CITY OF COFFEYVILLE
BOARD OF COMMISSIONERS AGENDA ITEM

MEETING DATE	02/28/2015	
RESOLUTION OR ORDINANCE NUMBER	S-15-02	
AGENDA TITLE	4 State Maintenance Tax Incentive/Abatement	
REQUESTING DEPARTMENT	Economic Development	
PRESENTER	Trisha Purdon – Assistant to the City Manager	
FISCAL INFORMATION	Cost as recommended:	N/A
	Budget Line Item:	N/A
	Balance Available	N/A
	New Appropriation Required:	[ ] Yes [X] No
PURPOSE	To provide an annual review of the Four State Ad Valorem Property Tax Exemption and determine the rate for level of exemption for 2015.	

BACKGROUND	The original exemption request was approved by Ordinance S-09-05, effective January 1, 2009, through December 31, 2019. The exemption was for a 10,000 square foot addition to the existing Four State warehouse located at 503 N. Cline. In 2008, the City Finance Director and City Manager were informed that Four State Maintenance and Supply were considering building another building in a metropolitan community, and not in Coffeyville. This incentive was offered to the company to help them expand their current facility and create the new jobs in Coffeyville rather than in another city. The company applied for the tax incentive/abatement under the Property Classification of: storage of goods or commodities that are sold or traded in interstate commerce. This was a unique application due to this property classification that has not been used frequently in Montgomery County. This is Year 6 of the current tax exemption for Four State. In addition to the on-going exemption, Four State previously had an exemption for real and personal property for the 10-year period January 1, 2001, through December 31, 2010. The City is required to provide renewal documentation of all open tax exemptions to the County Appraiser on an annual basis by March 1. According to the City's Policy and Procedures on Ad Valorem Property Tax Exemptions and Incentives for Economic Development, *"The extent and term of any tax exemption incentive granted shall be subject to annual review by the Governing Body to ensure that the ownership and use of the property and any other qualifying criteria of the business for the tax exemption incentive continue to exist."* Our current policy for tax exemptions has been in place since June, 1995. Annual reviews have been conducted for the last five years of the Four State tax exemption. The forms that were completed in previous years did not include all of the projections that were provided in the initial application however. In the initial application, they included Job projections, wage projections, annual sales projections, and local purchase and sales projections. In years 2010-2012, the only data that was provided to the City Commission to review was on Jobs, and in 2013, jobs and wage data was

	provided. Based on information provided by the Kansas Department of Commerce, we should be analyzing all the data in the original application to be certain that Four State Maintenance Supply continues to meet all the term and conditions established as a condition of granting the exemption. This would include the 4 projections (jobs, wages, annual sales, and local purchases) provided in the original application which was approved by the City Commission and the Kansas Board of Tax Appeals in 2009-10. Lastly, In each of the last five years, a 100% tax exemption has been granted to Four State, abating only the incremental taxes that would have been generated by the expansion. Four State continues to pay real and personal property taxes on the buildings and equipment that existed before the expansion.

ANALYSIS	Based on the information and feedback received from the Kansas Department of Commerce, staff requested additional information from Four State Maintenance Supply to ensure that all annual reports are comprehensive and meet the projections provided in the initial application. After meeting with the company, staff has provided additional information on how staff should count employees at the company, updated wage information (with historical figures), Annual sales projections versus actual sales from 2008-2015, and Local purchases which would have generated local sales tax revenue for the City. JOBS (**Exhibit A)**: Four State annually provides their Quarterly Wage Reports and some supplementary payroll information for the prior year with their renewal application, which enables the City to analyze a number of criteria. Job creation is one such criteria taken into account when an exemption is initially considered. Often, the rationale for abating such property taxes is that job creation and/or increased wage rates stimulate the local economy and are thus worth the investment of tax dollars. Over the past 5 years, Four State Maintenance has stated that their job counts were considerably higher that what staff has presented each year, due to a miss-categorization of how these employees are counted. Due to feedback from the State of Kansas Department of Commerce, The Kansas Board of Tax Appeals, and the IRS, we have found that only those contract employees that the company can provide 1099 forms for, that served in a capacity that was not a temporary position, but a long term year round position could be counted. In addition, due to the unique nature of Four State Maintenance Supply's sales staff, Jobs are counted as positions that were created for a specific sales territory vs. a standard office position. Based upon this information, staff evaluated the employment numbers since 2008 that was provided each year and recounted the jobs that were created by Four State Maintenance Supply. A comparison of the recounted numbers versus the original method is included in Exhibit "A" Jobs.

