and whether or not you are properly following state statutes as it relates to you adopting your budget. Things like, did you hold your public hearings at the right time and give the public appropriate notice in a timely fashion. Those things are all outlined in the state statute for the timing of when those things have to happen and we make sure that those things were in fact those things were in fact done according to state statute. Again, we did not find any compliance issues on that report either. I wanted to mention that. I think sometimes I forget to remind you that we do those projects as well. They are kind of small projects but they're important for you to also know that we did not have any compliance issues noted out of any one of those separate projects that we do. I will stop there and welcome any questions.

Chairman McKiernan said any questions, any comments or any further discussion on that report. **Commissioner Murguia** said great job. **Chairman McKiernan** said great job. Rick, I'd like to say good work to you and your department because I remember the first one of these that I was involved in reviewing I think the internal control deficiencies took four or five pages and had two appendices that went with them. We have significantly whittled down and improved our procedures, our accounting and so good work to you and your team. **Rick Mikesic, Accounting Manager**, said thank you very much Commissioner. I always say when people commend the work we do, it's very important that everybody understands that nothing

happens in that office if I don't have a great team of people helping me. I've got a great staff. We get great support from other people in the Finance Department, Payroll Division, Reggie and his team up in Budgeting, it's a great team of people working together trying to do the best we can.

I might add, this year was a particularly challenging year for us. I have six staff members on my team. In December one individual retired and in February a second individual retired and in the timespan of just a few months we lost sixty years of experience with the UG. That's a third of my staff. The fact that we're sitting here and this is complete, on time, I think was quite a commendable accomplishment. I want to recognize my team and all the people in the finance that helped us with this project.

Chairman McKiernan said well done. The request for action that is before is to accept this report as presented, to be fast tracked to the full commission at our June 9th commission meeting.

Action: **Commissioner Walker made a motion, seconded by Commissioner Walters, to approve as presented and fast track to the June 9th meeting.** Roll call was taken and there were six "Ayes," Alvey, Walters, Murguia, Townsend, Walker, McKiernan.

Item No. 2 – 16627... RESOLUTION: SALE OF SURPLUS PROPERTY AT 10041 LEAVENWORTH ROAD

Synopsis: A resolution authorizing the sale of property located at 10041 Leavenworth Road to Hodges Properties, LLC, submitted by Charles Brockman, Management Analyst, Economic Development. Hodges plans to make certain improvements to the property, including a first-class veterinary hospital.

It is requested that this item be fast tracked to the June 9, 2016 full Commission meeting.

Charles Brockman, Management Analyst, Economic Development, said staff's here tonight to discuss the sale of the property at 10041 Leavenworth Road and to the left of me is Dr. Hodges of Hodges Properties, LLC that is interested in this property as well as Jordan Zinger.

Dr. Cobin Hodges, Veterinarian and owner of Piper Heritage Veterinary Clinic, 3140 N. 99th St.; said it's been there for approximately 40 years and frankly we've outgrown it. We'd like to purchase this property to build a larger more modern facility to operate out of.

What we are here for tonight

- Adopt the resolution authorizing the county administrator to execute the purchase agreement
- Consider fast track to June 9, 2016 Full Commission meeting

Jordan Zinger, Ferguson Properties, Liberty, MO; said I'm representing him.

Mr. Brockman said tonight we'd like to have a couple of things done. We'd like to have a resolution forwarded and fast tracked to the full commission for June 9th. The reason for this is that we need that agreement sent to the financial institution showing that there is property acquired by Mr. Hodges.

Development

- **A first-class veterinary hospital**
 - Approximately six thousand square feet of office space, exam rooms and kennels
 - Associated parking for staff and visitors
 - An outdoor exercise yard
 - Development of the site is approximately \$1.8 million
 - Construction to commence within one year
 - Nine additional new employees

Commercial property, what he wants to do is develop a first-class veterinary hospital. It's approximately 6,000 square feet of office space, exam rooms and kennels. The development of the site is approximately \$1.8M. This will bring nine additional new employees. The nine additional employees will be an additional doctor and eight support staff.

Piper Heritage VC

Site Plan



Rendering



This is the site plan and the site rendering. Do you have any questions or comments for us?

Chairman McKiernan said that's the presentation. It wants to buy that vacant property from us and then construct a veterinary clinic on that piece of property that is now vacant. **Mr. Brockman** said correct. **Chairman McKiernan** asked any estimate of what sort of taxes would

be generated from the improved property over the vacant property. **Mr. Brockman** said no sir. We didn't come up with the exact number of the building construction at this point. **Chairman McKiernan** said but suffice it to say that a building on that property will generate significantly more in property taxes than as—well nothing is being generated now because we own it, but even if that were a private owner, it would be generating very little because it's not accrued, is that correct? **Mr. Brockman** said correct.

Commissioner Murguia asked how did we come to own this property. **Mr. Brockman** said I believe it was back in 2003. The UG acquired it through I think it was through the condemnation, having to do with the area of development out there. I don't know all the total specifics on it. **Commissioner Murguia** asked is it in the STAR Bond area. **George Brajkovic, Economic Development Director**, said no. It was a tax proceeding. The previous development had—I see Mr. Bach is in the room and a lot of the folks that have been around for a while remember the history of it. There were development areas around the Woodlands Racetrack itself. The track closest to 435 is known as Woodlands West and then there are about 35 acres in front of the Woodlands that's referred to as Woodlands East. Both of those were acquired by the UG through a tax proceeding. **Commissioner Murguia** said through a foreclosure. **Mr. Brajkovic** said yes. They are not part of a STAR Bond District or anything like that. The developments that Charles landmarked there were individual sale of those parcels. We feel that the vet clinic is a good fit for some of the other medical offices that are already in the area. The design matches closely with the design of some of the existing office space, in particular the dental office. **Commissioner Murguia** asked can we go back to that map again that you showed us George. Is Schlitterbahn up just a little bit further? **Mr. Brajkovic** said its south. **Commissioner Murguia** said it's down. It's just upside down. **Mr. Brajkovic** said if you go Leavenworth, Parallel, State—**Commissioner Murguia** said the slide is right down there. **Mr. Brajkovic** said yes, it's further south. **Commissioner Murguia** said we've owned that for 12 years, 13 years. **Mr. Brajkovic** said that sounds correct, yes. **Doug Bach, County Administrator**, said I believe we acquired it in about 1998. What the developer did is they came in there and they built all the streets through that area and they put a benefit district across it. When they went defunct on the property, Commissioner, because the benefit district wasn't paying and they weren't paying the benefit district, not only did we have the local taxes that were

on it but then we also had the benefit district so it racked up a lot higher. We ended up just taking it back in a tax sale in the late 90s.

Commissioner Murguia asked, Dr. Hodges, how did you know it was for sale. How did you know we owned it? **Dr. Hodges** said I actually saw it sitting there for the last, I guess 8, 9 years. I started looking around to see who owned it. It had been a vacant lot. I've driven passed it every single day for 9 years and since I was looking for a place to build the practice, it's currently right across the street so my current practice is just right up outside the window there. It's right there where Mr. Brockman is pointing. 99th St. is right off the edge of the slide. I drive by it every day and I started doing some calling. I talked to Mr. Zinger. He found out it that it was owned by the UG.

Commissioner Murguia asked why have we owned this for almost 20 years. Why don't we have a for sale sign in the yard? **Mr. Bach** said why we don't have one right now I'm not sure. We had a broker on it for a long time. In fact, that's where they contracted through a broker that's we've had representing the property. We've had it out there marketed. You know we've gone out to get brokers on it to move the property. **Commissioner Murguia** said but no sign, no sign in the yard if somebody's—are we paying that person to try to sell that ground without a sign in the yard. **Mr. Bach** said that's a good question. I don't know why the broker, if they felt they were under contract wouldn't have a broker's sign on it. **Commissioner Murguia** said the gentleman with Ferguson Properties, you aren't the broker on that ground. **Mr. Ferguson** said I am not. **Commissioner Murguia** said I would just—we can move on. It's not that big of a deal. I'm glad you want to be there. That's great. I would like to see though from someone, not necessarily you George, but from someone on staff, I'd like to see what ground in this area is owned by the Unified Government. I'm just curious.

This to me strikes me as a very viable area for economic development and why we would own ground for 20 years and not have a sign in the yard. I don't know how much you might have said and I didn't read it. I don't know how much you're paying for that ground but from looking at it from the government's perspective, I would like for the government to get the most they possibly can out of that ground. You're already here. I'm not suggesting we start over. I'm just saying it just seems odd to me that we wouldn't put a for sale sign in some ground that

we've owned for 20 years. I just don't understand that. I would like to see a map of what we still own that's out in this general vicinity, just out of curiosity here.

Chairman McKiernan said and I think Commissioner Murguia brings up an interesting point that we've talked about with both Land Bank properties that we own as well as non-Land Bank properties that we own about developing a better mechanism for marketing those properties and for making it easy for people who wish to purchase them, to find them, acquire them, build on them and improve them. I think it does speak on two different levels to our continuing need to do better at marketing that which we have for sale whether it be Land Bank or otherwise.

Mr. Brockman said, Commissioners, this particular land was listed on our website, this particular parcel. **Commissioner Murguia** said that's good Charles, but if I'm driving around looking at property and I'm not from here, you know, there is no better sales tool than a sign right in the yard that says buy me, pick me.

Chairman McKiernan said the request for action that's before us is to approve the resolution for the sale and then fast track that resolution to the June 9th, this Thursday's full commission meeting for final approval.

Action: **Commissioner Walker made a motion, seconded by Commissioner Murguia, to approve.** Roll call was taken and there were six "Ayes," Alvey, Walters, Murguia, Townsend, Walker, McKiernan.

Commissioner Murguia said just one second, just one other thing. I just would hate as these little parcels of ground pop up in these areas where others might think they're viable that somebody might think there isn't a fair process. That's why I also think it's also important to have the sign in the ground so that everybody knows and everybody has the same opportunity to acquire that ground, just saying.

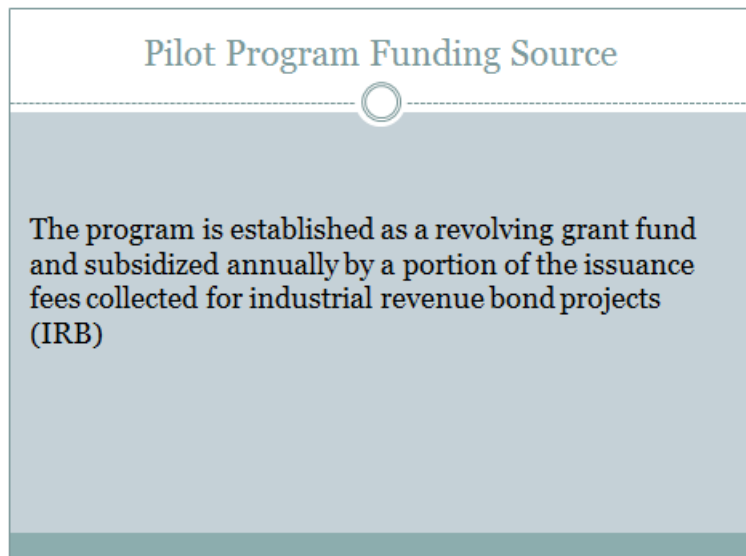
Item No. 3 – 16632...UPDATE: UG SMALL BUSINESS INCENTIVE PILOT PROGRAM

Synopsis: Update on the activity of the UG Small Business Incentive Pilot Program, presented by Charles Brockman, Economic Development.

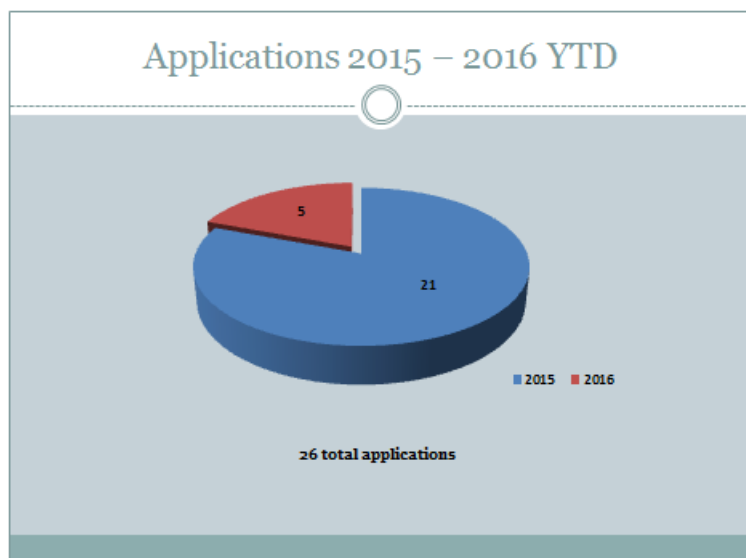


Mr. Brockman said this is an update from about October 2015, year-to-date today. What I want to do is go back a little bit and discuss how it's actually funded.

