



Manhattan Economic Development Fund Process and Procedures

Adopted by the Manhattan City Commission

April 6, 2010

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Introduction

In early 2002, the Manhattan City Commission requested that the Manhattan Area Chamber of Commerce assemble an Economic Development Model Task Force to revamp the procedures and processes for considering requests for economic development funds. The Task Force submitted its report in August of 2002, and the report was formally adopted in September 2002; it now serves as the basis for the City's economic development funding policy.

The City Commission reaffirmed that its goals regarding economic development include:

- Create quality jobs with corresponding wages, benefits, and working conditions
- Diversify the property-tax base in Manhattan
- Decrease reliance on federal, state, and local government for jobs
- Maintain, stabilize, and build on the existing strengths of the community
- Invest public funds in ways that create self-sustaining economic development activities
- Use public funds to leverage private investment in economic development

In addition, the City Commission has adopted the following strategies for providing economic development funding assistance:

- **Loans/Grants:** Provide capital to existing and new businesses for projects related to new growth and expansion, which further the community's economic development goals.
- **Infrastructure:** Provide infrastructure improvements related to needs of businesses or to assist in making property useable and available for businesses or other designated economic development activities (i.e. affordable housing developments, etc.) Includes having pre-zoned land available.
- **Manhattan Holdings, LLC:** Provide seed and venture capital assistance through Manhattan Holdings, LLC, in conjunction with Kansas State University Foundation and the State of Kansas through the Kansas Technology Enterprise Corporation (KTEC).
- **Quality of Life Issues:** Enhance, promote, or provide for quality of life issues (i.e. affordable housing, recreation, healthcare, workforce, schools, etc.)
- **Job Training:** Promote, enhance, coordinate, or provide training to existing or new labor force in the area to assist in keeping that workforce in the area.
- **Business Relocation Expenses:** Assist with the costs of relocating a business operation to the area.
- **Buildings, Land, and Equipment:** Provide speculative buildings, land, and equipment to expanding or relocating companies already in the area or to new businesses that may be looking to locate in the area. Provide a streamlined process and assistance to businesses that are seeking to construct new facilities in the area.

Also, the City Commission has indicated its desire to include appropriate performance provisions in agreements, in order to protect the City's investment, in the event that the goals and objectives outlined in the applicant's business proposal are not met.

In August 2009, the City Commission requested that the Manhattan Area Chamber of Commerce reconvene an Economic Development Model Task Force for the purpose of reviewing the City's return on investment (ROI) model that is used to evaluate applications for economic development incentives and to recommend any adjustments. The Task Force submitted its report in March 2010, and the report was adopted by the City Commission on April 6, 2010. The changes recommended by the committee and approved by the Commission are incorporated herein.

Application Procedures

1. Applicant picks up a blank Application form from the Manhattan Area Chamber of Commerce or the City Manager's Office, or the Application is downloaded from the Internet. Applicant's business/project must be located in the Manhattan area.
2. An Application must include a Business/Project Plan. If an applicant needs local assistance in preparing a Plan, he/she may select or be referred to a Business Plan Technical consultant such as:
 - Manhattan Area Chamber of Commerce Economic Development Department
 - National Institute for Strategic Technology Acquisition and Commercialization
 - Small Business Development Center
 - Others of Applicant's choice

Each of the above listed Business Plan Technical Consultants may provide the following basic services without fee:

- A. Provide a format of a typical Business Plan
- B. Review what details are normally included in a Business Plan
- C. Make suggestions as to where to seek specific assistance on matters of financial projections, marketing analysis and strategy, manufacturing cost estimates, industry considerations, etc.
- D. Make suggestions for the Plan's Summary statement

Note: The Business Plan Technical Consultant is not expected to research or write the Business/Project Plan, which is the responsibility of the applicant. Any other services (technical or otherwise) provided by the Business Plan Technical Consultant will be negotiated separately by the Consultant and the Applicant.

3. If requesting Economic Development funding from the City, must also complete an Economic Development Funding Addendum.
4. When the Application, with attached Business/Project Plan and Economic Development Funding Addendum, if necessary, is completed, it must be submitted to the City Manager's Office.

