

Technical Addendum

Sunlite Science & Technologies, Inc.

Overview

Sunlite Science & Technology, Inc. is one of the first Bioscience and Technology Business Center (BTBC) companies anticipated to graduate from the business incubator to the next stage of business development. The company has had a presence in Lawrence since 1997, with their headquarters and office operations currently housed within the BTBC main facility (2029 Becker Drive). They also lease warehouse space at 345 N Iowa Street. In order to grow to the next business stage, they are now looking to consolidate office and warehouse functions within the community at a facility of their own.

To accommodate company expansion, Sunlite Science & Technology, Inc. is requesting a 10 year, 50% tax abatement on the warehouse property located at 4811 Quail Quest Place in Lawrence. Sunlite anticipates 40 net new jobs to be created over the abatement period, with an annual average estimated salary of \$39,950. The company plans to purchase this property, which is currently on the tax rolls, in August 2013.

Company Background

Founded in 1996, Sunlite Science & Technology, Inc. specializes in LED chip, wafer, and lighting product design and manufacturing. With 17 years of experience in the field, Sunlite's products accommodate a wide range of applications, from warehouse ceiling bays to under kitchen cabinets.

Sunlite controls all aspects of production and design, providing the freedom of innovation in multiple markets. The company's proprietary Application-Specific LEDs (AS-LEDs) have a non-traditional design that provides unsurpassed heat dissipation and durability, placing their products at the top of the industry for efficiency, brightness and lifetime.

Company milestones:

November 2010	Sunlite opens an office at the Bioscience & Technology Business Center in Lawrence, KS in addition to the warehouse space in Lawrence and the warehouse space in China.
August 2010	Sunlite's SunStrip40 receives the UL and CUL certification.
December 2006	Sunlite becomes a major supplier of LED lights to Snap-on Incorporated.
September 2004	Sunlite establishes a 60,000-square-foot, fully owned facility near Shanghai to manufacture and assemble LEDs chips, wafers, and lighting products.
July 2002	Laser chip manufacturing reaches mass production stage.
September 2001	The company starts the development of 650nm Laser wafers.
October 2000	The developed AlInGaP HB-LED technology is nominated at the Twelfth Annual Meeting of the Technology of the Year Awards, sponsored by the Silicon Prairie Technology Association.
April 2000	The company wins the competitive award from the Kansas Enterprises Technology Corporation to develop Aluminum-Indium-Gallium-Phosphide (AlInGaP) High-Brightness LED (HB-LED) wafers.
November 1997	LED epi-wafer and chip manufacturing facilities in Lawrence, Kansas are established and the MOCVD process and compound semiconductor business is started.
January 1997	Submitted to DOD a proposal of combining UV LED and phosphor to create Monolithic full-color LED display.
January 1996	Sunlite Science & Technology, Inc. is founded in San Jose, California.

Incentive Request – Property Tax Abatement

To accommodate planned business expansion, the company wishes to purchase a warehouse in West Lawrence, consolidating their headquarters, office and warehouse operations within that space. To assist with this expansion, the company is seeking a 10 year, 50% tax abatement on the property, located at 4811 Quail Crest Place.

Eligibility

Policy Criteria

The *City of Lawrence Economic Development Goals, Process, and Procedures* (approved March 24, 2009 and updated May 18, 2010) outlines the guidelines for consideration of a tax abatement and eligibility amounts. According to the policy (Section 1-2121), the City shall only grant a tax abatement to a business which meets the legal requirements for a tax abatement and which indicates in their application that they will fully comply with five requirements. The table below compares these five policy requirements to the project's estimated compliance as per information provided by the applicant.