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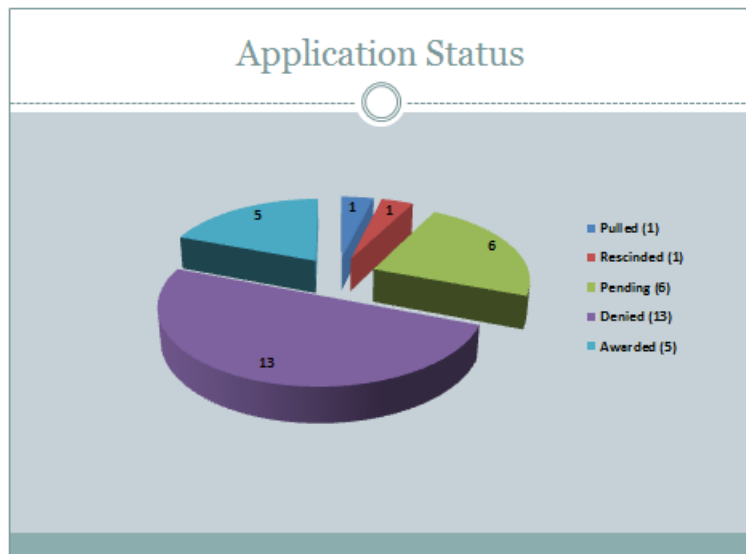


We get a prorated share of fees through IRBs. It was funded \$25,000 in 2015 and \$50,000 in 2016.



To date we had 21 applications in 2015 and five in 2016 so far, which actually one came in today too but it was after this. That's a total of 26 applications.

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Per that I broke it out and we can look at there is five awarded, one was pulled. It came back right when it was about ready to be submitted, their board decided to pull out of Wyandotte County. We had one rescinded. It was approved after further due-diligence of the building. It was out of the budget to fix it. Six are pending which are mainly waiting on documentation, waiting on applications, reassigning meetings and trying to get together. We have 13 that were denied.

Current Awarded Grants

• KC Cupcake Company - Retail bakery 719 N. 6th Street ○ UG awarded \$5,000 ○ Downtown Shareholders \$1,000 ○ Job creation - 2 • Bennett Tool and Die - Manufacture 3150 Chrysler Road ○ UG awarded \$2,500 ○ Job creation - 3 • Audrey Spirit, LLC - Wholesale and retail sales of children and young adult's therapeutic medical garments 7250 State Avenue ○ UG awarded \$10,000 ○ Job creation - 1	• CEED (Center for Entrepreneurial Ecosystem Development) - Create and manage programs to facilitate the growth of startups 4436 State Line Road ○ UG awarded \$7,500 ○ Job creation - 1 • Inc, U, LLC - Compliance reporting and training 734 Armstrong Avenue ○ UG awarded \$2,500 ○ Job creation - 1
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Here are our current awarded grants, KC Cupcake, Bennett Tool & Die, Audrey Spirit, LLC and CEED and Inc, U, LLC. It's spread out pretty well throughout the city. There are eight jobs there.

June 6, 2016

Denied Applications

- **Thirteen Applications were denied and letters sent**
 - 6 home-based businesses requested a grant for:
Tools & equipment, Equipment, Purchase homes, Equipment & lease payments, Marketing & equipment, and Training & workshop cost
 - 1 existing business – requested grant for past bills
 - 1 existing business – requested grant for lease payments
 - 1 business did not have a business at the address
 - 2 businesses were drinking establishments with less than 50% in food sales
 - 2 businesses located outside of KCK

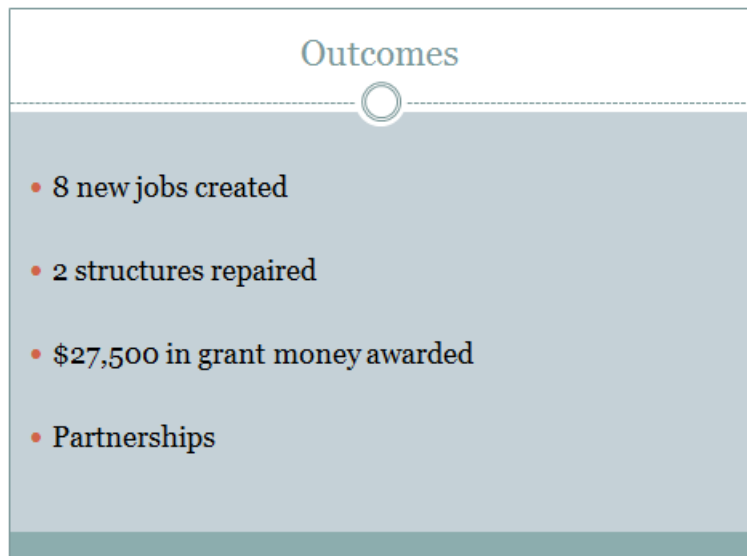
Talking about the denied applications, there were 13 applications that were denied and letters sent out. Of that six home-based businesses requested grants for tools, equipment, equipment lease payments, marketing, training and workshops but they were denied because they were home-based. We had one existing business requested a grant to help pay passed bills. We had another existing grant for lease payments that were not only due but coming due. That has to be strategically tied to putting a new storefront, repairing storefronts so they do not qualify.

One business actually when I did the due-diligence wasn't even a business. They weren't even there. Then we had two businesses that were drinking establishments with less than 50% in food sales and two businesses were located outside KCK.

Marketing

- **UG Website**
- **District 1 public information session**
- **Wyandotte County Economic Development Council**
- **Downtown Shareholders**

Marketing, we did the UG website, which I get a lot of calls through that. It's been a good marketing tool. We had District 1 public information session on a Saturday and there was quite a good crowd there, discussed that and other economic incentives. Wyandotte Economic Development Center does great. Council does a great job and Chuck at Downtown Shareholders is always talking about it. We're working this all through the whole city.



The Outcomes so far, we have eight new jobs created, two structures to repair; the Cupcake Factory over here on 6th Street and then the one out on State Line. \$27,500 in grant money was awarded so far and we formed partnerships.

Chairman McKiernan said so my understanding is this originated because there was some money that we got in fees for filing IRBs. Was that it? Something associated with IRBs. **Mr. Brockman** said correct.

Mr. Brajkovic said well the concept was that—we'll I'll just be blunt. The concept was we roll out the red carpet for big business and we're not doing very much for small business. So what we tried to build off was let's grab the fees that large projects are paying and earmark a portion of those fees to use back into small businesses that didn't have a lot of hooks that were really truly offered as a grant opportunity and that's the largest fee center that we have is that we do these large industrial revenue bond deals and the bond issuance fees that come off of that. We

made an attempt to quantify what the historical trend was on those and then earmark from that. **Chairman McKiernan** said so you created a pool then of money that could be accessed by that very small business owner that wants to expand and improve. You created an initial list of criteria that they had to meet back in October and I believe you were back here to us three months ago with an interim report. **Mr. Brajkovic** said correct. **Chairman McKiernan** said we tweaked some of the criteria at that point and time. We looked at some of the marketing at that point and time. My understanding is here tonight, this is for our information as an update report but it could trigger some suggestions and recommendations for further refining the program. Is that correct? **Mr. Brajkovic** said it very could and that's why we wanted to spend just as much time talking about the applications that were denied and the reasons behind that as well as having a slide dedicated to the grants that were awarded. We're not sure if there is a lesson to be learned there. I mean clearly the bulk of the denied applications are because they are home-based businesses. Kind of, I guess in the evolution of this program, we really kind of started with do we want to attack storefronts and provide money to help build up facades and what it built into was lets offer these grants for a variety of reasons and see how much success we could have planning those. These are typically projects—I mean if they qualify for another incentive, more than likely it's going to be NRA and we'll incent a layer. Really, we're seeing most projects just need a little bit of seed money there to help with the lease or help with some sort of improvement or make an equipment purchase.

Commissioner Townsend said, Mr. Brockman and Mr. Brajkovic, I do want to thank you again for your participation in the District 1 FYI session. I got a lot of calls about the availability and what this program was about and that was one of the main reasons we wanted to present it.

I do have a few questions. When is the date each year that the \$50,000 pool is replenished? I know it's a first come first serve and once that's exhausted, when is the date that it goes back to the \$50,000? **Mr. Brockman** said annually through the budget. **Mr. Brajkovic** said a calendar year, January to December. We consider the application year. **Commissioner Townsend** asked what was the number? Was it \$27,000 that out of the \$50,000 that's already been awarded? **Mr. Brockman** said correct. **Mr. Brajkovic** said well, actually let me clarify that. The \$27,000 is the total award which includes what was awarded last year plus what has been awarded thus far, this year or have we awarded one yet this year? **Mr. Brockman** said we

have awarded two. **Commissioner Townsend** asked how much do we have available for awards right now in the five. **Mr. Brajkovic** said for this year still. **Mr. Brockman** said \$37,500 is available.

Commissioner Townsend asked what was the significance of the 50% of the food sale. This goes back to one of the applications that was denied. Could you give me some more information about that? **Mr. Brockman** said that's a working policy. We don't incentivize bars or liquor stores. If they have 50% or less in food sales, we don't do that. **Commissioner Townsend** said okay. **Mr. Brajkovic** said it was an attempt. If it was like, let's say a neighborhood pub that had food as part of their service, but we were trying to differentiate between establishments that were purely selling alcohol/liquor sales versus those that did actually have a viable restaurant component to it. **Commissioner Townsend** said I understand. With the denials of applications that were home-based businesses, just so I'm clear, were those potential grant seekers. Did any of them ask for money to move out of the home or this was all money that was to be used while they were currently still doing business in the home as their business location. **Mr. Brockman** said for the majority it was for money in their home-based businesses. I'm working with a couple of them still and following up trying to find a location for them because they have been doing it for two or three years so they have a proven system like we've discussed and so once that happens, but it's all about timing and money on their part when they can actually get into an office. **Commissioner Townsend** said I'm thinking about the Cupcake people. My recollection was they were expanding and trying to get into bigger facilities, not that they were coming from a home in the beginning, but it seems to me that might be a use we would consider acceptable if someone had a track record in their home and they were trying to expand their business. Is that how we're kind of viewing these right now? **Mr. Brockman** said we would. **Commissioner Townsend** said thank you again. Those are the questions I had.

Mr. Bach said, Charles, for the future too, would you also track for the Outcomes the amount of money we leverage that those businesses spend. I think they put that down. Like Cupcake Factory is one of them. They put so much money into that and I think we get that in our application so if we can track that with our \$5,000 in some cases. **Mr. Brockman** said yes sir.

Commissioner Murguia asked do you guys have a one-page marketing flyer that you could email me in a JPEG format. **Mr. Brockman** said we do have one and I'll send it to you. **Commissioner Murguia** said you did a good job on your presentation and the marketing seems pretty good except none of those presentations that were given were south of the river. I hope there's a lot small business in Turner, Argentine and Rosedale. **Mr. Brajkovic** said if you know of any opportunities, Charles would love the chance to make a presentation. **Commissioner Murguia** said I know you're not intentionally doing that. Send me the flyer and if there is some interest we'll try to set something up over there.

Commissioner Townsend asked is there an average length of time that someone seeking a grant would be told that it takes from the time that you receive the application to the time a decision is made on it. **Mr. Brockman** said we try to get to it within two weeks. I usually make a phone call and most of the time I've had to request more documentation because when we set this out we really wanted to have a mini business summary. So just asking for a grant for this and that, I mean we needed more information. It's been pushing three weeks but not more than a month.

Chairman McKiernan asked could you go back to the list of businesses who have received grants because wasn't one of them south of the river. **Commissioner Murguia** said yes, but I'm talking about the marketing. **Chairman McKiernan** said I got it. **Commissioner Murguia** said you know when you do outreach to encourage people to apply—go back to your marketing will you Charles where you have the list. See, so you can go to the UG website, go to District 1 they had a public information session and then Wyandotte County Economic Development and they do a lot of great stuff, Greg Kindle, but a lot of his time from what I've seen is spent in industrial types of development which falls into the north end of town and then downtown is Downtown Shareholders. There really isn't any direct outreach south of the river, not complaining. I'm just drawing your attention to it and if there is an opportunity that arises, I'll let you know.

Commissioner Townsend said I did not want to be neglectful of the fact that Mr. Goff was at that District 1 and participated. It came to me because he marveled at how many people were there on a Saturday. Again, thank you to the entire staff.

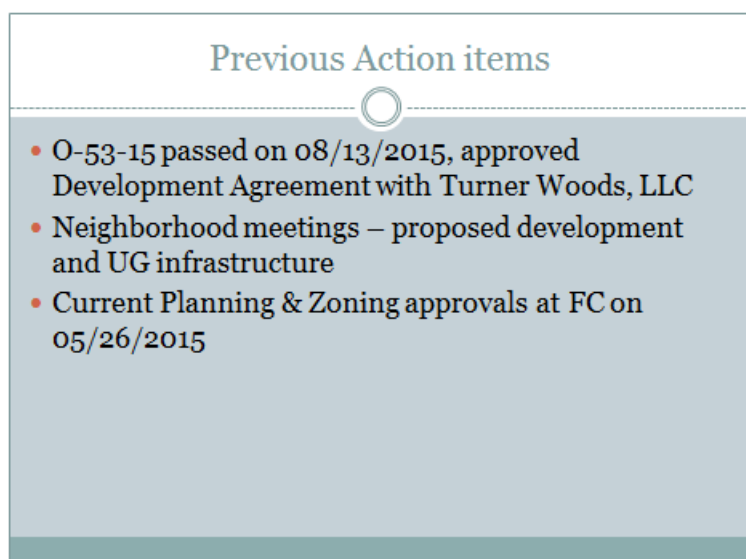
Chairman McKiernan said if members of the committee do have any additional feedback for Mr. Brajkovic or Mr. Brockman, you can certainly provide that after this meeting and they will take that into consideration for further iterations of the program. **Mr. Brajkovic** said I think just maybe one quick question. How often would you guys like to see—I know when we first started the program we—do we come back every month? Do you want to know how often things are happening, how well the program is working, are we thinking quarterly or maybe biannually? Maybe we don't have that answer that tonight but that's just probably a question we have for you. **Commissioner Townsend** said I like the quarterly updates, especially while we're still developing and seeing what's working and what's not. Six months seems like it would be too far down the road and not enough opportunities for input. I really appreciate the quarterly. **Commissioner Murguia** said I totally agree.