5. City Manager's Office will facilitate the review of all applications before they are considered by the City Commission. In preparing such review, City's resources will be used, which may include the City's financial advisor(s), audit firm, or other professional assistance as deemed appropriate by the City Manager. This review will be summarized in writing and presented no later than the time the application is presented to the City Commission. This review will include but not be limited to:
 - A. Phone calls to listed references for banking, other financing, major suppliers, and major customers
 - B. Oral verification of major indebtedness with lender/mortgage holders
 - C. Review of financial documents for risk assessment of the following: business risk (industry specific), financial risk (company specific), and payback risk (length of payback to the community). Special consideration will be given to existing, local businesses that are seeking incentives to facilitate expansion.
 - D. cursory reconciliation of future year cash flow projections with current cash status, requested monies, etc.
 - E. Correlation with other requests from the City (subsidized land costs, property tax abatements, City industrial revenue bonds, utility improvements)
 - F. Estimated amount of public money expenditure per new job created
 - G. Identification and verification of applicant's wage structure
 - H. Adequacy of performance provisions
 - I. Any significant positive or negative aspects of the application
 - J. Estimated cost/benefit ratio (as prepared by City staff) if the applicant requests property tax abatement
 - K. Community Return on Investment (ROI) analysis
 - L. Community Fit Analysis

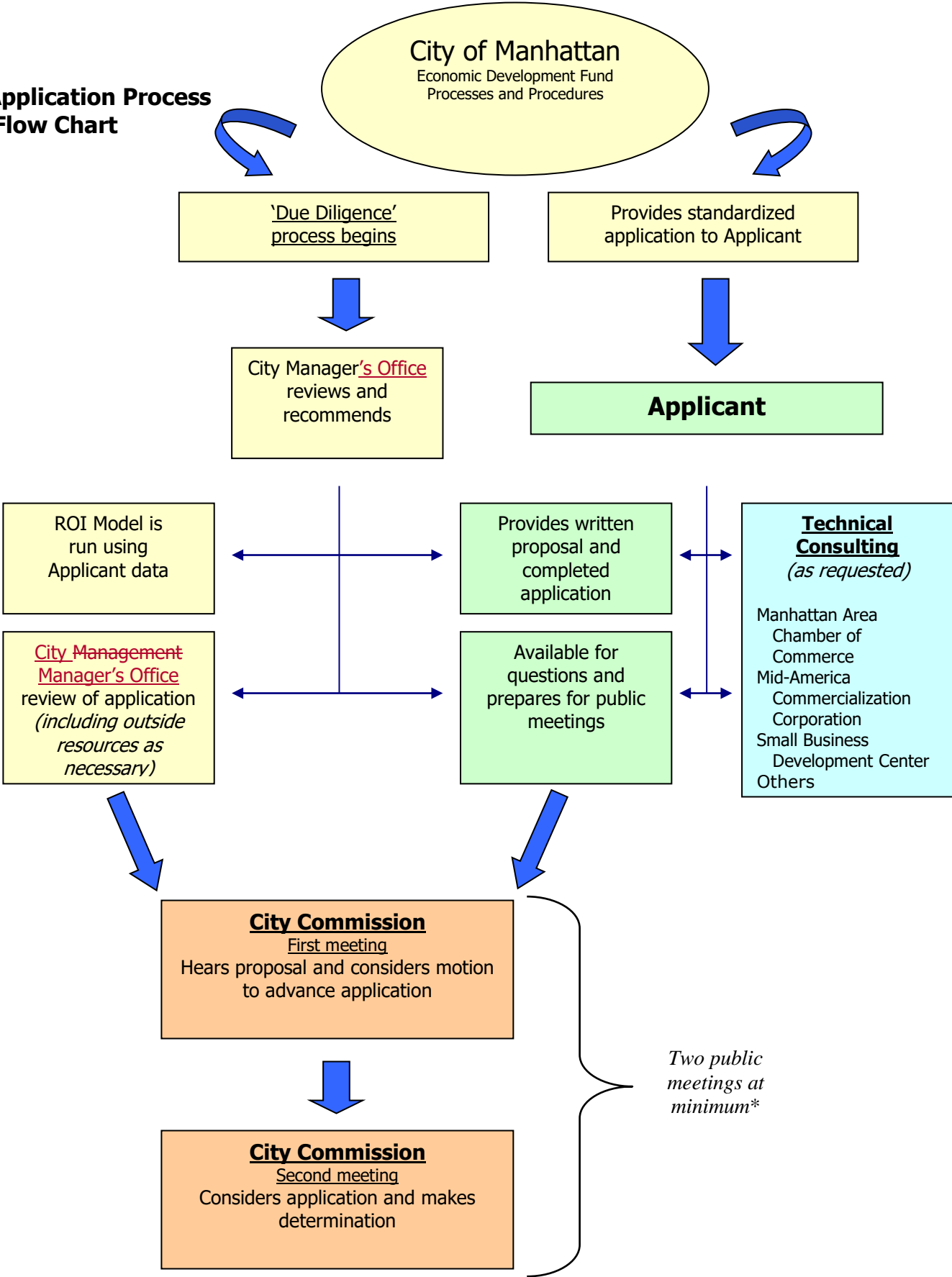
Results of this review will be shared with the applicant as soon as possible to ensure accuracy of the application before its official presentation to the City Commission. This review will not be construed as a "screening" procedure. Each applicant has the privilege to present its application intact and unchanged to the full City Commission.