	According to the data provided and verified via Kansas Quarterly wage reports and payroll reports, 4State had 43 employees in 2008, versus the 30 that staff listed in 2008. In order to count employees fairly, this was the new base that we can compare the current job totals to. Staff reviewed the current wage reports and has determined that there are 33 employees that worked for 4State Maintenance Supply in 2014. This does not include 1 contract employee, as there was no way to verify this employee's service from 2008-2014, as no 1099 forms were provided to staff. This would put the company at a loss of 13 jobs from 2008-2014, versus the previous method of job count which put the company at only one lost job. WAGES **(Exhibit B)**: Exhibit "B" Show the salary for new employees and FTE employees. The FTE number excludes new employees and part-time employees to show an accurate salary number. Staff went back through wage data provided to show a historical view of the starting wage of employees at Four State. One important point in this table is that these hires would not necessarily be in the same category each year, thus the wide range of average salaries each year. However, on average the starting salary of a Four State Maintenance Supply employee does exceed the median wage of Coffeyville Employees ($31,000). ANNUAL SALES **(Exhibit C)**: Although it has not been factored in to the annual renewal in the past, the initial application also required that the company provide growth estimates for their annual sales due to the expansion, and their projected annual local purchases that are subject to local sales tax. Due to feedback from the company, this information has been gathered for the 2014 review, and historical data has also been provided by the company for the City Commission to evaluate as part of the annual renewal application. This is shown in Exhibit "C" Sales. As their initial year of 2008 was very successful, they do not meet their growth rate

	that they estimated in 2008. However, they did steadily grow over the abatement period. LOCAL PURCHASES (subject to local sales tax) **(Exhibit C)**: Lastly, their estimates for local sales taxes have been greatly exceeded each year. This was also one of the items listed in their original application that the Commission could consider as part of their renewal decision. In 2014, they estimated that their local purchases would be $48,000 and their actual purchases were $227,526. This created $6,826 in sales tax revenue for the City. Thus, if you factor in the cost of the annual exemption of $9,539.73, the annual purchases alone make up almost 75% of the cost of the exemption. One of the most significant developments is the increase in local employees. Last year, the Commission encouraged Four State to consider residency when adding new employees and encouraging those employees to live in Coffeyville when they are hired. As of 02/06/2015, 76% (22 out of 29 Employees) of all employees live in Coffeyville. Two of the remaining 7 employees live in Montgomery County. They have hired 6 new employees this year, and are expecting to hire more over the next year. Due to the expansion of services into the hard wood floor refinishing business, they anticipate that they will need to hire additional employees over the next few years. In addition, they have added a second shift at their facility to accommodate the increased business that they are experiencing. It is difficult to gauge the extent to which economic factors beyond their control have impacted their ability to grow as a company and thus provide additional employment as originally projected. As well as the fact that the addition of 11 jobs during the abatement period does not appear to require that such jobs be created in any particular year or on a predefined schedule. In addition, according to the Kansas Statute governing these tax abatements/

	incentives, the Company is only obligated to create one new job in order to satisfy the Kansas Board of Tax Appeals approval. Presuming the linear addition of employees over the abatement period, Four state would have added one new employee, which they did, in addition to hiring one contracted employee. That said, one important factor to consider in this application is the average hourly wage for all full time employees and the average starting wage for new employees. This rate is higher than the average starting and median wage of businesses in Coffeyville, and is higher than their initial projections. **Exhibit D** Further identifies the tax benefit Four State has received for the exemption. To date, total taxes exempted for the new addition are $52,948.39. Our tax exemption policy is written such that the initial three years of an exemption (considered the "ramp-up" period) are abated at 100%. The remaining seven years shall be exempted at $1,000 per job, but may be adjusted by the Governing Body as a result of the annual review. Historically, not just for Four State Maintenance Supply but for all exemptions granted by the City, the exempted rate has remained at 100% during the term of the abatement.
PUBLIC INFORMATION PROCESS	Because tax exemption renewals require an ordinance, two readings are required and will be conducted at Commission meetings on 2/10/15 and 2/24/15, respectively, as well as publication in the Coffeyville Journal upon final approval.
BOARD OR COMMISSION RECOMMENDATION	N/A

STAFF RECOMMENDATION	Staff has determined the ownership and use of the exempted property is consistent with the original tax exemption application. While employment levels are below projected levels in the application, hourly wages and annual salary wages are above the projections in their application. In addition, their local purchases have far exceeded their projections, thus creating additional sales tax revenue for the City than was originally projected. Staff recommends that the Commission should expand their annual review to include employment levels, number of local hires, total compensation, increased local purchases vs. projections, and total annual sales in determining if the application should be approved and rate at which the tax exemption will be set.
REFERENCE DOCUMENTS ATTACHED	Exhibit A-D: Job Creation and Wage Analysis