Action: *For information only.*

Item No. 4 – 16626...RESOLUTION: TURNER COMMERCE CENTER IRBS

Synopsis: A resolution of intent to issue \$310.5M in IRBs for RELP Turner, LLC (USAA Real Estate) for the development of a single 856,605 sq. ft. industrial facility, with an additional 1.5M sq. ft. coming from an internal mezzanine design, for a total of 2.3M+ sf., submitted by George Brajkovic, Economic Development Director. The project is expected to create 1,500 jobs initially, and grow to 2,500 or more. The revenue generated from the CID and retained by the UG for infrastructure improvements to Riverview Avenue is being replaced by a \$7M grant from KDOT.

It is requested that this item be fast tracked to the June 9, 2016 full Commission meeting.



George Brajkovic, Economic Development Director, said I'm going to make a few introductions as they make their way up towards the table. Brent Miles with NorthPoint who is the current property owner and they are the development firm that we have the existing development agreement in place with; and Jonathan Stites with Seefried who is part of the new development team. Seefried is contracting doing the work in USAA out of San Antonio. The real estate office is the expected building owner on this project. We've got a couple of different tracks this is running. These are the bond documents associated with the IRB structure as contemplated and allowed under the existing development agreement. We're requesting to fast track this for an advertised public hearing on June 9th where we would for that agenda we would

actually have a finalized development agreement ready to go. In fact, those should be going out in your packets as we speak.

For tonight we'll touch briefly on the new proposal and how it compares to the old, but primarily we want to stick along the lines of what the bond documents and what the IRB package looks like for this. I also neglected, I know in the audience is Tim Clink with Polsinelli who represents the developer or NorthPoint on this project and Phil Gibbs Jr. with Continental who's doing design work both on the public infrastructure site as well as the civil work on the project site.

Chairman McKiernan said so let me make sure I understand the request for action tonight. It is to approve moving this forward to the public hearing on the 9th at which time a development agreement will be offered for further consideration by the Commission. **Mr. Brajkovic** said correct.

Mr. Brajkovic said I wanted to remind everyone really quickly again of previous actions on this development area. In 2015 we came to terms on the development agreement with Turner Woods. Since then they've had neighborhood meetings on the proposed development and if you're interested they can provide an update. We've also, the UG's had neighborhood meetings on infrastructure improvements because we originally anticipated replacing the bridge with another bridge and then we went with the at-grade design. Most recently, I know Jonathan has been in town because there's been a series of planning and zoning components related to this new proposal as recently as the 26th coming through full Commission for approval on those items.

What are we here for tonight?

- Resolution of Intent
 - \$310.5M IRBs
 - Amend and Assign the Development Agreement
- Public hearing set for June 9, 2015

As you already mentioned what are we here for tonight. Well, we have a resolution of intent and it serves two purposes. One, is the \$310.5M request for this project in IRBs to finance the acquisition, construction and equipping of the project. Within that provision is an item to amend and assign the development agreement from NorthPoint in the single purpose entity they created for this project over to the Seefried USAA side and the single purpose entity that they've created for the project and then as I mentioned, if you see so fit, we'd like to fast track this to June 9th for the public hearing.

Previous Site Plan



June 6, 2016

The previous site plan, NorthPoint had projected three buildings, about a million square feet on the site. The new site plan, one building, it's got a footprint of about 830,000 square feet but by design it has about 2.4M square feet of available space on the interior. Just a comparison slide.



The development agreement as contemplated with NorthPoint had a ten-year development timeframe. It had three buildings as the site plan showed, approximately a million new square feet. We used some job creation estimators to project about 600 new jobs and we also had a component where we had a special assessment CID so the IRB was contemplated as 100% tax abatement and then you backfill with the special assessment. We split that CID, some share of it going to NorthPoint to reimburse their eligible project costs and then a portion coming back to the UG to pay for that Riverview Avenue Structure Replacement. As we did our own projections on that, that was a about a 17 to 20-year debt repayment to pay for that Riverview Avenue Bridge.

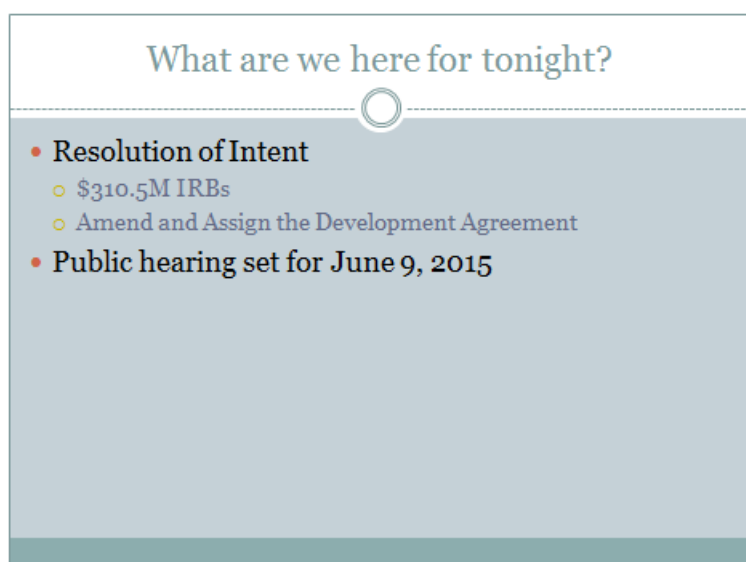
Development Details	
Current	Proposal
• 10 year development timeframe • 3 buildings, approx 1M sf • 600 new jobs projected • CID special assessment for infrastructure cost, 17+ yr debt repayment	• 1 year • 1 building, footprint of 856k+ sf, total of 2.3M+ sf • 1,500+ new jobs • KDOT grant of \$7M for infrastructure

The new proposal that we're considering, its one building and it should be built in about a year timeframe. 856K square foot footprint with nearly 2.4M by the time you add the mezzanine in, 1,500 new jobs. The CID would again—on June 9th there's another consideration for the CID to be repealed because there's actually a KDOT grant in the amount of \$7M to help pay for that infrastructure. That's kind of the side-by-side.

IRB/PILOT structure
• IRBs ○ Maintain abatement structure as originally approved, 100% ○ PILOT – based on current taxes, \$5k/yr for 10 years × Previous Agreement allowed for 10 year period on each building

The IRB PILOT structure as I mentioned, the application is for \$310.5M. It's a huge project. The IRBs though, we're requesting to maintain the current abatement structure as it's contemplated in the current agreement. That's 100% abatement. The PILOT is \$5,000 for ten years because that was the current tax base on that 130 acres and so that's the PILOT that was

projected with the NorthPoint deal, it still holds for this project. I did want to note the previous agreement then contemplated this kind of structure for each building. As each building was completed it would qualify for a ten year 100% abatement and backfill with that special assessment. We always projected a new building would be completed about every two years, thus coming on the tax rolls every three years and that why we thought it would take about ten years to actually finish that but the incentives would roll well past beyond the ten years. Again, in this case the building is expected to be completed in one year. The abatement period would begin that following year, the following year the bonds were issued.



Kind of back to the slide of what we're here for tonight, I apologize I really didn't give these guys a chance to really make too many comments. I wanted to roll through the presentation so we kind of knew what we were doing here tonight. If you have any questions, I'd be happy to answer. If they'd like to make some comments as it's related to the project, I'd like to turn it over to them.

Commissioner Murguia asked when was this project first brought forward to the Unified Government. **Brent Miles, NorthPoint**, asked this transfer or our original approvals. **Commissioner Murguia** said the original project, when was it first brought forward, was it August 2015. **Mr. Miles** said yes. There's a date in here. Let's go back and take a look at it.

Yes. That's correct. **Commissioner Murguia** said it's a \$310M project, correct. **Mr. Miles** said yes.

Action: **Commissioner Walker made a motion, seconded by Commissioner Murguia, to approve, fast track and setting the public hearing for the 9th and consideration of the development agreement.**

Commissioner Murguia said my only question is why are we fast tracking this. **Mr. Miles** said NorthPoint, if you haven't been by the site; we are working diligently to build the pad currently for the proposed 855,000 square foot building. The short answer is weather. The long answer is you have to have the pad ready by a certain time so that when steel shows up for this building you can get a roof on it and you can get it paved so that it can be operational at the end of the second quarter of 2017, beginning of third quarter 2017. That is an absolute dire need for the end user inside the building and to hit that date we have to hit this full commission on the 9th so that we can transfer the property to the developer the week of the 15th so that they can feel assured that they're ordering steel and ordering all their projects so that they can hit the delivery of the building, again, like I said in the second quarter 2017, beginning of third quarter 2017. That's a key component for the tenant inside the building. **Commissioner Murguia** said would it be fair to say you would just like to get your construction enough underway where you won't be affected by any possibility of snow or bad weather. **Mr. Miles** said we're selling the site as NorthPoint and we're selling a pad ready site to them. That's the clean handoff. They build the building. **Commissioner Murguia** said no, I understand that Brent. What I'm saying though is the reason you're asking for this to be fast tracked is you're trying to get all of that done before—they need it by a certain date. In order to make that certain date you have to get your job done and in order to get your job done you need to make sure the weather is good. You're fast tracking this to get it done before the weather gets bad. **Mr. Miles** said that's correct. **Commissioner Murguia** said your first answer was weather. I just want to make sure—**Mr. Miles** said its weather and then assurances that this is going to happen before they order a \$100M worth of construction material. **Commissioner Murguia** said they could not order it until later. **Mr. Miles** said because of weather. They are intertwined, yes. **Commissioner Murguia** said we're fast tracking this because of weather. **Mr. Miles** said that's how I would

describe it best. **Commissioner Murguia** said it's okay. I'm okay with it. I already seconded it. I just want it very clear to everyone that you are saying you're fast tracking this because you want to get ahead of the potentially bad construction season in the winter. **Mr. Miles** said that's correct and rain has not done us any favors. **Commissioner Murguia** said sure, understood.

Jonathan Stites, Seefried, Senior Vice President, asked do you mind if I—I don't want to belabor because I know we will be back here on Thursday. I'll be back here as well. My name is Jonathan Stites. I'm the Senior Vice President with Seefried Properties out of Dallas. Our group has been fortunate enough to work with this particular user in a number of these facilities around the country and I'm very pleased to be in Kansas City, KS and Wyandotte County working on this new one and so thank you already to this group, the whole staff. George, Doug and the whole team have been—we've been at this now for a number of weeks. I've blazed a trail from Dallas to Kansas City over the last number of weeks but it's great.

I would just answer you to the experience that we have with this group, these particular developments as you can tell by the amount of money spent here, there's just incredible amount of construction work, interior finish out, equipment and material handling equipment and fit up for these tough facilities. Well, it's technically an industrial building and I wish it was as simple as four walls and a roof to store stuff. It is very intricate and detailed. In fact so much so that weather is important. If we were in the Mojave Desert it wouldn't make much difference because the timeline from start to finish is so tight and so compressed such that we have to turn over the building literally in February/March next year; not the full building but pieces of the building as we go along for their fit up to begin so that they hit the ground running for the busy season which for them is in the fourth quarter of every year. I will tell you that's such just a critical component of it and we would appreciate greatly the fast track or however you describe it just to keep that ball and momentum moving. Our anticipated closing date all kind of ties very nicely with the process that NorthPoint has already engaged in on the site for the earth work. I'm very pleased to see sun when I was landing this time. I was up last week on the 26th and I didn't even get to land because the airport was closed in rain. Believe me in Texas we're having more rain than we would like to see as well. With that I'll be happy to answer any questions but I know we'll be back here as well as representatives of the end user and some of our team will be here on Thursday to be part of this.

Chairman McKiernan said there is a motion and a second before us to fast track this item to the 9th at which time we will consider the full development agreement to the whole commission.

Roll call was taken and there were six “Ayes,” Alvey, Walters, Murguia, Townsend, Walker, McKiernan.

Item No. 5 – 16628...PRESENTATION/DISCUSSION: TAX ABATEMENT POLICY

Synopsis: Presentation of key features of the Tax Abatement Policy and discussion for possible changes, submitted by George Brajkovic, Economic Development Director.

Chairman McKiernan said Mr. Brajkovic is to make a presentation on our current tax abatement policy looking for any input on changes that commissioners might think are needed or appropriate for that policy.