5. The City Manager's Office will provide the information concerning the Application to the members of the City Commission for study. Copies will also be provided to professional staff.
6. The City Manager's Office will determine when the Application will be considered at a City Commission Meeting.
7. Upon review by City Staff and the City Manager, and with the consent of the Applicant, a review committee (City Manager or his/her designee; Director of Economic Development of the Manhattan Area Chamber of Commerce; and the full-time executive officer of the Manhattan Area Chamber of Commerce) will analyze the proposal and have an opportunity to recommend support if it so desires. If appropriate, a meeting may be held with the applicant to seek additional information or clarification concerning the Application.

8. The City Commission will consider the application during a minimum of two public meetings. At the first City Commission meeting, the Commission will hear the proposal and will consider a motion to determine whether or not to advance the application for formal consideration at a second City Commission Meeting. At the second City Commission meeting, the Commission may consider the application and make a determination. Additional City Commission meetings may be necessary. The City Commission retains the prerogative of rejecting any Application.
9. If the City Commission has approved an Application, it is then turned over to the City Manager's Office for implementation and administration.

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Application Process Flow Chart



* Additional City Commission meetings may be necessary

Funding Criteria Model

The City Commission will utilize the following quantitative and qualitative factors in analyzing and allocating funds to economic development projects.

- 1) **Base Wage Structure (35%)** – increasing the overall wages of workers is reflected in the weighting of this factor. (See Below)
- 2) **Community Return on Investment (ROI) (35%)** – the ROI analysis quantifies the overall economic benefit to the community in aggregate. (See Pages 10-14)
- 3) **Community Fit (20%)** – this factor is the most subjective and involves analyzing the company’s compatibility with the community based on a variety of factors including philanthropy, environmental impact, job training, etc. (See Pages 15-16)
- 4) **Benefits (10%)** – quality and quantity of employee benefits provided by the company is reflected in this factor.

Economic Development Funding Criteria Guidelines

1. Base Wage Structure (Full-time Jobs)*

January 1 – December 31, 2019 Percentage of jobs paying:	%	Points	Score (% x Points)
% of jobs paying \geq \$30.17/hr.		15	
% of jobs paying \geq \$26.36 < \$30.17/hr.		12	
% of jobs paying \geq \$22.31 < \$26.36/hr.		9	
% of jobs paying \geq \$18.40 < \$22.31/hr		6	
% of jobs paying \geq \$14.45 < \$18.40/hr		3	
% of jobs paying < \$14.45 /hr.		0	
Base Wage Structure Score (sum of above)			

*Wage Rates will be reassessed yearly using the Consumer Price Index for All Urban Consumers (CPI-U) for the Midwest census region for communities with populations between 50,000 and 1,500,000. Specifically, the City Manager or his designee will adjust the wage ranges according to the percent increase or decrease of the CPI for November (compared to the same month of the previous year). These adjustments will be rounded to the nearest nickel and will be updated January 1 of each year. Wages are also considered in aggregate in the Community ROI analysis. *Note: Under the original policy established in 2002, wage rates were established and adjusted based on the percent increase/decrease of the per capita income in Riley County. That statistic is no longer reported by the Bureau of Labor Statistics.*

2. Return on Community Investment (ROI)*

Criteria	Yes or No	Points	Score (If No, put in 0 Points)
ROI > 15%		15	
ROI 5% - 15%		10	
ROI < 5%		5	
Return on Investment Score (sum of above)			

* See Return on Community Investment Worksheet and Example on Pages 10-12.

3. Community Fit*

Criteria	Yes or No	Points	Score (If No, put in 0 Points)
Above Average		15	
Average		10	
Below Average		5	
Community Fit Score (sum of above)			

*See Community Fit Criteria on Pages 13-14. Applicant will be rated either above average, average, or below average in 12 different categories. According to those ratings, an overall community fit rating will be assigned.

4. Benefits

Percentage of Health Plan Benefit Paid by Employer	Points	Score 1	Percentage of Total Wage of the Average Employee Paid Toward All Benefits	Points	Score 2	Total Score (score 1 + score 2)
>= 50%	15		>= 25%	15		
>= 25% < 50%	10		>= 15% < 25%	10		
> 0% < 25%	5		>= 10% < 15%	5		
No Health Plan	0		< 10%	0		
Benefits Score (sum of above divided by 2)						

Applicant will be rated in two categories: (1) the total percentage of a health plan benefit paid by the employer (as opposed to employee contributions) and (2) the percentage of the total wage of the average employee paid toward all employee benefits.

