

Chapter 100 Industrial Development Plan

“McKesson Medical-Surgical Inc.”

This Chapter 100 Industrial Development Plan (the “Plan”) provides information required by State Statute 100.050 and Committee Substitute for Resolution No. 041033. The Plan supports the issuance of Chapter 100 bonds, 50% personal property tax abatement, and sales tax exemption on the purchase of equipment for McKesson Medical Surgical Inc. (“Company”), for the purchase of equipment that will be installed at a new construction distribution facility. Ordinance approval of the Chapter 100 Plan also authorizes the City to issue Taxable Industrial Revenue Bonds in an amount not to exceed \$50,000,000.

A. Plan requirements per Missouri State Statute 100.050

1) Project Description

Company is a medical distributor offering medical supplies, healthcare solutions, distribution services and clinical resources to regional hospitals, doctor offices, and other users. Company is expanding and enhancing operations in Kansas City by relocating a distribution center to the Hunt Midwest Business Center from a location in Jackson County. The Preliminary address will be 9000 NE 48th Street, Suite 100-400, Kansas City, MO 64161.

The project will be a new ~306,000 sq ft building for Company to expand their distribution business. The project will create 35 new jobs with an average salary of approximately \$43,000 and retain 194 jobs with an average salary of approximately \$43,000. Total investment will be around \$108 million with around \$48 million invested in machinery and equipment and the remaining \$60 million invested in construction and tenant finishes. Company is requesting 50% personal property tax abatement for 10 years, which is the standard length and term of abatement with the City’s existing Chapter 100 Policy. Company is also requesting exemption of sales tax on the purchase of equipment.

The total cost of the project is expected to be approximately \$108 million. The City has offered a maximum \$50 million in a Chapter 100 bond issuance to fund the acquisition and installation of machinery and equipment at the facility. The personal property purchased with bond proceeds will be owned by the City and leased back to Company. The bonds will be repaid solely by Company under the terms of the lease agreement, and do not reflect on the City’s credit rating.

The project will benefit from real property tax exemption and sales tax exemption on construction materials from Port KC. The Real Property Tax Abatement from Port KC follows the schedule: Years 1-7 95%, Years 8-9 90%, Years 10-11 80%, Years 12-13 69%, Years 14-15 48%. The City’s personal property tax exemption will be for a period of ten years at 50% for all personal property purchased within the first three years after approval of this Plan. Staff estimates total personal property tax abatement to be \$4,039,300 during the tax exemption period. Staff estimates the total sales tax exemption on equipment to be \$4,010,256. This is an estimate and not a guarantee.

The Company will be subject to operational/performance standards commensurate with the anticipated investment for this project which will be incorporated into the Lease Agreement.

2) Cost Estimate

COST CATEGORIES	TOTAL AMOUNT	COSTS FINANCED WITH BOND PROCEEDS
Acquisition	\$0 (Lease)	0
Site work	Included in Construction/Renovation	0
Construction/Renovation	\$42,000,000	0
Tenant Improvements	\$18,000,000	0
Furniture and Fixtures	Included in Construction/Renovation	0
Machinery and Equipment	\$48,000,000	\$48,000,000
Other (including interest)	0	0
TOTAL PROJECT COSTS	\$108,000,000	\$48,000,000

See Attachment 1 for the annualized cost breakdown.

3) Sources of Funds

The sources of funds capture the scope of the whole project, including Real and Personal property. Company will contribute approximately \$60,000,000 in equity. Approximately \$48,000,000 will be sourced from bond proceeds as a result of this Plan. The cost of the bond process will be paid by Company in cash. Cash may come in equity or loan.

4) Lease/Disposal Terms

Company will purchase and install personal property on the project site in accordance with the lease agreement. The City shall be the sole, titular owner of the personal property during the lease term. While the personal property is owned by the City and is subject to the lease, Company's leasehold interest will be exempt from all personal property taxes. Company will make PILOT payments equal to 50% of the personal property taxes as described in Section 1. Each item of personal property shall be conveyed by the City to Company on the 10th anniversary of Company's first conveyance to the City (or sooner at Company's option). Company will comply with City Code 74:12.

5) Affected Taxing Jurisdictions

The following taxing jurisdictions will be affected by this project: Kansas City, Clay County, North Kansas City School District, Development Disabilities Fund, State of Missouri, Blind Pension Fund, Mental Health Fund, Mid-Continent Public Library, and Metropolitan Community College.