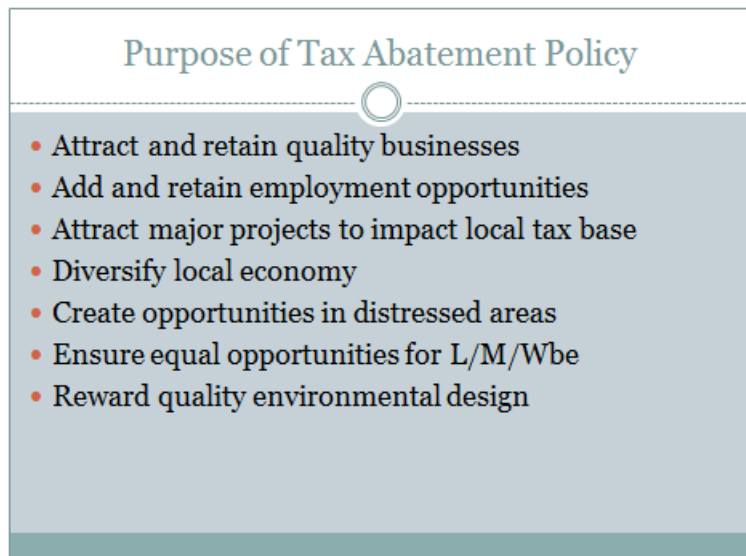
George Brajkovic, Economic Development Director, said I am just going to invite anybody left on our staff to come up and join us because they should hear this discussion. Obviously you guys know Marlon Goff, our Urban Redevelopment Manager, Chris Slaughter is still here with Land Bank, and Angela Harshbarger is our newest hire as a Management Analyst. She is actually taking Marlon’s old spot on staff. She’s been an employee of the UG for a while and I know Renee Ramirez was not happy to lose her from her staff in Human Resources, but we’re thrilled to have someone of Angela’s capabilities here on staff. I’m not sure if Mr. Brockman is still here or not.

Current Policy

- Amended October 21, 2010
- Abatement Policy applies to:
 - Industrial Revenue Bonds (IRBs), K.S.A. 12-1740 *et seq.* and K.S.A. 79-201a
 - Article 11, Section 13 Kansas Constitution (EDX)

I'm going to roll through the presentation pretty quick. What we try to do is set the stage for what the current policy is. We did adopt the current policy back in 2010. I will tell you we use it, and I see Greg Kindle's here with EDC. We use it a lot and it still seems to be pretty relevant. In trying to keep up with best practices, we're probably a little overdue for a review of what we set forth at the time. I did want to acknowledge that I do think it's working pretty well.

The Tax Abatement Policy. So what does that really apply to? Well, for what we do, it applies to two specific types of incentives. One is industrial revenue bonds, which we talk about all the time, and the other is the Kansas Constitutional Exemption (EDX). We don't do a lot of EDX for a couple of reasons. One, it's a little more restrictive. Secondly, with the expansions we did to our NRA policy, NRA is just a better option. Also, EDX, it used to be a lot of exemptions on personal property so as the home machinery/equipment changed occurred in the state of Kansas, we found that we were starting to use that incentive less and less; however, it's still an incentive that exist here. Again, those would be the two in particular that are affected by the Tax Abatement Policy.



Purpose of Tax Abatement Policy

- Attract and retain quality businesses
- Add and retain employment opportunities
- Attract major projects to impact local tax base
- Diversify local economy
- Create opportunities in distressed areas
- Ensure equal opportunities for L/M/Wbe
- Reward quality environmental design

Again, what's the general purpose of having the policy? Well, you know statutorily we're allowed to do this, but the policy itself allows us to craft it or design it specifically to what we feel is important to our community and embed that as an opportunity to earn a higher abatement provided that you do some of the things that are important for our community. We tried to list a few of those. Again, it's to attract and retain quality businesses.

You'll see a theme in the policy. There are certain thresholds for businesses that are new to the community, and then there are actually lowered thresholds for existing businesses looking to do an expansion. Again, we want to attract major projects. Tonight we talked about a \$311M project coming in and the IRBs played a big part of that. Again, diversify the economy, create opportunities in distressed areas via kind of a target area we have and we'll go into some of that detail. A big part of it is ensuring opportunities for local, minority and women owned business enterprises, both on construction, operation and professional services. All three of those target areas over the years have been, I think, greatly benefited by this policy. Reward quality and environmental design. We've got a slide to address each one of these in particular, but at the time in 2010, leads certification, whether it was platinum, silver, whatever what seemed to be a big industry standard that had a premium cost associated with it and we would try to target an abatement to offset that.

Key Components to Policy

- Project must add value to local economy – Capital Investment, jobs, positive revenue impacts
- Type of Business
- Existing vs. New
- Maintain **Existing Tax Base**
- Transfer of ownership
- Excluded Businesses: car wash, day care, private school, veterinary clinic, storage facility, and branch bank offices.

Some of the key components, again, projects got to add value so we look at...**Commissioner Walker** said, George, I've got a question. It goes to the issue of the policy. If I read the policies correctly, our normal rule is no more than 75%. Is that correct? **Mr. Brajkovic** said that's a cap we've put in, yes. **Commissioner Walker** said now there is also at the end of the policy, I forget what the exact language is, we can waive that for something very extraordinary. **Mr. Brajkovic** said correct. **Commissioner Walker** asked are you saying tonight or is there a declaration in the whereases and so forths in this resolution or in the agreement that what we just heard fits the category of extraordinary. **Mr. Brajkovic** said correct.

Commissioner Walker said I'm not big on 100% tax abatement. I realize this deal is already down the tunnel, but I think one of the criticisms that those people that are interested enough to follow it in the public give me is we give tax abatement too liberally. If a developer or builder, a company like this—I guess it comes down to at what level do they have skin in the game? How much are they paying for out of their pocket for the development? I'm just curious. Over the years since I've been on the Commission, we've given 100% on several occasions and yet our policy in bold print at the very beginning says the maximum we're going to do is 75%.

Who initially makes the determination that this is an extraordinary project and is worthy? I mean, this came to us from the very beginning with 100%, as I recall. So, who gets to make that call? I mean, ultimately I know we voted, but who on staff is deciding the deal should be 100% tax abatement? **Mr. Brajkovic** said obviously, staff evaluates the proposal from the Economic Development staff. We also work with our Legal Department as well as Finance to

determine if—we're always looking at what's our return on investment. You know, I think one of the real dangers we've seen over the years is that does the commitment from the development side start and stop with the term of the incentive.

What we've tried to build in regardless if it's a 50% abatement, 75% abatement or 100% abatement that there's something that—we're protected whether it's on continuing operations once the abatement period has expired or burned off. That's something we work hard on. Obviously, part of that return on investment calculation looks at things like total capital investment, number of jobs created and ultimately it is a staff recommendation and we report to the County Administrator so we seek his input on it as well.

Ultimately, they require a public hearing and we notice the school districts and all of the parties involved. We welcome any comments that they may have on it. In general, we found that the school districts have been very supportive of this. Again, whether it's a five-year term or a ten-year term, the end goal is to increase the amount of property value in the community. It is right now just kind of a nature of the game that incentives are in play. We're hoping that we're leveraging a larger investment because we are putting incentives into it.

Commissioner Walker said okay. I could go off on a tangent about this, but increasing the assessed value of the county is what it's about. When you increase the assessed value by entities that are not paying taxes, at least until they change it, that has a negative effect on the school finance and forming. While you may show a huge assessed value in a particular area, if a significant number of entities are not paying taxes because they are abated, the school district suffers at least up until the court declares it unconstitutional. Not having read the opinion I can't say what part of the formula is unconstitutional. Utilizing assessed value is a key component of how schools are funded and I suspect that it will continue to be in some manner.

I'm sorry. Go ahead with your presentation. **Mr. Brajkovic** said I agree. Well, that's okay. I'll offer one other additional piece. Don't just take our word for it right. One of the statutory requirements is completing a cost benefit analysis. We use a third party to complete that. They look at the tax impact of all the taxing entities and kind of briefly summarize it. You know usually the targeted ratio is about a 1:3, meaning for every public dollar that is being put in the project, the return should generate at least \$1.3. We run those reports on every IRB project we do.

I will say the project we just discussed, some of the taxing entities are right at that mark. Typically we like to see something a little above and beyond that but again, that's another layer of analysis that goes into these deals that, again, isn't performed in-house but is certainly part of the consideration we have.

Commissioner Murguia said, Commissioner Walker, I guess I would just say what would you like us to do then to attract business. I hear your concerns but part of my concern is when you say things like that, you create concern in our community about incentives in regards to development. What you're not telling the public also is if we don't do these incentives, businesses will just go somewhere else. I mean we live in a metropolitan area and if you don't care then that's okay but I do care. They create jobs and they create auxiliary benefits that can't always be calculated into a formula.

I was just curious. What are some alternatives to attracting business? **Commissioner Walker** said well, Commissioner, we have a policy and the question was simply, why don't we follow that policy. You adopted this policy when you were on the Commission at 75%. **Commissioner Murguia** asked what do you mean. I think we are following the policy. **Commissioner Walker** said well, somebody is making a determination before it ever gets to us. Our policy says right here—**Commissioner Murguia** asked are we not following the policy, George. **Mr. Brajkovic** said we are.

Commissioner Walker said it says the maximum percentage of abatement provided for any project shall not exceed 75% for 10 years, paragraph 3, the very basic policy of our tax abatement. I think it's a legitimate question to ask who is it that's deciding that something's worth 100%, 95% or 90%? I mean—**Commissioner Murguia** said oh no. I wasn't saying that the question wasn't legitimate. **Commissioner Walker** said I'm not objecting to giving incentives to getting businesses here. I realize we're competing with everybody else. I'm just questioning. We have a policy that we deviate from, and I don't see any particular coherence or criteria that suggest when we waive it or when we don't.

Doug Bach, County Administrator, said if I may, Commissioner, because ultimately the direction that Mr. Brajkovic follows is mine to put that on the agenda to say. In the case of the project we just heard, well, it's listed as 100% abatement. The initial project that we worked through with NorthPoint last year was 100% with an add-on CID that came back to it, the tax set

development in order to pay us to cover the cost of infrastructure, so it really turned it into about a 50% abatement, George, 45 – 50% because they were paying that like amount back to the government in order to rebuild the Riverview either interchange or bridge back into the area. That project, as it initially came, can show 100% abatement; but in the end; it was really only about a 50% abatement.

We then, in turn, as the project was able to produce an end developer that appears to be able to produce a lot of jobs back to the community, that's when the State of Kansas became very interested in it and stated to us, if you will go ahead and just relieve the CID portion, which is the action we're looking for, we'll pay you that portion, the \$7M in order to waive that from your community. In this case, the special on that is the State of Kansas stepping in and saying we'll cover that costs of that, actually more than the cost of that CID in terms and in a faster sense is how they're doing. It's about the same money, but they're doing it in an upfront fashion versus us getting it back over about fifteen years is what we were looking to get it back from the development.

That was the exceptional nature of that job that changed it. One, it was not 100%, it was just a restructured, remolded deal and then the second portion, because the state stepped in, it made the difference there. Outside of that, George, I'm trying to think of a project that's exceeded 75% in the last ten years. **Mr. Brajkovic** said I can only think of one off the top of my head. We did an 80% deal with AWG when they relocated their corporate offices to Kansas Avenue, otherwise we've held—they have separate legislation that allows them a different—

Commissioner Murguia said, Commissioner Walker, the only reason I brought that up is I appreciate your concerns and your questioning. I was glad to hear you say you're not anti-incentive and anti-attracting new businesses. I think in your first comments it may have been misconstrued like that by others. I happen to know you are in favor of incentives so I just wanted to make sure that was very clear.

Commissioner Walker said let me state my position so I'm very clear. I want to be sure that we get something out of every deal we do. I don't want a deal that gives away the farm. I've made that clear on that Rainbow hotel. We gave them—the first proposal was 100% of every dollar that they could suck out of that deal. They went back to the table with you and we got a better proposal. When we do a deal with somebody, I don't know many cities that are

giving away all their treasure just to get a business built. Maybe they are; maybe there are areas that are doing that but my point is there should be a little something.

We keep talking about growing our tax base or growing our—I'm going to be 95 years old before some of this stuff ever pays a nickel of tax if it's still in business. It isn't going to do me any good. Right now, I'm the kind of guy, you know, I don't have to have every dollar; I don't have to have—maybe I only get \$0.20 on the dollar, but the people that are living now and trying to make this a better community, in my opinion, deserve some revenue from anybody that's coming into this community in one way or another, direct or indirect, and that needs to be shown, okay.

Use your incentives however. I'm just noting what the policy says. We want to have a, you know—I guess if we put a 100%, everybody would want 100%. I just wanted to know where it all began and who decided we'd waive the policy and it comes forward with 100%.

Purpose of Tax Abatement Policy

○

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Commissioner Walters said, George, when you get back to the key components. Did you have a slide prior to this one? Purpose of the tax abatement policy, I think we've talked about this before. The discussion was, is there any way to try to incentivize people to hire Wyandotte County residents. I think you said it's very difficult because a lot of times we're working with developers and they're not the end users and it requires all kinds of bookkeeping. I would really like to see that we don't lose sight of that. That really would be nice if we could figure out a way to incentivize people to hire Wyandotte County residents as opposed to the majority of the jobs

going outside the county. I just want to put that on so that it doesn't get completely dismissed as a good potential purpose. **Mr. Brajkovic** said good point. We do have a slide that kind of addresses that. **Commissioner Walters** said okay, good.