ORDINANCE NO. S-15-02

AN ORDINANCE TO APPROVE AN ANNUAL RENEWAL OF THE TEN-YEAR PROPERTY TAX EXEMPTION-INCENTIVE (JANUARY 1, 2009 THROUGH DECEMBER 31, 2018) GRANTED BY ORDINANCE NO. S-09-05 ON CERTAIN IDENTIFIED REAL AND PERSONAL PROPERTY OF FOUR STATE MAINTENANCE SUPPLY, INC. FOR THE ONE-YEAR PERIOD BEGINNING JANUARY 1, 2015 THROUGH DECEMBER 31, 2015.

WHEREAS, the Board of Commissioners of the City of Coffeyville, Kansas has reviewed updated information on Four State Maintenance Supply, Inc. and determined the ownership, use of the property and other qualified criteria for the tax exemption-incentive of Four State Maintenance Supply, Inc. continues to exist and is consistent with their original property tax exemption-incentive applications.

NOW, THEREFORE, BE IT ORDAINED, by the Board of Commissioners of the City of Coffeyville, Kansas that pursuant to the provisions of the City's "Statement of Policy and Procedures on Ad Valorem Property Tax Exemptions and Incentives for Economic Development" (Resolution No. R-95-02) the ten-year property tax exemption-incentive (January 1, 2009 through December 31, 2018) granted by Ordinance No. S-09-05 on certain identified real and personal property of Four State Maintenance Supply, Inc. is approved for an annual renewal at the rate of _____% for the one-year period beginning January 1, 2015 through December 31, 2015.

PASSED BY THE BOARD OF COMMISSIONERS OF THE CITY OF COFFEYVILLE THIS 24th DAY OF FEBRUARY 2015.

_____
James Falkner, Mayor

ATTEST:

_____
Cindy Price, City Clerk

APPROVED AS TO FORM AND LEGALITY:

_____
Paul Kritz, City Attorney

Exhibit "A" Jobs

Four State Maintenance Supply, Inc

Savings From Tax Exemption/ Incentive Benefit

Property Tax Exemption / Incentive- Ordinance No. S-09-05

6-Feb-15

Calendar Year	Base Employment 2008	New Job Creation Goal Per App	Cumulative Total Job Goal + Base	Previous Counting Method Average Employment	Performance To Date Plus or Minus (Original Count)	Updated Base	Goal Per Application	Cumulative Total Job Goal + Base	Actual Avg. Total Employment To Date 2009 Base - 45	Performance To Date Updated Method
2009	30	2	32	31	1	43	2	45	39	-6
2010	30	1	33	29	-1	43	1	46	37	-9
2011	30	1	34	28	-2	43	1	47	39	-8
2012	30	1	35	30	0	43	1	48	38	-10
2013	30	1	36	28	-2	43	1	49	38	-11
2014	30	1	37	29	-1	43	1	50	33	-17
2015	30	1	38			43	1	51		
2016	30	2	40			43	2	53		
2017	30	0	40			43	0	53		
2018	30	1	41			43	1	54		
Total	30	11	41	29					37	

Exhibit "B" Wages

Four State Maintenance Supply, Inc

Savings From Tax Exemption/ Incentive Benefit

Property Tax Exemption / Incentive- Ordinance No. S-09-05

6-Feb-15

Calendar Year	New Employee Salary Goal	New Job Creation Goal Per App	Average Salary New Employees	Average Hourly New Employees	Census Median Wage Comparison	Census Hourly Wage Comparison	Exceeds Salary goal by:
2009	$ 25,000	2	$ 36,878.00	$ 17.73	$ 31,537	15.16	$ 11,878
2010	$ 26,250	1	$ 36,400.00	$ 17.50	$ 31,537	15.16	$ 10,150
2011	$ 27,563	1	$ 40,331.00	$ 19.39	$ 31,537	15.16	$ 12,769
2012	$ 28,941	1	$ 46,176.00	$ 22.20	$ 31,537	15.16	$ 17,235
2013	$ 30,388	1	$ 21,029.00	$ 10.11	$ 31,537	15.16	$ (9,359)
2014	$ 31,907	1	$ 35,485.00	$ 17.06	$ 31,537	15.16	$ 3,578
2015	$ 33,502	1					
2016	$ 35,178	2					
2017	$ 36,936	0					
2018	$ 38,783	1					
Total		11	$ 36,049.83	$ 17.33		15	$ 46,251