6) a) Equalized Assessed Valuation of Real Property/Personal Property in Project – Before Development

Real Property: N/A

Personal Property: \$0

b) Equalized Assessed Valuation of Personal Property in Project – After Development

Personal Property			
Year	Appraised Value	Equalized Assessed Value	Depreciation Schedule*
		33%	
1	\$45,600,000	\$15,048,000	95%
2	\$41,040,000	\$13,543,200	85.50%
3	\$36,936,000	\$12,188,880	76.95%
4	\$33,240,000	\$10,969,200	69.25%
5	\$29,913,600	\$9,871,488	62.32%
6	\$26,923,200	\$8,884,656	56.09%
7	\$24,091,200	\$7,950,096	50.19%
8	\$21,259,200	\$7,015,536	44.29%
9	\$18,422,400	\$6,079,392	38.38%
10	\$15,590,400	\$5,144,832	32.48%

*Class Life of equipment being purchased is 15 years. Depreciation schedule applied from RSMo 137.122(3)

7) 10 Year Cost/Benefit Analysis (Average Costs)

Taxing Authority	Public Benefits:	Public Costs & Incentives:	Net Benefits (Costs):
City of Kansas City	7,501,389	3,604,980	3,896,409
Clay County	2,106,546	654,478	1,452,068
Mental Health Fund	6,851,107	6,854,185	(3,078)
DDRB	87,978	88,151	(173)
Blind Pension Fund	27,136	24,946	2,190
MCPL	260,028	263,197	(3,168)
Kansas City Zoo District	73,609	5,807	67,801
North Kansas City School District	4,596,232	4,669,818	(73,585)
Metro Community Colleges	176,968	181,640	(4,673)
State of Missouri	8,351,732	1,853,548	6,498,184

See Attachment 2 for cost/benefit analysis.

8) Anticipated PILOTs and Disposition of Payments

Year	Assessed Value	Full PP Taxes	PP Tax Savings	PILOT Payments
1	\$15,048,000	\$1,257,215.26	\$628,607.63	\$628,607.63
2	\$13,543,200	\$1,131,493.73	\$565,746.87	\$565,746.87

3	\$12,188,880	\$1,018,344.36	\$509,172.18	\$509,172.18
4	\$10,969,200	\$916,443.75	\$458,221.88	\$458,221.88
5	\$9,871,488	\$824,733.21	\$412,366.60	\$412,366.60
6	\$8,884,656	\$742,286.35	\$371,143.18	\$371,143.18
7	\$7,950,096	\$664,206.67	\$332,103.34	\$332,103.34
8	\$7,015,536	\$586,126.99	\$293,063.49	\$293,063.49
9	\$6,079,392	\$507,914.96	\$253,957.48	\$253,957.48
10	\$5,144,832	\$429,835.28	\$214,917.64	\$214,917.64
TOTAL	\$96,695,280	\$8,078,600.56	\$4,039,300.28	\$4,039,300.28

B. Community Impact Statement Requirements (Resolution No. 041033)

1) Project Integration with Area Plans

Company will comply with the Riverfront Industrial Area Plan.

2) Cost/Benefit of the Project

Taxing Authority	Public Benefits:	Public Costs & Incentives:	Net Benefits (Costs):
City of Kansas City	7,501,389	3,604,980	3,896,409
Clay County	2,106,546	654,478	1,452,068
Mental Health Fund	6,851,107	6,854,185	(3,078)
DDRB	87,978	88,151	(173)
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Metro Community Colleges	176,968	181,640	(4,673)
State of Missouri	8,351,732	1,853,548	6,498,184

See Attachment 2 for complete cost/benefit analysis.

3) Project Compliance with City Affirmative Action Policies

The Company will comply, and will cause its contractors to comply, with all City Code requirements, including, but not limited to, the Affirmative Action, MBE/WBE and Construction Workforce, requirements outlined in Code Chapter 3, Art. IV, as well as the non-discrimination requirements in in Code Chapter 38, Art. III for the Project.

4) Other Evaluation Criteria

a) Number of New Jobs/Retained Jobs

The proposed project will result in the creation of 35 jobs, and the retention of 194 jobs.

b) Total Amount of Projected Investment

Total investment is approximately \$108 million. This includes the building construction, personal property, tenant finish, labor, and other expenses.

c) Average Wage

The jobs created by the project will have a blended average wage of approximately \$43,000.

d) Capability to Attract sales from Outside KCMO

No direct sales will be generated at this location. This project is a distribution facility that will serve customers in Illinois, Iowa, Kansas, and Missouri.

e) Financial Strength of the Business

Company is a reputable medical supplier with established business and markets.

f) Additional Residents to the Area

35 new jobs are unlikely to attract a significant number of new residents.

g) Potential for Future Expansion

Company anticipates 35 new employees in year one. Additional expansion may happen in the future.

h) Existing versus New Business to the City

Company is relocating from Jackson County to Clay County.

i) General Environmental Impact on the Area

Company is not aware of any detrimental environmental impact that will result from the proposed project.