The second thing is, you mentioned something about the life of the project exceeding the length of the tax abatement. Can you talk a little bit more about what kind of analysis or guarantees there might be for the county on those? **Mr. Brajkovic** said sure. Without talking about any specific projects, one of the things we try to put into a deal is, let's say they qualify for a ten-year IRB PILOT. How do we ensure then that they're going to still be in business or still continue to operate? That's what we write in, a continuing operation provision within the development agreement. If they don't, we will often times seek liquidated damages whether it's to offset any additional costs we've had in the deal or it's to return the value of the incentives that we put into the project. There are ways that we, through the development agreement, will work to mitigate that risk.

That's why the incentive is just one component of the deal. Right? We want to build a development agreement that's considering every factor of the proposal not just how the incentive plays into it. If we're going to leverage our future revenue to help finance a project now, we need to ensure that it does live past the expiration date on the incentive.

BPU Board Member Alvey said following up with Commissioner Walters' question, can you tell me, let's say a timeframe in the past twenty years—any tax abated properties, developments that are in that situation. **Mr. Brajkovic** said that had to return the payment. I'm not aware of any that failed during the time. Obviously, if one of the provisions is that they lose a tenant or the prospect goes way, we always have the ability to kill the abatement so that it doesn't just continue. If there is a performance, whatever performance criteria was placed on the developer, if they don't meet that, either they're in default of the agreement itself and then we can terminate the abatement and put the building back on the tax rolls immediately.

One thing that we're trying to do is on an annual basis, and we're putting the report together right now for 2015, is to come back to this committee and to full commission to say we need to give you a report on a return on your investment. Anything, whether it was an NRA, an IRB, a TIF, whatever burned off during a certain fiscal year, to come back and report and say

here's what's been returned back to the tax rolls. I don't know, Mr. Alvey, if I answered your question directly enough.

BPU Board Member Alvey said two things. First, I think what you just referenced was that you intend to bring back the data that shows the actual economic impact of these tax abatements over the past decades. **Mr. Brajkovic** said correct. **BPU Board Member Alvey** said but part of that would be then any kind of data that shows how many and the magnitude of projects that have been abated that would no longer qualify or would not have qualified because they failed somehow. I'm assuming all of that information would be contained in there. **Mr. Brajkovic** said it can.

What we're working on is specifically is kind of a year-by-year analysis. Right now we're trying to collect the data on '15; what was returned. I guess it's just—personally, I can't think of one project since I've been involved in this that hasn't met the criteria. Mr. Bach, I'm not sure if you can think of one.

BPU Board Member Alvey said if I could, I think what I would be looking for is these are the purposes, the goals for the tax abatement policy and so you're asking us to review these and make any proposed changes or suggestions but the data would help us to evaluate the effectiveness of the policy in general. **Mr. Brajkovic** said I think that's a good statement. Yes, correct.

Mr. Brajkovic said one of the things I did want to highlight on this—sorry, was there another question? **Commissioner Murguia** said it really isn't a question. I don't even know why I'm going to say it. It'll just spark more conversation around this. You know, when Commissioner Walters talks about job creation, when I first became a commissioner, I was very supportive of that and remain supportive of that. One of the things that I've learned by serving on the Kansas Board of Regents is they provide us with an enormous amount of data on the skillset of the population in the state of Kansas, not just from an education perspective, but the Board of Regents also manages workforce developments in essence.

It might be beneficial to have a presentation provided on the availability of workforce in the state of Kansas and the kind of jobs that are available and maybe, I think, then the Commission might have a better understanding of how difficult it is to not only attract development but then try to marry it up with workers locally in Wyandotte County and then also

have them be high paying jobs. I think that's a difficult formula if you just look at the data and the facts, not that it's not something to strive for, but it's a very difficult thing. I'll work with our Administrator. People are interested. George, instead of our staff trying to do it, they already have that workforce data and I will elaborate because I do think it's important.

Regardless on your political position on state politics, there was and still is an incredibly beneficial program that the state implemented a couple of years ago which is technical education funding to local high school students in the 11th and 12th grade where the state provides money to the school districts that provide transportation to 11th and 12th graders to technical schools to get technical certificates at the same time they're getting a high school diploma.

That program was driven out of the fact that the Governor and the Legislature looked at the number of jobs in demand and there were 30,000 unfilled jobs in the state of Kansas. I'm giving you very rough estimates; just numbers to make a point here and there were 70,000 unemployed. They did a lengthy study of why these 30,000 people were not filling these 70,000 jobs and it's because their skillset did not match up. Most of those skills that were required to do these jobs were in the technical fields.

I only use that example to say it's great to say you want it to be a locally based company that's run by local people, that pays a union wage, that hires everybody from Wyandotte County, that makes a good healthy product, I mean, we all want all of those things; but unfortunately, sometimes it's not always practical. That's why we have tried to do percentages, I think, that's just the way I justify it in my head.

Mr. Brajkovic said we do work very closely. I know Marlon represents our staff on a variety of workforce development initiatives. I know Mr. Kindle's here. The EDC's taken an expanded role on the workforce development side. We meet very frequently to discuss projects that are in the pipeline and how they coordinate back to all the efforts that WYEDC is doing on that end as well.

I think the one thing I did want to highlight here was maintaining the existing tax base, right, so whether it's TIF or whatever incentive we're working with, we always maintain that base and so the incentive itself is applied to the incremental change in taxes. To Commissioner Walker's point, granted, even if it's a 75%, 80%, 100% tax abatemen, the law is to protect that existing tax base and that's what we always strive to do.

Current Policy – Term of Abatement

- **Basic – 5 years @ 45%**
- **Existing Business**
 - Capital Investment of \$3.9M or less = 5 years
 - Capital Investment of \$4M & greater = 10 years
- **New Business**
 - Capital Investment of \$5.9M or less = 5 years
 - Capital Investment of \$6M & greater = 10 years

The current policy. The first thing I'll start on is the term of the abatement. If the basic abatement is five years at 45%, we'll deal with how you add to the 45% but to expand beyond five years, if you're an existing business, your level of capital investment, \$3.9M or less is a five-year term. Anything over \$4M qualifies you for the ten-year term. The \$3.9M is important because really when you use IRBs as an incentive, by the time you factor in cost of issuance and some of the other fees associated with it, you need a project that's at least \$2.7M or \$3M to get there.

Current Policy – Calculated Abatement

- **Basic 45% @ 5 years**
- **Project Investment Bonus 5% to 15%**
- **Target Area Bonus – 10%**
- **Targeted Industries – 5% to 15%**
- **Residency Bonus – 5% to 10%**
- **L/M/Wbe Bonus – 5% to 10%**
- **Environmental Design Bonus – 5% to 10%**
- **Abatement CAP – 10 years @ 75%**

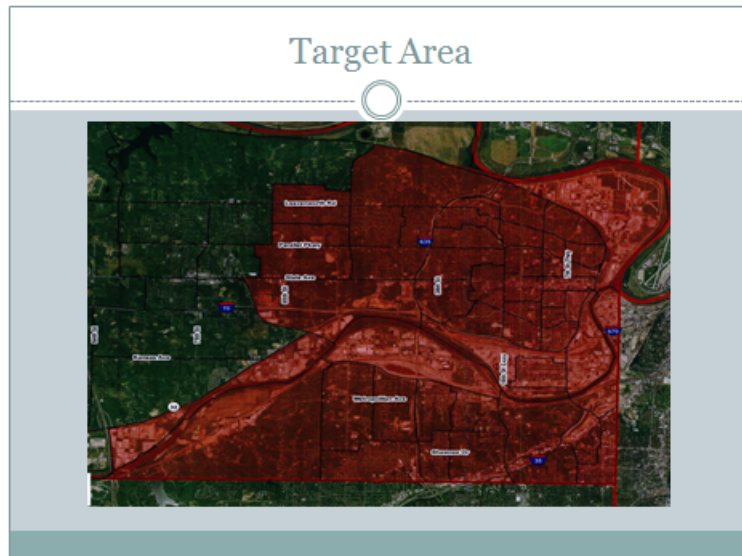
We've made adjustments on our NRA policy to ensure that there's not a gap in coverage between really making enough sense to go for the extra fees associated with IRBs but not missing an opportunity to do something.

New business, you'll note that those thresholds are increased. Again, on a new business \$5.9M or less is five years, \$6M and greater is ten years. I think if we were going to discuss making some edits to it, this is probably something worth examining, whether we keep those lower thresholds in place; but some of the new business investments, one of the items we're working on is how to give you an average value to determine would it make sense maybe moving that threshold up for new businesses coming in.

Project Investment Bonus

- **Project Investment Bonus**
 - Capital Investment up to \$24.9M = 5%
 - Capital Investment of \$25M - \$49.9M = 10%
 - Capital Investment of \$50M & greater = 15%
- **Prevailing Wage – ineligible under current State law**

What I tried to do is list all of the items that would get you an additional percentage tax abatement, and we have detailed slides following this to kind of delve into that a little bit. Again, starting at the basic 45% over five years, there's a project investment bonus based on the level of your total capital investment can add an additional 5% - 15%. TA target area bonus is 10%. It's a geographic map.



If you fit in this red area, and I'll show you here in the slide, you qualify for 10%.

Targeted Industries

- Based on the North American Industry Classification System (NAICS) code
 - Manufacturing, industrial, data processing, laboratories
 - 5%
- Quality Office
 - Class A space up to 15%

Targeted Industries, those are based on NAICS codes. It's a lot of work we do with the EDC every year to review those to ensure that we're still targeting the appropriate industries.

Residency Bonus		
% of Residency Hires	Minimum Employment	Bonus %
25% WyCo residents	35 New Hires	5%
50% WyCo residents	70 New Hires	10%

Residency Bonus, I think this is going to play into what Commissioner Walters was asking about--how does the current policy address that and maybe why it's not working as well as we'd all like.

L/M/Wbe Bonus	
5% Bonus Participation Rates	10% Bonus Participation Rates
• Lbe – 15% • Mbe – 10% • Wbe – 5% • Combined – 25%	• Lbe – 20% • Mbe – 15% • Wbe – 10% • Combined 35%

L/M/W Bonus, we talked about that.

Environmental Design Bonus	
Based on Leadership in Energy and Environmental Design (LEED) standards	
LEED Certification Level	Bonus
Silver	5%
Gold or Platinum	10%

Environmental design, again, really specifically about LEED certification, 5% - 10%. We're not seeing a lot of that. To go back to what Commissioner Walker said, the policy does say it's an abatement cap at 10 years at 75%, but there is Section 9 that grants the UG the authority to go beyond that should a need arise where a project qualified for something more.

On the project investment bonus specifically, it does add, I guess it's incremental, 5%, 10% or 15% additional abatement and then you'll see the levels of capital investment listed there. What we had done originally in that 2010 policy is we embedded prevailing wage. When it was still something we could enforce, we said these are pretty big, A, they're big levels of capital investment but B, there's a large percentage abatement that accompanies it. We would be happy to give you that as long as your project agreed to pay prevailing wage. We had pretty mixed success in enforcing that. As the state took that away, again, it's no longer an eligible—we cannot enforce that even through our own policy. Those investment levels stay and I would say the \$50M project and up, those are still big projects for us to win.



The target area, and I apologize the maps may be a little bit hard to read but essentially you see it kind of picks up. It does extend a little bit beyond 635, but it's roughly picking up our industrial corridors.



- Based on the North American Industry Classification System (NAICS) code
 - Manufacturing, industrial, data processing, laboratories
 - 5%
- Quality Office
 - Class A space up to 15%

Targeted Industries, we talked about that. Again, it's based on the NAICS code. Primarily you see a lot of the manufacturing/industrial components in it. If you're a qualifying industry, you'll be qualified for an additional 5%.

We did have a provision in there for quality office space that we could offer up to 15% and we've seen some of our most recent office projects go after this bonus in particular. It might

be an opportunity to work with that language a little bit more, exactly what is considered Class A office space or how large a building is. It has been a popular component to the policy.

Residency Bonus		
% of Residency Hires	Minimum Employment	Bonus %
25% WyCo residents	35 New Hires	5%
50% WyCo residents	70 New Hires	10%

On the residency, this is what the current policy has set up. If you, at a minimum, if your project created 35 new jobs—and almost immediately after we wrote this, there were questions. Does it mean I have to hire at least 35 people or is it because there are 35 jobs? The interpretation we finally settled on was that your project has to create at least 35 new jobs of which 25% have to be Wyandotte County residents. It's kind of the same thinking for the at least 70 new jobs of which 50% Wyandotte County residents. Then the targeted bonuses associated with those.

The chief complaint we heard from businesses that went after this level of incentive is that they would have—and what we do is we have an annual review with folks. Whatever performance standards are embedded in your development agreement, Charles sends everyone an annual statement and they have to verify. In the past payroll documents, payroll records were a big part of that. The chief complaint we heard from them is if they had an excellent employee that of their freewill decided to buy a new house or move away from Kansas City, KS, but it would disrupt their ratio; they didn't feel, as a business, they had an effective way to enforce residency on that employee. It did become sort of an accounting nightmare. Do we credit them that they were a Wyandotte County employee or do we require that your next hire has to be a county resident? Somewhere in the schematics of how that works is an inherent problem that becomes very difficult to enforce. We don't have any great ideas on how to enhance this yet but

I think based on Commission Walters' comments, it's probably an area that we need to spend some time discussing and see if we can't flush out something that the policy can be reflective of our wants here.