Sunlite Property Tax Abatement: City Policy Eligibility			
Eligibility Item	Policy Requirement	Threshold	Project Delivers
1	Business is environmentally sound	Not specified	Plans call for several environmentally friendly features to be added to the building, including energy efficient LED lighting to interior & exterior.
2	Business pays all employees in the abated project an average wage per employment category that meets or exceeds the average in the community as determined annually by the Kansas Department of Human Resources Wage Survey.	\$36,440 ¹	\$39,550 ²
3	The business pays all covered employees a wage, at or above, an amount which is equal to one hundred thirty percent (130%) of the federal poverty threshold for a family of three (3), as established by the United States Department of Health and Human Services, as further set forth in Section 1-2113 of this ordinance.	\$12.21/hr ³	Estimated 30% of new employees would start at the lowest wage (\$12.50/hour).
4	The business provides one of the following:		
4-A	(A) The availability of covered employees to obtain an employer-sponsored health insurance policy, pursuant to employer guidelines, in which case the employer provides a minimum of seventy percent (70%) of the cost of such policy.	70% of policy cost	100% of full-time employees will have company provided health care insurance with 100% of the premium provided by Sunlite.
4-B	(B) As an alternative to offering an employer-sponsored health insurance policy, the employer shall pay the covered employee a wage which is at least \$1.50 per hour above the amount required in (3.) above.	\$13.71 (\$12.21 + \$1.50)	
5	Positive Benefit/Cost ratio	1.25	1.15

Given the above guidelines, Sunlite meets all eligibility thresholds with the exception of the cost-benefit ratio. Usually, the City likes to see a ratio of 1.25 or higher (i.e. for each \$1 of cost, the City receives \$1.25 back in benefit value).

¹ Source: Kansas Department of Labor, Annual Wage Survey, 2012 Edition, retrieved 7-222-13. Wage shown is the average annual for all occupations within the Lawrence MSA.

² Source: Sunlight Application. Average annual salary for net new jobs added during abatement period.

³ 2013 Wage Floor Rate. Wage floor requirement applies to all employees in the abated project, except for temporary employees working fewer than 100 hours per calendar year, students or seasonal workers not employed longer than 90 calendar days, or new employees undergoing a bona fide or certified job training program for no more than 60 calendar days..

Eligibility Amounts

The policy (Section 1-2123) provides a basic schedule that the City can use as a guideline in determining the amount of tax abatement to be granted. It should be noted that the City's policy suggested amounts places a threshold for capital investment that is sometimes difficult for very small companies to meet. For example, the policy suggests a minimum of \$7M in capital investment and the creation of 40 new jobs for companies new to the community and a minimum of \$5M capital investment with the creation of 20 new jobs for local companies that have been on the Douglas County tax rolls for more than 3 years.

Again, tax abatement amounts specified in the policy are guidelines only. According to the policy, the governing body may vary the amount, maximum, and duration of the abatement provided the net abatement to a business shall not reduce the net tax revenues as would be received pursuant to the schedules to the local taxing units over ten (10) years.

Due to the projected \$2.3M in capital investment, Sunlite does not meet the policy's suggested eligibility amounts for a 10 year, 50% tax abatement. The below table compares Sunlite's tax abatement eligibility amount with policy suggested thresholds.

Sunlite Tax Abatement: % Eligible				
% Available	Description	Meets Requirement	Project Eligibility %	Notes
50%	Company investing over \$7M (2009 adjusted dollars), minimum 30 new jobs created	--	--	--
	Company has been on the Douglas County property tax rolls for more than 3 years, is investing over \$5M (2008 adjusted dollars), minimum 20 new jobs created	--	--	Company purchasing existing warehouse for \$1.1M and investing an additional \$1.23M over abatement period. Anticipates 40 net new jobs to be created over abatement period.
10%	Company has been on Douglas County Property Tax rolls for at least 3 years	Yes	10%	Company has been operating in Lawrence since 1997.
5%	Capital investments exceeds \$10M (adjusted 2009 Dollars)	--	--	--
5%	Project constructed to LEED certification or Silver standards	--	--	Many environmentally friendly components to be added to facility. Company produces energy efficient, LED lighting products.
10%	Project constructed to LEED Gold or Platinum standards	--	--	
5%	Unique site constraints or construction requirements make development difficult	--	--	--
5%	Project is seen as a catalyst for future projects in an economic development area	--	--	--
5%	Project located in a targeted development location or development-ready site	Yes	5%	Existing (vacant) warehouse
10%	Project provides exceptional wages	Yes	10%	Average annual wage of \$39,550 is above community average of \$36,440.
TOTAL Eligible Percentage			25%	

Analysis

Job Creation

Sunlite currently employs 5 full-time staff, with 40 additional full-time employees projected to be added during the abatement period (45 total full-time jobs). The average salary per net-new, full-time position is estimated at: \$39,950.