Exhibit "C" Sales

Four State Maintenance Supply, Inc

Savings From Tax Exemption/ Incentive Benefit

Property Tax Exemption / Incentive- Ordinance No. S-09-05

6-Feb-15

Calendar Year	Sales (Base) 2008	Incremental Sales Increase Goal	Estimated Sales	Actual Sales	Difference Actual - Base Sales	Projected Local Sales	Actual LOCAL Sales	Difference Projected vs. Actual	Taxes Levied	Annual Exemption Total	Difference Tax Revenue vs. Exemption
2009	$ 7,400,000	$ 536,000	$ 7,936,000	$ 6,850,000	**$ (550,000)**	$ 32,000	$ 100,725	**$ 68,725**	**$ 2,518**	$ 5,619.32	$ (3,101.20)
2010	$ 7,400,000	$ 582,000	$ 7,982,000	$ 6,700,000	**$ (700,000)**	$ 35,000	$ 137,725	**$ 102,725**	**$ 3,443**	$ 9,535.56	$ (6,092.44)
2011	$ 7,400,000	$ 630,000	$ 8,030,000	$ 7,000,000	**$ (400,000)**	$ 38,000	$ 272,725	**$ 234,725**	**$ 8,182**	$ 9,313.18	$ (1,131.43)
2012	$ 7,400,000	$ 690,000	$ 8,090,000	$ 7,500,000	**$ 100,000**	$ 41,300	$ 223,126	**$ 181,826**	**$ 6,694**	$ 9,154.76	$ (2,460.99)
2013	$ 7,400,000	$ 750,000	$ 8,150,000	$ 7,200,000	**$ (200,000)**	$ 45,000	$ 133,015	**$ 88,015**	**$ 3,990**	$ 9,785.84	$ (5,795.39)
2014	$ 7,400,000	$ 813,000	$ 8,213,000	$ 7,100,000	**$ (300,000)**	$ 48,000	$ 227,526	**$ 179,526**	**$ 6,826**	$ 9,539.73	$ (2,713.96)
2015	$ 7,400,000	$ 860,000	$ 8,260,000			$ 52,000				$ -	$ -
2016	$ 7,400,000	$ 921,000	$ 8,321,000			$ 56,000				$ -	$ -
2017	$ 7,400,000	$ 980,000	$ 8,380,000			$ 58,000				$ -	$ -
2018	$ 7,400,000	$ 1,040,000	$ 8,440,000			$ 62,000				$ -	$ -
Total	$ 74,000,000	$ 7,802,000	$ 81,802,000	$ 42,350,000	**$ 467,300**	$ 182,474	$ 1,094,842	**$ 855,542**	**$ 31,653**	**$ 52,948**	**$ (21,295)**

Exhibit "D" Taxes

Four State Maintenance Supply, Inc

Savings From Tax Exemption/ Incentive Benefit
Property Tax Exemption / Incentive- Ordinance No. S-09-05
6-Feb-15

Calendar Year	Total Taxes That Would have Been Paid Without An Exemption	Actual Real Property Tax Paid	Actual Personal Property Tax Paid	Total Actual Real & Personal Property Tax Paid	Real & Personal Property Tax Savings From Exemption
2009	$ 24,819.14	$ 16,983.70	$ 2,216.12	$ 19,199.82	$ 5,619.32
2010	$ 25,020.96	$ 6,668.12	$ 8,817.28	$ 15,485.40	$ 9,535.56
2011	$ 26,435.18	$ 11,597.96	$ 5,524.04	$ 17,122.00	$ 9,313.18
2012	$ 25,717.48	$ 11,290.00	$ 5,272.72	$ 16,562.72	$ 9,154.76
2013	$ 29,965.52	$ 11,495.12	$ 8,684.56	$ 20,179.68	$ 9,785.84
2014	$ 23,266.01	$ 11,242.86	$ 2,483.42	$ 13,726.28	$ 9,539.73
2015				$ -	
2016				$ -	
2017				$ -	
2018				$ -	
Total	$ 155,224.29	$ 69,277.76	$ 32,998.14	$ 102,275.90	$ 52,948.39

Analysis of Jobs Created Versus Savings From Tax Exemptions

Combined Savings to Date from Tax Exemption	New Jobs Created to Date	Tax Exemption Per Job Created	Annual Savings Per Job Created
$ 52,948.39	-17	$ (3,114.61)	$ (1,038.20)