L/M/Wbe Bonus	
5% Bonus Participation Rates	10% Bonus Participation Rates
• Lbe – 15% • Mbe – 10% • Wbe – 5% • Combined – 25%	• Lbe – 20% • Mbe – 15% • Wbe – 10% • Combined 35%

The L/M/W bonuses, again, it's either a 5% or a 10% and then it's based on these percentage participation rates. As I mentioned before, when we first started this, every project is going to be subject to this on the construction phase. Some will have professional services and also be part of it. On the operations side, we've kind of shied away from it, again, because there weren't a lot of opportunities to be had and it kind of got difficult on that annual claim to verify how many, let's say, contracts they had with that. Really the opportunities for our folks to participate do come in either professional services or on the construction side.

Commissioner Walters asked that 5% bonus during construction, that would be a tax abatement that carries on for years. Right? **Mr. Brajkovic** said during the life of the term, what's nice about the construction phase is really before the PILOT starts, we can verify if they've met these goals. If they've not met those goals, we'll peel back if it's a 5% or peel back 10% because they did not meet that performance standard.

Environmental Design Bonus

- Based on Leadership in Energy and Environmental Design (LEED) standards

LEED Certification Level	Bonus
Silver	5%
Gold or Platinum	10%

Then, again, on environmental design, we're just not seeing a lot of projects pursue this. Again, in 2010 it was a different climate. We thought we could offer the incentive and folks would spend that premium to get buildings certified. What we're finding is people are building buildings; they're just not paying the extra to actually get it certified. I'm not sure if there's another way to keep this component of the policy in or if it's better to distribute these abatement percentages somewhere else.

Fee Schedule

- Application Fee – current \$1k
- Issuance Fee – authority under O-15-01
- Additional Costs
- Monitoring Fee

The last slide I have then is really what the fee schedule is. There's a \$1,000 application fee. We talked about the issuance fees and using those with the small business grants; maybe we leverage those overall fees.

The monitoring fee is, again, on the annual exemption. It's something that they—I believe it's a \$1,000 fee that has to come in with their annual exemption to ensure that the PILOT or the abatement stays in place. We'll say in talking—and we reviewed fee structures. We are on the very low-end. We're the lowest fee structure as far as applications go, but we're on the, I guess, bond issuance structure, we're a little bit higher than some of the other municipalities involved. I haven't felt personally that it's been a problem. That fee schedule is set by ordinance. I think that ordinance actually predates our policies and applies to bond issuance throughout the organization, not just on incentive structures.

Okay, I tried to roll through that pretty quick to lay out where the current policy is. I think we've already heard some great feedback through the early discussion but we're open to what you folks would like to see. Do we need to delve into this and start making some edits? We're happy to do that and bring that back to this committee and ultimately back before the full commission. We wanted, again, just to give you the report on think its working pretty well, are there some components of it that we can tweak? I think it's always good to at least consider that.

BPU Board Member Alvey said the only thing I would go back to is what kind of data is collected to measure the progress towards the objectives of the policy because that data then should be the stuff we look at to determine whether the policy should be changed and how. **Mr. Brajkovic** said okay.

Commissioner Walters said I guess I would comment. I don't think we should give up on the environmental design component of it. Maybe LEED certification isn't the best judge or gage, but I don't think we should throw it out. **Mr. Brajkovic** said okay.

Commissioner Townsend said going back to the point that Commissioner Walker made about the 75% being the standard, so to speak, it might be helpful, at least for me to know, if something above that is being recommended, what is it that we're getting out of the deal that makes it a recommendation worth going above what we're saying the 75% standard would be. **Mr. Brajkovic** said okay.

Chairman McKiernan asked are there any other comments, questions. As always we can always forward additional comments or questions to Mr. Brajkovic or Mr. Goff after this meeting is over. Gentlemen, thank you.

Item No. 6 – 16629...PRESENTATION: URBAN DEVELOPMENT GAP FUND POLICY

Synopsis: Presentation of the Urban Development Gap Fund Policy, submitted by George Brajkovic, Economic Development Director. In 2016, the UG established a \$3M Gap Fund to assist with the financing and facilitation of renovations, revitalization and attraction of new business ventures.

Chairman McKiernan said what I want to do is just take a moment to set up the backstory of how we got to where this item brings us to today. Back at the time of the budget, at the time of creating the 2016 Budget, there was discussion about the Unified Government potentially having a fund that it could use to close gaps, especially in the more urban parts of the city. There are occasionally very beneficial projects which come forward and would be beneficial to the area in which they're built, but there is a mismatch between the cost of the project and the revenue that project might generate to pay the costs of the project.

The thought was if the Unified Government had a pool of money to help fill that gap after all the other incentives had been applied, then that might be the stimulus to get an otherwise good project to go forward.

Last month, the request for action from staff was for this committee to have a discussion around policy related to applying that fund to projects. What made it interesting last month and unusual was there was an actual project that was presented, but because the request for action was simply for a policy discussion, that project became, in a sense, a strawman that just set up the discussion and it wasn't to be considered because there wasn't a finished development agreement on that project last month.

We asked staff at last month's meeting to do two things for us. First, to take our input back and craft a policy that might guide the application of these funds to future projects and to create a development agreement for the project that was presented here last month and bring that back to us as well.

That brings us to tonight. Staff has brought back a draft of the policy, but staff reports that the development agreement is still being worked on and they don't have it to bring back for consideration at this meeting tonight. We still have a split between the more general discussion of policy and this specific project which I understand is still being developed and there is no agreement to bring back to us tonight.

Commissioner Murguia said before you say anything, George, I do want to just make a statement. Brian, I do think the way you've recapped the situation is generally what occurred at the meeting; however, my understanding was that there was a development proposal on the table at the last meeting. We were not allowed to take action because it was put on the agenda for discussion only. Based on our meeting, we were supposed to bring that development agreement back to this meeting for an up or down vote. I am beyond disappointed, frustrated and whatever else that it's not back in front of us today.

I understand we have policies. We don't have extensive policies around urban development. We have clearly not been as successful at urban development here in Wyandotte County as we've been in suburban, more western areas of Wyandotte County. When we're pioneering through new ideas like this, especially in economic development, delays are not helpful. I thought I made that very clear at the last meeting and I thought the agreement was that regardless of what the end product was, they were going to come back for an up or down vote.

George, I know you have a presentation, but I want to make sure I bring up a couple of things. At the last meeting, I just want to make it clear that during budget we had more than discussions. We talked in specifics about this urban development program and what it would look like. I'm concerned that I voted for something that I thought was ready to be implemented. I didn't know that people were going to go out and get projects and then those project or those retailers or those businesses were going to have to then wait for the Unified Government to come up with a policy. That's backwards. That's how businesses lose interest and that's how they go away. That's the last thing any of us are trying to do in the urban core. I hope that never happens again, ever that we adopt something and then when somebody brings something forward, decide to make rules around it.

I know it's not on the agenda for tonight, but I will just use one great example of how I think it's unfair what occurred. One example is the project we just approved tonight that I

seconded the motion on. I am fully supportive of the Turner Commerce Development. I thought it was great, but let me give you an example. That's a \$310M project; \$310M. It was brought in front of the Unified Government in August of 2015. The fast food franchise deal was brought initially in front of the Unified Government before it comes to a standing committee now. Before it comes to a standing committee, it will be a year in the works. That's a \$3.3M deal, \$3M and some deal, but we are able to move a \$310M deal through the process in nine months.

George just said earlier, we've been saying, let's not roll out the red tape for small business and roll out the red carpet for big business which is exactly, in my opinion, what occurs at every Economic Development Standing Committee meeting. I mean we're looking at—in that deal, we were looking at three fast food restaurants. I don't mean to belabor this, but we're talking about a Wendy's, a Dunkin' Donuts and a Pizza Hut. We are unable to move those forward, but we can move three buildings that each one of them is almost a million square feet. It's just astonishing to me.

You know people talk about small business. People have made comments; well, Wendy's, Pizza Hut and Dunkin' Donuts are big business. Those are owned by franchisees. Those are owned by local mom and pops. They just carry a brand or a corporate name which they, as local mom and pops, had to pay for. It's a huge frustration for me that we would treat local mom and pops in this way and delay it.

The other thing that's been a priority with our government is we have said repeatedly as we have said in budget session, things that are a priority with this government, not with me, not with the District 3 Commissioner, but with all of you and all of the rest of our commissioners has been things with grant money were a priority. Things that involve economic development were a priority, things in the urban core were a priority, job creation was a priority and yet, this project, this three building, fast food strip center that creates 71 low-income jobs can't seem to get on the agenda for any sort of action.

Now, I get a difference of opinion but that's what I was talking about earlier. Urban development doesn't necessarily fit neatly in these policies that we have. That's why if we're trying to jam them into those boxes, it obviously isn't working. You just have to take a drive around the urban core. Brian, we can tour your district, we can tour Commissioner Townsend or we can tour mine. We can even tour some areas of midtown or the Turner area and see that these policies clearly aren't working for those neighborhoods.

I'm disappointed that when we can't come to an agreement and when our commissioners, our elected officials direct our staff to bring a project back, whether they support it or not and I know they go to great lengths to try to figure out how to come to an agreement, that project should have been brought back when staff was, in my opinion, directed to do that.

The last thing I'll say is Commissioner Walters' question sparked some quick research on my part. I looked up how many unskilled jobs there are in the state of Kansas. I was surprised to see that it is 64% of our labor is unskilled in the state of Kansas. Most of those unskilled laborers live in the poorest areas of our community, which are east of 635, and the only way for them to get out of that situation is to have a job they can drive to or walk to that's close in proximity to where they live. It might be not urgent to all of you, but how many of you have never been able to pay your rent, pay your utility bill or feed your family? We're sitting on 71 jobs. If you want to vote against it, vote against it, but at least put it on the God damn agenda.

Chairman McKiernan said and I know that you addressed your comments to me as Chair of the committee and I just want to clarify two things. First of all, I chair and conduct the meeting that is presented to me by our staff. I neither put items on this agenda nor do I direct what action is to be taken by this committee during its meetings. Second thing is, I, as Chair of this committee, do not work any aspect of economic development deals other than to consider what is brought before this committee.

Doug Bach, County Administrator, said the decision not to bring it forth to put it on the agenda was mine, Commissioner, because we didn't have a deal done. I recognize the fact you want to vote a deal up or down; but when I review a deal, I don't want to put something up there that I would be bringing forward to the Commission to recommend for denial because the deal is not in a position one, that you could approve. You can say just go do something and I wouldn't know what I would be telling—even putting on the agenda for you to tell me to go do.

I mean we can say well, they asked for this amount of money and just say okay, let's give it to them and we just arbitrarily give them that amount of money because they asked for it versus us coming forward and saying in vetting through it, this is truly the gap; this makes it work. We vetted through all the different aspects of it from a bond back project.

As we went through the policy in the last one, these are projects—and I came forward with this program last year because these projects are ones that don't pay for themselves. With

the comments in the last one about 100% abatement, oh yes, we're talking about 100% abatement plus giving them additional money. If we're going to put that on the agenda, staff needs to vet through it and at least come through with something that can fully be explained and that when you do vote on it, everyone understands what it would be. I did not feel like we were in capacity to do that. At best, we could have jammed something on. We would have been right at the last minute and I have been told by this commission numerous times, not to stick full detailed deals on an agenda with only a weekend to review.

I know there are exceptions to that and we try to avoid those and sometimes they do happen. I won't say hard and fast that never happens but until I have a full deal to put out there, that's where I was back with the Economic Development staff saying we still need to work through this, vet through this and come back with something that's solid and then you can decide at that point whether that makes sense for our community or not. I will take that directly on me for that direction.

BPU Board Member Alvey asked, George, if these projects had come forward without an application to the urban development Gap Fund, would everything else had been in order. **Mr. Brajkovic** asked which one. Are we talking about the one that was—**BPU Board Member Alvey** said from last month. **Mr. Brajkovic** said I think the answer is no, because we're still examining. It wasn't the nature of the projects; it's specifically how do we finance this. There's a gap in the project, no doubt about it. What we've spent the majority of the time since the last standing committee is vetting through general obligation pro forma, special revenue bonds, do we go back to the Gap Fund. We looked at examining, extending the existing TIF district that's located nearby, using any access revenues from the two existing project areas of that TIF district to serve as a financing backstop for this project to help fill the gap on it and—

Commissioner Murguia said, George, not to interrupt you, but I'm not sure that was what the question is. I think, to provide some clarity here, the mechanics of the deal you had already worked out. You knew there was a \$550,000 gap. You knew that and you brought forward at that time, at the last meeting, a proposal to fund that gap. Commissioners had concerns that there wasn't a policy around the fund, the incentive fund that we wanted to utilize. All I think that could have occurred was this Commission could have opted to approve that project as you had

done your due diligence on the project and you were very clear about the gap. They could've opted to approve that project and then also continued to work on a more specific criteria for a policy. That could have occurred.

Chairman McKiernan said let's clarify from last month, whether or not commissioners had concerns, commissioners engaged in the discussion that was requested by staff and that discussion was around the mechanics around this policy. We engaged in what was requested of us at that meeting so whether or not anybody had a concern is really irrelevant because we did what staff asked us to do in that meeting.