Sunlite Technologies: Net New Jobs & Wages														
	Production			Professional			Administrative			Executive			Average	
Year	# Jobs	Avg Salary	SUMProd	# Jobs	Avg Salary	SUMProd	# Jobs	Avg Salary	SUMProd	# Jobs	Avg Salary	SUMProd	# Jobs	Avg Salary
1	1	\$26,000	\$26,000			\$0			\$0			\$0	1	\$26,000
2	2	\$26,000	\$52,000	3	\$50,000	\$150,000			\$0			\$0	5	\$40,400
3	3	\$35,333	\$105,999	1	\$44,000	\$44,000			\$0	1	\$100,000	\$100,000	5	\$50,000
4	3	\$26,000	\$78,000	2	\$54,500	\$109,000	2	33005	\$66,010			\$0	7	\$36,144
5	4	\$26,000	\$104,000	4	\$54,500	\$218,000			\$0			\$0	8	\$40,250
6	3	\$29,667	\$89,001	2	\$44,000	\$88,000			\$0			\$0	5	\$35,400
7	1	\$26,000	\$26,000	2	\$44,000	\$88,000			\$0			\$0	3	\$38,000
8	1	\$26,000	\$26,000	1	\$44,000	\$44,000			\$0			\$0	2	\$35,000
9	1	\$26,000	\$26,000	1	\$51,000	\$51,000			\$0			\$0	2	\$38,500
10	1	\$26,000	\$26,000	1	\$65,000	\$65,000			\$0			\$0	2	\$45,500
Total	20			17			2			1			40	

Estimated part-time positions were not provided by the applicant and were excluded from the calculations. Typically, part-time positions have minimal impact on the local taxing districts.

Current and Historic Property Value

The property's most recently appraised value (2013) is approximately \$1,200,700 (\$794,970 for improvements, \$405,730 for land). Currently, the property is vacant.

Property Tax History: 4811 Quail Crest Place, Lawrence, KS			
Year	Appraised	Assessed	Total Tax
2013	\$1,200,700	\$300,176	TBD
2012	\$1,236,000	\$309,001	\$38,565.80
2011	\$1,236,000	\$309,001	\$38,724.94
2010	\$1,260,000	\$315,001	\$38,931.30
2009	\$1,284,000	\$321,001	\$38,163.82
2008	\$1,308,000	\$327,001	\$38,705.82
2007	\$1,332,000	\$333,001	\$38,576.18
2006	\$1,403,500	\$350,870	\$40,586.90
2005	\$1,389,700	\$347,420	\$38,236.00
2004	\$1,365,800	\$341,450	\$36,168.44

4711 Quail Crest Pl property was appealed by the current owner, Emprise Bank, for 2007-2011 tax years, based on a fee appraisal for the property (\$1.2M as of 7-3-12).

Plate # U15766-02

Parcel # 023-068-33-0-40-07-003.07-0

Source: Douglas County, Kansas, Appraiser

Company Investment

Sunlite will purchase the existing warehouse in Lawrence for \$1.1M. In addition, the company plans to invest another \$1.23M in the property over the 10 year abatement period.

Sunlite: Acquisition and Investment			
	Purchase Price	New Capital Investment	Total
Land	\$400,000	\$400,000	\$800,000
Improvements	\$700,000	\$830,000	\$1,530,000
Total	\$1,100,000	\$1,230,000	\$2,330,000

Results

The City's cost-benefit model calculates property tax revenues based on the value of land and improvements. Typically, market value (estimated purchase price) and the most recently appraised values for the property are compared.

Although Sunlite is expending \$1.1M to purchase the property, when an existing property is purchased by a local company for approximately the same amount as is currently on the tax rolls, the net effect of this transaction is \$0 new capital investment brought to the community. It should be noted that as per the Sunlite's application, the company will make future net new capital investment of \$1.2M over the 10 year abatement period. Additional benefits will be generated for the community through the creation of 40 new jobs and associated wages.