j) Use of Federal and State Incentives for the Project

Personal property exemption is the only incentive being offered to the company via Chapter 100. In a separate transaction, the proposed new construction warehouse received Port KC real property abatement and sales tax exemption on construction materials. The real property tax exemption was secured by Hunt Midwest Business Center, not Company.

k) Evidence of the Need for Chapter 100 Bonds

The availability of Chapter 100 personal property abatement was a deciding factor in the company's decision to stay in Kansas City, Missouri. Company was comparing incentives between locations in Missouri, Kansas, and Georgia.

l) Evidence of Support by Affected Taxing Jurisdictions

All taxing jurisdictions will be notified in accordance with Missouri State Statute 100.059. In addition, EDC staff and the applicant will respond to questions regarding the project with the taxing jurisdictions in advance of the City Council hearing. The project will not be seeking levels of exemption beyond 10 years at 50%.

m) Estimated Impact to Proximate Businesses/Competition in KCMO

Hunt Midwest Business Center is a commercial business center in Clay County that was developed for the purpose of attracting commercial businesses. In terms of competition, there are no known negative impacts aside from standard competition for labor. Although, most jobs at the new location will be retained jobs. Only 35 new jobs are expected.

ATTACHMENT 1:

**ANNUALIZED
ESTIMATED COST BREAKDOWN**

2025	\$48,000,000

ATTACHMENT 2:

COST/BENEFIT ANALYSIS

Cost-Benefit Analysis

Cost-Benefit Summary - 10-year analysis

Per-capita impacts calculated at 100% of total average revenues and costs.

Benefits	City of Kansas City	Clay County	Mental Health Fund	EITAS	Blind Pension Fund	MCPL	Kansas City Zoo District	North Kansas City School District	Metro Community Colleges	State of Missouri
Sales Taxes:	\$ 2,909,865	\$ 1,165,201	--	--	--	--	\$ 69,467	--	--	\$ 4,375,978
Property Taxes:	\$ 1,352,433	\$ 855,044	\$ 6,850,898	\$ 82,179	\$ 23,982	\$ 259,007	\$ --	\$ 4,552,210	\$ 162,119	\$ --
Income Taxes:	\$ 528,475	--	--	--	--	--	--	--	--	\$ 2,587,923
Other Revenues:	\$ 2,711,115	\$ 86,301	\$ 209	\$ 5,799	\$ 3,154	\$ 1,021	\$ 4,142	\$ 44,022	\$ 14,848	\$ 1,387,830
Total Revenues:	\$ 7,501,389	\$ 2,106,546	\$ 6,851,107	\$ 87,978	\$ 27,136	\$ 260,028	\$ 73,609	\$ 4,596,232	\$ 176,968	\$ 8,351,732
Costs										
Costs for Services:	\$ 2,091,940	\$ 166,042	\$ 3,287	\$ 5,972	\$ 964	\$ 4,190	\$ 5,807	\$ 117,608	\$ 19,521	\$ 1,853,548
Incentives:	\$ 1,513,041	\$ 488,436	\$ 6,850,898	\$ 82,179	\$ 23,982	\$ 259,007	\$ --	\$ 4,552,210	\$ 162,119	\$ --
Total Costs:	\$ 3,604,980	\$ 654,478	\$ 6,854,185	\$ 88,151	\$ 24,946	\$ 263,197	\$ 5,807	\$ 4,669,818	\$ 181,640	\$ 1,853,548
Net Cost/Benefit										
Public Benefits:	\$ 7,501,389	\$ 2,106,546	\$ 6,851,107	\$ 87,978	\$ 27,136	\$ 260,028	\$ 73,609	\$ 4,596,232	\$ 176,968	\$ 8,351,732
Public Costs & Incentives:	\$ 3,604,980	\$ 654,478	\$ 6,854,185	\$ 88,151	\$ 24,946	\$ 263,197	\$ 5,807	\$ 4,669,818	\$ 181,640	\$ 1,853,548
Net Benefits (Costs):	\$ 3,896,409	\$ 1,452,068	\$ (3,078)	\$ (173)	\$ 2,190	\$ (3,168)	\$ 67,801	\$ (73,585)	\$ (4,673)	\$ 6,498,184
Present Value of Public Benefits:	\$ 5,602,053	\$ 1,637,380	\$ 4,934,922	\$ 63,260	\$ 19,483	\$ 187,280	\$ 47,072	\$ 3,310,150	\$ 127,278	\$ 6,189,598
Present Value of Incentives:	\$ 1,086,675	\$ 351,820	\$ 4,934,775	\$ 59,189	\$ 17,272	\$ 186,561	\$ --	\$ 3,279,003	\$ 116,772	\$ --