Commissioner Townsend said I just wanted to say, as a participant in the meeting, what my understanding was and what we were asked to do. I had some misgivings that because a particular offering not fully developed yet, as I understood our packets and did the homework for the meeting, may cause a confusion that, to me, seems to be prevalent now. I think it is a positive contrast that we earlier tonight talked about a much smaller amount of money tonight, about \$50,000 for small businesses; but even there, we've had previous discussions about the policy and what we want that to look like. What are the considerations going to be? I would certainly think for \$3M, we would have that same type of discussion.

To me, it was pretty clear last month that's what we were being asked to do, to evaluate considerations about the policy. I recall Commissioner Walker saying, and I agree with this, when you set the particular project aside, come back and we can vote the project up or down but it was definitely not my understanding of the packet that contained the material for action that we were to do that last time. I think as a commissioner who wants to see that we can get to the \$3M pot and ask for some of that. I think it is reasonable to know as much as it can be known ahead of time what the evaluative criteria will be. That's what this is about for me.

Commissioner Walker said I'm of the view that, and I was last month, that we needed a policy. It was put on the agenda for discussion. I'm not really quite sure what the consequences would have been had we made a motion and taken a vote, whether that would have been appropriate under the Open Meetings Act because it wasn't an agenda action. The Mayor is, for good or bad, is the guy that ends up deciding what goes on the agenda. We have no ability and I've

brought this point up before that at a certain point, if four or five commissioners want something on an agenda, there should be a way to compel something to be put on the agenda. Now, I'm sure the Mayor, and I think he's probably accurate, has in general, or at least since I've been here, not refused to put anything on an agenda.

I think we adopt the policy. As I read this policy, your proposal still fits within this unless I'm missing some nuance that—and I'm of the view that we give a vote on this up or down and move on because there's plenty of other business to deal with. You do your job; you get the best deal you can. Ultimately, if you can't get the best deal, you can bring it with a negative recommendation. You've done that before and the Commission can take a public stance on it. Each one of us can vote our conscience and do it.

Yes, I'd like to see the gap reduced obviously. I'd like to have no gap. I'd like to not have to use these funds. I'd like to see the policy spread out all over the whole urban core. I'd like to see things come up in Commissioner Townsend's and McKiernan's. Commissioner Markley's got a small portion of what we traditionally refer to as Argentine, a fairly big chunk of old Argentine now which qualifies for the urban core. Of course Commissioner Johnson, I know he's working on a project that probably could benefit from Gap funding. I'd like to see it spread out all over the community.

I will say it's not so much her vote as it is the people of Argentine. Give them their vote. Let's vote it up or down at the point where you've made the best deal you can. If you can't recommend it, I would say you come back and tell us, bad deal from your point of view. Isn't that what you'd do anyway? **Mr. Bach** said yes, we typically don't bring projects though it's too often that we're, if ever to say here's a deal, let's not do it. I think we try to vet through them to the point that we feel like it makes sense within the policy or something. **Commissioner Walker** said I think if you come back with no recommendation that speaks volumes as much because obviously if you believe in a project, you would recommend it. I don't think you have to come back and say kill the project. You would just simply have no recommendation and leave it. At some point it needs to be decided.

Chairman McKiernan said so if I understand where we are tonight, we have a request for action which is to review what you've brought forward. This project is still in play. This project is still being actively worked. This project could be brought back next month for a vote. Are we

reasonably confident that we can achieve that milestone? **Mr. Brajkovic** said yes. I think, again, I don't think it was necessarily the nature of the project. It's been purely a focus on how we finance this project. We've communicated to the development team and their attorney that we're just at a point where we've ran all the analysis and it's got to be one of two options. I believe we've set a meeting with that group this week to go over and collectively come up with what we feel is the best option. Part of that is kind of going through this policy, again, that we think the project most likely qualifies for under this. We want to understand if this policy still leaves this as a viable financing option for the project itself. If it's okay with you I'll just roll through this pretty quick.

FY 2016 Budget Initiative



- \$3M Urban Development Gap Fund
- Renovation, revitalization and attraction of new business ventures
- Intended as matching revenue to leverage more investment
- Used for land acquisition, demolition, and repair infrastructure

At the last meeting we spent a lot of time talking about what we want the policy to do. I actually went back and just looked at the budget documents and pulled exactly what was discussed or what the budget documents reflect the discussion to be.

Again, it is \$3M. These next three bullet points, they helped me kind of framework what we were doing here. Again, for the renovation, revitalization and attraction of new business ventures; be intended as matching revenue to leverage more investment and then finally used for land acquisition, demolition and repair infrastructure. Those were the components. From that and using the discussion we had as well as discussion among staff and some of our colleagues outside of the office, we came up with some general themes before we delved right into trying to make a policy recommendation.

Draft Policy - Themes

- Urban should be defined by “indicators” as opposed to “geography” alone
- Gap should not be the result of inordinate soft costs
- Return on investment – both in job creation AND unpledged new revenues for taxing entities
- Gap award should not represent a substantial proportion of total project costs

One, urban, in a community like ours where we have such a large urban footprint, it probably shouldn't be defined by a geographic boundary. Is there a way to come up with a list of indicators that can better reflect areas that would be best served by this than simply say shading an area of a map red? I think we have a good option for that.

Secondarily, the gap shouldn't be the result of inordinate soft costs. I mean that's something we evaluate projects on all the time. Certainly, there's a component of architectural design, development fees and legal fees. We just want to always ensure that they're in line with the overall project costs.

The return on investment, that's our analysis. We're looking for two things there. One is the job creation factor but secondarily, are there any unpledged new revenues from this project. We know that part of the analysis is have we used every tool that we have in the toolkit to get there. I think it's important for us to look at that and say okay, if we've done that and we've pledged every bit of new revenue from the project back to it and it still has a gap, that's a component we have to use on the ROI for ourselves. Then finally, the gap award should not represent a substantial portion of total project costs. It's kind of, I guess, a broad statement; but as you look at some of the recommendations we have on percentages of value, both of the grant itself and how it reflects back into an overall incentive structure, I hope it's a little better illustrated.

Eligibility Categories

- Site – “Urban”
- Project – preference given to certain factors
- Financing – positive & negative impacts
- Award Limitations

From those themes we said well; let's concentrate on maybe four major areas for eligibility. One is the site itself. What factors do we want to look at? B, the project and the way we've listed that is preference given to certain factors. Are there some elements of the project itself that would lend us to say that is a preferred project over maybe some other proposal? We've got a slide to address those. Financing, again, these are more weighted factors for positive and negatives. We've got a slide to address that and again, finally award limitations.

Site Eligibility

- **10 factors:**
 - Deteriorated structures and vacancies
 - Defective or inadequate street layout
 - Unsanitary or unsafe conditions
 - Tax delinquency exceeding fair market value of property
 - Defective or unusual conditions of title
 - Improper subdivision or obsolete platting/land uses
 - Conditions which endanger life or property
 - Environmentally contaminated
 - Inadequate utilities and infrastructure
- **Meet a minimum of 4/10 factors**

On site eligibility, again, keep in mind that the theme here was to not limit it to a geographic location. We came up with a set of ten factors. If some of these look familiar to you, I will be the first to admit we plagiarized the Kansas TIF Statute. As it related to blight, we certainly

incorporated as many of those factors that we felt were relevant here as we could. There are ten of them and I won't waste your time to read through it. I know you can see those. What we're saying is look, a project has to meet at least four of these ten factors. We think that's a better reflection of the community than shading a map and saying an area could be eligible because that area may not meet four of these ten. We think it's a better way to individually evaluate each proposal as it comes in.

Commissioner Walters asked can I ask you a question about that. **Mr. Brajkovic** said yes, sir. **Commissioner Walters** said it looks to me like it would be very difficult for a project on a vacant lot that has adequate utilities to it and has streets in front from ever being able to be qualified under these conditions. It just seems like we're making it kind of tough on ourselves to try to—**Mr. Brajkovic** said I would have a different opinion of that just knowing what our stock is and just thinking about Land Bank properties.

Commissioner Walters said but I'm just saying, what about a vacant lot that somebody wants to build something on in an urban context. They can't make it work. We've set up this Gap Fund but they don't have any of those factors. **Mr. Brajkovic** said you're right, it would be hard to qualify but then I think we'd have to go back and say what part of this initial initiative does that one vacant lot have. I think by the time you look at a site that's eligible for redevelopment and let's say it's a commercial redevelopment, it probably does have inadequate utilities for that project. It probably does have an inadequate street layout or design for that project. At least in my opinion and, again, evaluating the stock we know our commercial properties that are within a certain corridor that are most likely to be developed. Having said that, if you think there's something we should add in there or a provision we should put, we're not excluding it because, again, the overriding theme for us on this was not to limit it to a geographic spot on a map.

Chairman McKiernan said but if I could add, I agree with that concern about a vacant because it was a project on a currently vacant lot that caused me to think about this fund three years ago. That was the genesis of my idea was a project that came forward for a lot currently vacant and just couldn't close the gap. I agree with Commissioner Walters. I don't know that I would exclude those properties right off the bat as long as they meet other criteria that the project itself would be beneficial to the area.

Commissioner Townsend said along that same line, one of the things that came up when this was first proposed by Administrator Bach and I asked this question, where is this money supposed to bring development? Are we going to say urban or whatever this is? I recall that the term I used which would trump or be added in addition to these would be that we want to see this money spent to do all of those things that you cited to encourage development in economically distressed areas. That would exclude, as Commissioner Walker had said, out west. We love out west but we are excluding some geographic areas. It's about bringing development to areas that have been economically distressed. That could be south, that could be east. Generally, it's going to be all east of 635.

So in addition to those ten factors, I was thinking the same thing. I've got a lot of vacant lots. I don't know if it would hit four but as long as we hit in terms of a designated area, wherever that would be in the city, an area that's traditionally economically distressed where people are not just dying to come and develop. **Mr. Brajkovic** said that's a good point. We will look to add that. If you've got other suggested language as a follow-up to this that would deal specifically with that area of concern, we'd be happy to add it to it. Again, I think the gist is not a map and some sort of requirement eligibility where we can say it meets some share of these factors.

Project Eligibility

- **Preference for:**
 - Create permanent FT jobs
 - Create quality housing
 - Mixed-use developments
 - Redevelopment of existing structures
 - Provide or enhance amenities to exiting neighborhood
 - Fill a bona-fide development void, supported by independent analysis
- **Ineligible uses – liquor stores, bars, car wash, storage facility, branch bank office, and home-based businesses**

On project eligibility, again, what we try to glean from the discussion we had previously were what elements of a project could we say we have a preference for those. It doesn't necessarily

exclude a project that's proposed but if it doesn't have these components, maybe we say it's not a preference. Again, creating permanent full-time jobs or creating quality housing. We certainly like to target mixed-use developments, redevelopment of existing structures, provide or enhance the amenities to existing neighborhood or community. Then lastly, fill a bona-fide development void that's supported by an independent analysis. This, for me, is a direct correlation to when we use a third party to do a cost benefit analysis. I think it's directly reflective of at least a few of the comments we heard that night to have someone else or another party either demonstrate that there's a need for the project or that the financing request is warranted.

The only thing we wanted to add in and maybe kind of keeping pace with our own tax abatement policy is if we want to consider some of the uses as ineligible, these are our recommendations. Again, liquor stores, bars, car wash, a storage facility, branch bank office, home-based businesses; things that aren't necessarily going to add an impact either through job creation or an increase in property tax or they have a minimal impact—

Commissioner Walker asked how about tobacco vendors. The one I had in mind, particularly, was cigarette businesses that sell—**Mr. Brajkovic** said vapors—**Commissioner Walker** said smoke shops, I guess they call them, or a hookah bar. I guess that might be it. They're not technically a bar because I don't think they serve liquor in the hookah bars—**Mr. Brajkovic** said right, I don't think so. **Commissioner Walker** said but I doubt we can have a hookah bar in Wyandotte County, not a legal one anyway but maybe—**Mr. Brajkovic** said add that to it. Sure. **Commissioner Walker** said yes. I don't want to finance a cigarette shop. Not after we just passed what we did. **Mr. Brajkovic** said I was going to say it fits well with other initiatives.

Commissioner Walters asked what's wrong with branch bank offices, just curious. **Commissioner Walker** said they got all the money; that's why. **Commissioner Walters** said they can't need money because they're a bank. Is that it? **Mr. Brajkovic** said yes. I mean it was part of our initial tax abatement policy discussion in 2010. It's just as we—it was nothing against the banking institutions. **BPU Board Member Alvey** said it seems so out—pick the one that's out of place. **Mr. Brajkovic** said it's something we could certainly take out if we think it might merit this type of a program. Essentially, a bank's probably not looking for an urban gap fund to open up a branch. **Commissioner Walker** asked what about a regular bank. What's the

difference? I think the headquarters of a bank would be—**Mr. Brajkovic** said that's probably different. **Marlon Goff, Management Analyst, Economic Development**, said that was the distinction, I think, a headquarters. **Mr. Brajkovic** said but they could probably do an IRB under an office component. **Commissioner Walker** said somehow to me, you shouldn't be in the banking business if you can't afford to do your own. Right? **Mr. Brajkovic** said that could be the biggest component of this policy, Mr. Walker.