Below are two model scenarios, both using net new job creation and wages depicted in the above schedule.

Scenario 1—All new capital investment: The first scenario depicts model results if the entire amount of \$2,330,000 was net new capital investment within the community (e.g. Sunlite builds a new facility for \$1.1M and makes another \$1.2M in future capital investment in real property).

Scenario 2—50% reduction in existing property taxes + 50% tax abatement on future capital investment: The third model extracts 50% of existing property taxes from the model, adds in \$1.2M in future capital investment and applies a 50% property tax reduction on the additional capital investment.

Ratio results for both scenarios are shown below.

Sunlight Science & Technology: CBA Scenarios					
Incentive Package (50% TA, 40 Net New Jobs)	City	County	USD	State	Total Package Value (10 Years)
Scenario 1: All New Capital Investment	1.29	1.61	4.60	7.96	\$258,237
Scenario 2: Net New Capital Investment	1.15	1.28	4.01	3.66	\$258,237

Illustrates the effect on ratios if \$2.3M applicant is spending would be considered all new capital investment (e.g. Sunlight builds a new building for \$1.1M and invests another 1.2M in the property over the 10 year abatement period).

Illustrates the effects on ratios when 50% of existing property taxes are taken off the tax rolls and a 50% tax abatement is applied to future capital investment.

In both scenarios, the model estimates the total value of incentives at \$258,237, with the project delivering positive returns for all jurisdictions over the 10 year abatement period.

- Assuming a net new capital investment of \$2,330,000, the analysis shows that the 1.25 cost-benefit ratio threshold, as suggested within the policy, will be met or exceeded for all taxing jurisdictions. Under this scenario, for every \$1.00 of costs borne by the taxing jurisdictions, the City realizes \$1.29, the County realizes \$1.61, the School District realizes \$4.60, and the State realizes \$7.96 in benefits.
- Assuming 50% of the current property taxes are removed from the tax rolls and a 50% abatement is applied to future capital investment, the analysis shows that the 1.25 cost-benefit ratio threshold, as suggested within the policy, will not be met for the City, but is exceeded for the County, School District and State. Under this scenario, for every \$1.00 of costs borne by the taxing jurisdictions, the City realizes \$1.15, the County realizes \$1.28, the School District realizes \$4.01, and the State realizes \$3.66 in benefits.

Additional Policy Considerations

In addition to the results of the cost-benefit analysis, the policy specifies that additional factors may also be considered (Section 1-2106) for granting property tax abatements, including:

- The potential of the business for future expansion and additional job creation

Applicant estimates that the project will add 40 net new jobs, expanding their employee base from 5 current employees to 45 full-time employees over the abatement period.

- The degree to which the ultimate market for the business products and services is outside the community, recognizing that outside markets bring “new money” to the local economy.

Applicant estimates that 98% of the revenues at the new Lawrence facility will come from outside of Lawrence/Douglas County.

- The beneficial impacts the business may have by creating other new jobs and businesses, including the utilization of local projects or the materials and substances in manufacturing and creation of niche businesses.

Applicant estimates that 11.6% of additional operating expenditures for the business will be made in Lawrence.

It should be noted that the policy also encourages meeting certain economic objectives, including:

- Expansion of existing industry:

As per the City of Lawrence Economic Development Goals, Process, and Procedures, “...it is the policy of the City, County, and Chamber to place a high priority on the retention and expansion of existing businesses.”

- Support the expansion and retention of “good corporate citizens:

“All of the partners share a commitment to assist new business start-ups, encourage existing industry to expand and encourage high technology and research based-businesses and to encourage the location and retention of businesses which are good

“corporate citizens” that will add to the quality of life in Lawrence through their leadership and support of local civic and philanthropic organizations.”⁴

Sunlite's incentive application (dated 7-10-13) outlined their recent corporate support for the local community:

In 2012 Sunlite Science & Technology, Inc. supported the efforts of Studio 804, Inc. (a not-for-profit corporation committed to the continued research and development of sustainable, affordable, and inventive building solutions via the education of graduate students entering their first year of the Master of Architecture program at the University of Kansas School of Architecture, Design, and Planning) and Johnson County Community College (JCCC in Overland Park, Kansas) in the creation of Galileo's Pavilion (a Center for Sustainability). In 2011 support was given to Studio 804, Inc. University of Kansas Center for Design Research Project. In 2013 support was given to the Studio 804, Inc., recently dedicated, University of Kansas EcoHawks Project.