ATTACHMENT 3:

PILOT SCHEDULE

<u>Year</u>	<u>PILOT Payments</u>
1	\$628,607.63
2	\$565,746.87
3	\$509,172.18
4	\$458,221.88
5	\$412,366.60
6	\$371,143.18
7	\$332,103.34
8	\$293,063.49
9	\$253,957.48
10	\$214,917.64
TOTAL	\$4,039,300.28

ATTACHMENT 4:

AdvanceKC Analysis (Ordinance No. 140031)

A. Jobs-Based Project Priorities:

Compete for Quality Jobs

1) Retained jobs are as valuable as new jobs

New Jobs = 35 # Retained Jobs = 194

2) Focus on AdvanceKC Target Sectors

This operation aligns with AdvanceKC emphasized target sectors focus.

3) Focus jobs in growth sectors

35 new jobs will be created in year one that are within Advance KC emphasized target sectors. Supply Chain Management.

4) Focus on companies that provide competitive wages for their industry

At approximately \$43,000 a year, Company's wages are competitive compared to the industry average.

5) Promote comprehensive opportunities for education, skill development and lifelong learning to preserve and enhance Kansas City's workforce

Company will be creating employment opportunities near neighborhoods.

B. Site-Based Project Priorities:

1) Provide incentives for real estate projects to encourage economic, social, and environmental sustainability

This project was a jobs-based project.

2) Maintain and develop quality and workforce housing opportunities consistent with market needs of existing and prospective residents

N/A

3) Support projects that benefit surrounding neighborhoods

Company's employment opportunities are consistent with the needs of surrounding neighborhoods.

4) Support projects that are consistent with City Area Plans and the City's Consolidated Plan

This project is consistent with the City's Area Plan of record for the area.

5) Support early risk takers, especially in City Council priority development areas

Hunt Midwest Business Center is an established development area for commercial businesses.

6) Target areas of historic underinvestment

a. Focus on areas of long term declining property values

N/A

b. Encourage geographic equity of development patterns – This facility is located within Council District 2.

7) Support projects that increase density in the urban core with a greater emphasis within the streetcar corridors

This project does not reside in the urban core or near a streetcar corridor.

C. Fiscal Responsibility Policies:

1) **Promote good stewardship of the City’s resources**

This project will help to expand the city’s current tax base and create jobs. This project is anticipated to generate approximately \$4,010,256 in net new public revenues to the City over a ten year period. Based upon a 50% exemption over 10 years, the total amount of exemption for this project from all taxing jurisdictions is estimated at Approximately \$4,010,256. The overall financial impact is positive for the city.

2) **Provide incentives for real estate projects only as necessary to fill the financial gap** Not applicable.

Jobs-based projects do not address gap analysis. Gap analysis is directed at real estate returns.

3) **Support pay-as-you-go projects and discourage the use of City debt**

Ch. 100 bonds are conduit debt and do not involve any guarantees or obligations of the City.

4) **Super TIF should be used with great discretion and requires the support of a super majority (two-thirds) of the City Council, except when needed to access incentives from other public jurisdictions or to promote quality residential development**

N/A

5) **Encourage retail projects that result in capture of net new consumer spending versus substitution of spending from other markets within KCMO**

This project does not support general retail or consumer spending.

6) **Limit the use of incentives to reasonable and appropriate project expenses which have a public benefit and are essential to the successful completion of projects**

7) Chapter 100 personal property tax exemption at 10 years and 50% was the only incentive offered by EDC staff.

8) **All projects should meet the “but for” test, either financially or competitively or should address the City Council’s strategic priorities.**

Company has indicated that the Chapter 100 program is essential to bridging the gap between Kansas City, Missouri and other communities which do not have a personal property tax. This is a competitive project.

9) **Promote a positive fiscal impact on taxing jurisdictions in the use of incentives**

In the first 10 years, the affected taxing jurisdictions will receive approximately \$4,010,256 of new revenues as a result of this project.

10) **Direct earnings tax incentives are prohibited**

No earnings taxes are used as an incentive in this project.

11) **The City’s incentives should be used to maximize private investment**

The exemption for this project will only be used for personal property.

12) **Business types ineligible for incentives include: the sale of package liquor* or firearms*, pawn shops, short term loan establishments, gambling, blood/plasma centers, “adult-oriented” businesses, cigarette*/smoke shops and hookah lounges, scrap metal operations, tattoo/piercing parlors, and used car lots**

*** These business types are only ineligible when the indicated (*) product comprises more than 30% of retail sales or the sales display area (Example: A liquor store would be ineligible but a grocery store that sells liquor would be eligible)**

Distribution Facilities are an eligible business type for the use of this incentive.