5. Final Scoring – Maximum TOTAL Score is 15 Points

Criteria	Score	Weight	Weighted Score (Score x Weight)
Base Wage Structure Score		.35	
Return on Investment Score		.35	
Community Fit Score		.20	
Benefits Score		.10	
TOTAL Score (sum of Weighted Score)			

Community Return on Investment Model

The economic model outlined below is designed to estimate the economic impact of the City's investment in a revenue producing entity (profit or non-profit). Because the model requires projections into the future, the results, of course, cannot be guaranteed or assured. It is designed as a tool to allow decision-makers to make a cost-benefit evaluation of a proposed investment opportunity.

1. City's Investment in Company X
 - A. Estimate the cost of proposed investment by the City (identify by year)
 - Capital investment
 - Land
 - Buildings
 - Infrastructure
 - Other
 - Training Costs
 - Grants or Loans
 - Other Costs (e.g. related general health and welfare costs incurred by the City, tax abatements, etc.)
 - B. Sum total cost to the City, by year
2. Number of Jobs and Employment Income Created by Company X, by Year
 - A. Estimate total incremental salary and benefits; by year; by category
 - Executive
 - Management
 - Mid-level Management
 - Labor, by category
 - B. Estimate spatial dispersion of employees by county
 - C. Sum employment income by county, by year
3. Estimate Property Taxes Paid by Client and Employees, by Year
 - A. Estimate property taxes paid on client's facility, by year
 - Real Estate
 - Machinery and Equipment
 - Vehicles

- B. Estimate property taxes paid by employees
 - Real Estate
 - Personal Property
 - Auto Registration

Real Property – Generally, for example, one can assume that 25 employees will represent 13 households or living units. Utilize average home value in Manhattan.

- C. Sum total of property taxes paid, by year

4. Sales Tax Paid by Employees

- A. Estimate retail sales tax paid by employees

- Payroll (benefits excluded) times 43 percent = Retail sales
(Kansans spent an average of 43 percent of personal income on retail sales)
- City of Manhattan 1% times estimated retail purchases in City of Manhattan
- Riley County 1% times estimated retail purchases in Riley County
- Pott County 0% times retail sales

NOTE State sales tax is not to be included as a local tax benefit.

- B. Sum total of local retail sales tax to area under consideration

5. Construction Benefits

If significant construction is included in the package, the economic impact of construction benefits should be included. It should be assumed that 50% of overall construction costs are labor costs.

6. Multiplier Effect

- A. Sum Total Taxes:

- Property Tax
 - Real Property (corporate and personal)
 - Personal Property (corporate and personal)
 - Vehicle Registration

Total Property Tax \$ _____

- Sales Tax \$ _____
 - Total Tax (for example) \$ 10,000
- B. Local Multiplier effect estimated at **1.7** = \$17,000
- C. Total economic impact \$27,000

7. Estimated Impact

Option 1: Simple Direct – Assuming no significant changes in cash flow over time

Community Benefit ÷ Community Cost = Simple Return on Community Investment

Option 2: Complex – Time Oriented – If the start-up is extended over more than one year, or if significant change occurs after Year one, a cash flow model is recommended. Suggest a 10-year cash flow and an internal rate of return or formal cost benefit methodology.

For Example:

	<u>Investment</u>			
<u>Year</u>	<u>City</u>	<u>County</u>	<u>Property Taxes Paid</u>	<u>Retail Sales Taxes Paid</u>
1				
2				
2				
4				
5				
6				
7				
8				
9				
10				
TOTAL				

Community Fit Criteria

Applicant will be rated either above average, average, or below average in 12 different categories, using the checklist on page 14. According to those ratings, an overall community fit rating will be assigned.

- Provides fringe benefit package, including health insurance
- Environmentally sound
- History of community involvement/philanthropy
- Provides job training
- Demonstrates upward mobility/advancement for employees
- Business location within community
- History of success
- Fulfills a job shortage need by meeting a specific sector need in:
 - skills
 - services
 - materials
 - personnel resources
- Contributes to community development in areas of need
 - school enrollment
 - child care
 - housing
 - transportation
 - health care service
 - infrastructure
- Burden on community (infrastructure: schools, roads, water, sewer, social agencies, etc.)
- Leverage (outside investment vs. public economic development funds)
- Usage of other available resources (leverage)

COMMUNITY FIT EVALUATION CHECKLIST

Check Below Average, Average, or Above Average for each Criteria below.