Financing Conditions – weighted factors

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- Amount of Private Capital invested
- Besides local incentives, other leveraged public funding sources
- Credit worthiness/track record as Developer
- Cannibalization - impact on existing developments, especially those with public incentives
- ROI – are all new revenues pledged to project?
- Bonding vs. pay-as-you-go, UG backing

On the financing conditions, the way we're viewing these, these are weighted factors. Again, the amount of private capital investment, obviously the larger the capital investment, the more positive weight we would give to it. The smaller the impact, the less positive. Beside local incentives, are there other leveraged public funding sources? Clearly with the project that Commissioner Murguia had referenced, I mean there's a considerable amount of federal grant dollars involved in the project. That is specifically what we're targeting.

The feds love it on a project. The more incentive layering there is or the more types of funding involved, the better the deal is. I think that comes into play here too especially if we're going to say we've exhausted all of our tools and now we're going to add this additional Gap funding. There should be other types of funding leveraged in the deal as well besides just ours.

The creditworthiness, track record of the developer, is it someone with a proven track record? It is someone that's had some failures in the past? Those elements have to be considered. Cannibalization, so impact on—and this means a variety of things but again, impact

on existing developments especially those with public incentives. I think that was part of our initial conversation about this project. We knew we had a TIF district in close proximity that had some GO debt and you know positives and negatives here. If it cannibalizes that, it's clearly a negative; but if it's under the all boats or all ships rise because we have increased activity, it would have that positive. Again, the return on investment and specifically are all the new revenues already pledged to the project or is there just a portion of those revenues pledged or how does that work over, again, over a five, ten, twenty-year process.

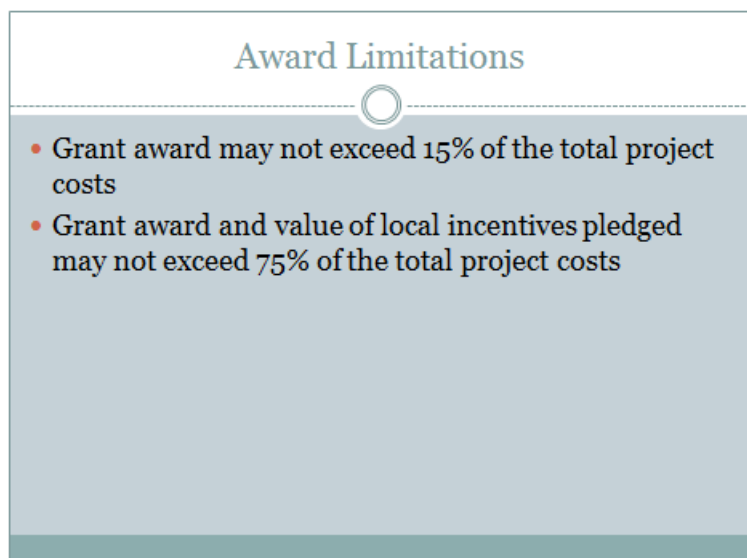
Another big element for us was how is this thing really financed overall. Is it a project that's bonded? Are they general obligation bonds? Are they special revenue bonds? Is it a pay-as-you-go? Ultimately, I think some of our risk assessment is the UG backing any portion of that in addition to providing the gap? Again, those are all weighted factors.

Commissioner Walters asked can I ask you a question. **Mr. Brajkovic** said yes, sir. **Commissioner Walters** said in the document that you circulated, you specifically say reasonable ROI for the invested local public dollars. What is a reasonable ROI? **Mr. Brajkovic** said that's a great discussion point. Earlier I had mentioned when we do a cost benefit analysis on IRB projects, we have a specific target. We want at least a 1.3 return on every dollar that we invest in. I think it'd be easy to say we would expect to see at least that type of return on a project like this. **Commissioner Walters** asked is that reasonable? I thought that was the reason we were doing the Gap funding was because you couldn't achieve those kinds of returns. **Mr. Brajkovic** said well, you know, you got to think about what are all of the factors that are considered when you do a cost benefit analysis. It's not simply the financing put in, there's the construction component, the housing the jobs that are created. You have to factor in how many of those jobs created will become new citizens or new residents in your area and so there's a whole series of those weighted factors that can contribute.

Again, we've had projects that have asked for 80% abatements that have come back with ratios that double that 1.3 value based on all those other factors, but it's certainly something we should pay attention to. Again, I think it's a great question to ask. How are we determining that and what is a reasonable ROI?

Commissioner Walters said well, the reason I asked is I thought we were voting to adopt a policy tonight. If the policy says reasonable ROI, I just thought we should be more

specific about—**Mr. Brajkovic** said okay. Well, that's my thought on it is to kind of mirror what we've done on other cost benefit analysis but if that's—hey, if we could bring a policy at a first swipe to you guys and everybody was in agreement and said let's do it, that'd be great. We anticipated that there would be some additional discussion here tonight on it. Again, we're open to whatever your suggestion is, whether it's on what does reasonable mean or how do we actually determine what the ROI is.



Award Limitations

- Grant award may not exceed 15% of the total project costs
- Grant award and value of local incentives pledged may not exceed 75% of the total project costs

The last component is just simply what are the award limitations as presented. We thought that the grant award, again, since we're exhausting every other tool we have that the grant award itself should not exceed 15% of the total project cost. In addition, the grant award plus the value of all the other incentives into play should not exceed 75% of the total project cost. That's based on most deals that we do or every deal that we've done. At worse, we're at a 50/50 balance on the public/private partnership side.

What we're trying to account for is that there's enough cushion in this that these deals are harder to come by just by the very nature of where they're located. We see it all the time on TIF projects. You have to overpay for property then you have to use more capital to do demolition so you've already paid those two premiums just to get a level playing surface in a Greenfield versus a redevelopment ready piece of property in the urban area. We've tried to cushion that by saying an additional 25% away from that typical 50/50 kind of best deal scenario that we would give anyone. Again, these are just our recommendations but we feel that based on past projects

that we've done outside of requiring or asking for a Gap Fund of this nature, that these are pretty fair percentages to apply back towards a proposal.

Commissioner Murguia said so, George, I have a couple of feedback on the specific policy. In your first paragraph, these are really quick. In the first paragraph you say, I think it's like the second or third sentence, this money intended as matching revenue to leverage more investment. I may have misread that but I view that as if I'm bringing \$1.2M in grant funding to you, you'll match that. That may not be what you meant but maybe if you could be a little clearer because what it contradicts is the 15% cap that you're proposing. Just my feedback since we're at the 15% cap. I think that's low but that's just my feedback.

Back to the beginning, you said yourself when I read the criteria under site eligibility criteria, you said you pretty much reiterated the Kansas State Statute. I think its fine to leave the criteria but could you reference the Kansas State Statute so that people don't get caught into words like preponderance, unusual, things like that because that's all relative. To what it means to me might mean something differently to you. Just highlight, leave it as it is but just put the statute in there.

You mentioned, George, all on your own the project eligibility criteria. You listed out—I think that's a good list but you said something interesting. You said we want to encourage mixed-use. If it's commercial and housing that would be great. I think there should be something in there that says you get more points or more credit if it's mixed-use if that's your (the government's) end goal. I'm just saying, don't just limit but try to entice at the same time.

I 110% agree with words like reasonable. I actually had it circled on my sheet, that word. I don't think reasonable is a good choice. I think you need to be more specific than that. I think that's a pretty high standard for a program we're setting up for developments that are challenging but, you know, that's up for debate. That's all I have.

Mr. Bach asked are there any other thoughts on the 15%. That's probably a big one that George threw in. I certainly agree with we ought to put something in like the coverage ratio or the 1.3 or something like that to be more specific, to note that if that makes sense, but is the 15%. I mean that's a— **Commissioner Murguia** said, Doug, this is what I did. I'm not good, that's why I suggest PILOT projects because I'm not good at just arbitrarily coming up with policy. It's not

really what I'm good at. What I did was I just use the deal as an example and I just rounded the numbers. If you have a \$3M deal and you've got \$1M in grant funds, that leaves you with relatively speaking \$2M. You subtract out what the tenants are going to pay for rent. You take all of that out and that left the deal with a \$550,000 gap. So there's private money, there's government money, the business is investing and everybody's got their money in there. If you take 15% of the total deal, which is \$3M, it only gets you to \$450,000. Well, you're \$100,000 short. So what do you do, tell them to go and hold a bake sale. I don't know where they're going to get that \$100,000. They've already got \$1.2M in grants. Do you see what I'm saying? I don't see a whole lot of fast food coming forward with \$1.2M in grants and so now you're still \$100,000 short and it just delays it all the longer. That's just feedback. It's only one deal. Maybe there are other deals but I couldn't think of any other like this.

Commissioner Townsend asked what was the basis for the recommendation of 15%. Is that average? Explain that to me. **Mr. Brajkovic** said well, what we looked at—again, we worked on a number of projects in the past where we've exhausted our tool belt of incentives. What we thought was 15% still helped us do is mitigate any risk we might have on the project. Assuming there is another, multiple other incentives in the deal that would allow us to give this grant but still mitigate any of that risk that we have on the other incentives that are layered out there; specifically, if we're backing that debt. If it's GO debt, how do we ensure that we're still protecting that revenue stream? When we do bond issuance, as Doug mentioned, there is coverage ratios, a variety of factors that go into determining exactly how much that goes out. It wasn't really an arbitrary number.

I personally looked at a few projects that we did and I felt 20%, we probably could have put that recommendation in. That would have allowed for an additional cushion but that's why we thought the overall percentage of everything in the deal pushing out to about 75%, that would allow us to be maybe a little more aggressive on all the other incentives that we're putting in as well.

Commissioner Townsend said I didn't have a number in mind. I just wanted to—**Mr. Brajkovic** said yes. I'm open to suggestions. If we need to bump that back up but again, we're just trying to keep it packaged as closely as we could. **Commissioner Townsend** said thank you.

Chairman McKiernan said I appreciate that but I think as Commissioner Murguia said, if a project can demonstrate mitigating unusual circumstances that would warrant going over the 15%, and I know it's a little hazy to say well, what are all those, but if a project can demonstrate that it would qualify for 18% because of some mitigating or some special circumstances, I'm not sure that I would necessarily have a problem with that. Again, we've got this fund and my understanding of how this fund would go is that its the best deal possible, close the gap as much as possible. The Gap Fund fills that and you just spend down that fund and at some point the fund's gone and we're done dealing with projects that need that kind for filling at least for that budget year. **Mr. Brajkovic** said that's a good point.

Chairman McKiernan said I mean I think we could definitely consider projects that have special circumstances that would warrant greater than 15% of total project cost that's coming from this grant fund. **Commissioner Walker** said they're all going to have special circumstances in the area that we're talking about. My recommendation is, we've got one in the pike right now. It's either going to be voted up or down. The whole idea of gap financing is what each commissioner thinks gap financing should go to. I don't believe everybody agrees that it should go to just any project that has a gap. Make it 20%. That's my recommendation. Let the full Commission hear it and tailor it back if that's what they want to do. That will cover this project which is the focal point at this moment. Maybe 20% is too much but in agreement, in a sense, this is a pilot project. I mean we've got lots of fast food restaurants in this community so we know what a fast food restaurant is and how it works and so forth. Bottom line is this will cover this project. If that's too much, we'll learn from experience in this project and we'll cut it back before the next one comes.

Another thing that this needs to do is, I think gap financing should be the last resort. Maybe you already said it in the way you meant it. I don't want that out there on the table from the very beginning because every project is going to have a gap. That's how business people work. I don't care who they are, where they locate. We've been nicked and dined to death everywhere we have tried to do new business in this community over the thirty years I've been here. That's how business operates. It's fine. It's part of the game. Keep as much for yourself as you can. My only concern is I don't want this thing thrown out every time there's a project in

the urban core as a tool because it should not be a tool except for something exceptional or extraordinary.

Reading this book which has nothing to do with any of this other than a very small part of it about the importance of the interaction of commerce in a concentrated area and how you measure that and the context in which it was done. A business here, a business here and a business here not nearly as important as putting those three businesses right in the same area for the surrounding area. There is that factor in this. On the other side, I guess, it comes down to is gap funding appropriate for fast food restaurants. I guess that's what everybody is going to end up deciding in the end anyway.

Commissioner Walker asked do you need a motion to amend to add the 20% or a motion to approve it with 20% in it? **Chairman McKiernan** said this didn't come to us with any action requested other than feedback. So we've gotten out two things that are working in parallel with each other. We've got our feedback on this draft policy with a policy to be voted on to come back. The second thing working in parallel is the development agreement for this particular project to come back to us and they're going to have to work in parallel because we don't want to necessarily have one put off the other or vice versa.

Commissioner Walker said take that word matching out because that way Commissioner Murguia's correct. Take matching out and you still get the benefit of leverage and the leverage is more inflexed then because sometimes you're not going leverage as much with \$100,000 as you will other times depending on a whole array of factors that I don't want to talk about to the next hour. Take the word matching out and that makes sense. It gives us flexibility. **Mr. Brajkovic** said okay.

Chairman McKiernan asked so, Mr. Bach, do we have direction in terms of where we're going with these two parallel tasks. **Mr. Bach** said yes, I think we have the direction we need on this and we're trying to get the development agreement done on the other deal and maybe a couple of options with that that'll come back for your consideration. **Chairman McKiernan** asked is there any other discussion around this point. In that case, that is how we will move forward.

Action: *For consideration and recommendation.*

Adjourn

Chairman McKiernan adjourned the meeting at 8:10 p.m.

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