In 2012, Sunlite supported the efforts of Douglas County Emergency Management in their 2013 Pursuit of Preparedness campaign by donating flashlights for 150 emergency kits to be distributed to various children and families in need in Douglas County.

In 2012, Sunlite supported the efforts of Gould Evans in their community service activity with Pinckney Elementary School, by providing two light fixtures for their annual “Measurement Day”. Activities for the students are always planned incorporating architecture and design in some way. This year, they did an activity about light and shadows and Sunlite was happy to volunteer two lamps bright enough to help mimic the sun.

- Encourages training and development of Lawrence area employees

Sunlite employees will participate in formal training on Customer Service, and product manufacturing, assembly and warranty and repair.

Finally, Horizon 2020 specifies that business within select industries should particularly be a focus of economic development efforts, including “Light Manufacturing and Distribution”, which is applicable for the current project under consideration.

⁴ City of Lawrence Economic Development Goals, Process, and Procedures, approved March 24th, 2009, updated May 18th, 2010, page 2.

Other Considerations

- To retain home-grown businesses and receive an economic payoff in the long-run, it is important that the community provide necessary economic development support along the business growth path.

There is an implied City goal of supporting local business development through all stages of growth, from start-up through expansion, to maturity.

The City supports small business start-ups through the BTBC incubator facilities and services, but does not have a formalized support program to help those business “graduate” to the next stage of business, which may involve company growth outside the BTBC umbrella.

- The Policy’s minimum \$5M threshold for capital investment for an existing business expansion within the community can be too high for small businesses wanting to conservatively grow to the next business stage.
- In addition to manufacturing products designed to substantially enhance energy efficiency, Sunlite plans to provide the below environmentally friendly features at the new facility:

BIKE RACK AND SHOWER—A bike rack and shower will be provided to encourage alternative transportation options.

LANDSCAPING—The landscape will be designed to be low maintenance and reduce the use of potable water. The ground cover will be a native grass which requires much less water than nonnative species of grass.

L.E.D LIGHTS—All of the light fixtures both inside and outside the facility are L.E.D.s designed by Sunlite. Light Emitting Diodes are semiconductor devices which convert electricity into light. They last approximately 6 times longer and use about half the power of typical compact fluorescents. They also generate very little external heat and unlike traditional light fixtures do not have to be compensated for by the buildings HVAC system.

Current HVAC systems will be serviced and updated producing less of an energy load to run the building and a more efficient use of city power

Performance Provisions

If a tax abatement is approved, Sunlite will be required to enter into a performance agreement with the City. As per section 1-2107 of the City's policy for tax abatements, "Each company that receives an incentive from the City will be held accountable to certain performance provisions. These provisions will be included in a performance agreement between the company receiving the incentive and the City."

The agreement will specify performance targets in the areas of capital investment, job creation, wages and health insurance benefits. The performance targets will generally be in line with the application submitted by the applicant, upon which the analysis is based. The compliance with each of the annual performance targets will be averaged together to determine a "blended percentage" of compliance, which then determines the total amount of incentive to be received.

If a company does not perform in a given year and the amount of incentive is proposed to be reduced from the full amount, a company has the ability to appeal to the Public Incentives Review Committee and then to the City Commission. The City Commission can consider restoring the incentive, based upon majority vote.

Tax Abatement Performance Schedule	
Blended Percentage Range	Amount of incentive to be received
90-100%	100%
80-89%	85%
70-79%	75%
Below 70%	No incentive

Future Actions

Public Incentives Review Committee (PIRC) to review Sunlite's request and provide recommendation to the City Commission.

City Commission to receive PIRC recommendation(s), hold public hearing to consider Sunlite's request, and if appropriate, vote to adopt a resolution approving a 50%, 10 year tax abatement on the property at 4811 Quail Quest Place, Lawrence, Kansas.