CRITERIA	BELOW AVERAGE	AVERAGE	ABOVE AVERAGE	Comments
Provides fringe benefit package, including health insurance Below Average = None Above Average = Full				
Environmentally Sound Below Average = Environmental concerns Above Average = No Environmental concerns				
History of community involvement/philanthropy Below Average = No history or plans Above Average = Clear history and/or plans for involvement				
Provides Job Training Below Average = No history or plans Above Average = Active job training program				
Demonstrates upward mobility/advancement for employees Below Average = Not evident from history or plans Above Average = Very evident based upon history or plans				
Business location within community Below Average = Outside of Manhattan Above Average = Within City Limits/Tech or Industrial Park				
History of success Below Average = Start-up company Above Average = Proven business				
Fulfills a job shortage need (skills, services, materials, personnel resources) Below Average = Fulfills none Above Average = Fulfills at least 2				
Contributes to community development in areas of need (school enrollment, child care, housing, transportation, health care service, infrastructure) Below Average = Contributes to none Above Average = Contributes to at least 2				
Burden on community (Infrastructure i.e. water, sewer, roads) Below Average = Requires major infrastructure Above Average = Requires little to no new infrastructure				
Financial Leverage Below Average = Relies on public dollars 60% or more Above Average = 20% or less in public monies				
Other Leverage Below Average = No resources Above Average = Using other available resources				
OVERALL COMMUNITY FIT				

Performance Provisions

The Manhattan City Commission has directed that each company funded through the City be held accountable to certain performance provisions, based upon anticipated job creation and wage structure. Funding agreements will include the following standard performance measurements:

- Substantial attainment of annual job creation targets
- Substantial attainment of target wage structure
- Continuation of employee benefit package
- Substantial attainment of company's capital investment target

Depending upon the funding mechanism utilized and the application, additional performance criteria may be utilized.

The City will utilize a flexible array of funding mechanisms in order to provide economic development incentive funds. One or more funding mechanisms may be utilized, depending on the application and funding package. Funding mechanisms include, but are not necessarily limited to, the following:

- 1. Grants with Immediate Disbursement:** Funding provided upfront in the form of a grant. Grant agreement includes personal and/or corporate guarantees.
- 2. Low Or No Interest Loans With Corporate And Personal Guarantees And Little Or No Collateral:** Funding provided through a traditional loan agreement. Loan agreement provides for corporate and personal guarantees.
- 3. Grants With Disbursement Of Funds Over Time:** Provided in the form of a grant, but the grant is paid out over time. Grant disbursement is tied specifically to performance measurements. If performance is not attained, no grant disbursement is made.
- 4. Loan With Collateral:** Funding is provided through a traditional loan agreement. The City will require first right to capital assets of the company in order to process the loan. These capital assets will need to be enough to guarantee payment in at least the amount requested for the loan, in case the company does not meet the performance requirements.
- 5. Forgivable Loan With Collateral:** Funding is provided through a traditional loan agreement. The City will require first right to capital assets of the company in order to process the loan. The City will forgive the loan payments, or a portion of the loan payments, during those years that the company meets or exceeds performance targets. If the performance measures are not met for a given year, the annual loan payment is due to the City.

- 6. Tax Or Incentive Credits Through “Escrow” Arrangements:** City may pay certain obligations of the company on behalf of the company. Such obligations may include: land costs, special assessment payments, property tax payments, mortgage payments, etc. The City will make the annual payment, or a portion of the annual payment, on behalf of the company, provided that the company meets annual performance targets. In the event that targets are not met, the City will not make the payment, or a portion of the payment, on behalf of the company.
- 7. City Retain Ownership (Or Interest) In Property:** Economic development funds are utilized for constructing and owning (or retaining ownership interest in) property, either real property (land or buildings) or equipment, and the City would lease the property to the company. After so many years of meeting performance expectations, the City would deed over the property to the company.

Accountability

Annually, City Administration will be responsible to review the performance of each recipient of funds. The purpose of such review is to check for compliance with the performance agreement and to gather information regarding cumulative job creation, wage structure, and other such information necessary to gauge the performance of the company. The accountability review may include a site visit.

The fund recipient will be required to certify, to the City, compliance with the performance agreement. Such certification will be signed and returned to the City. The accountability period will last only as long as required to meet the performance obligations outlined in the performance agreement.

Utilizing the information gathered from the accountability reviews, City Administration will compile an annual report, showing statistics and other information relative to each recipient of funds, as well as the overall performance of the fund.