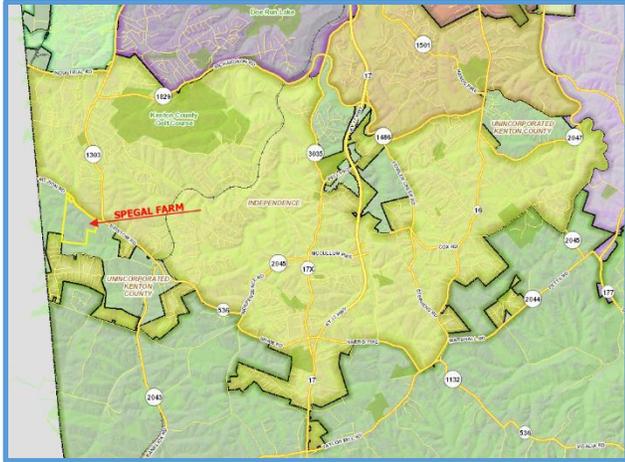


**MAYOR REINERSMAN'S WHITE PAPER
PROPOSED 108+ ACRE MT. ZION ROAD INDUSTRIAL DEVELOPMENT
FEBRUARY, 2021**

Background



The area in question is located on Mt. Zion Road (State Route 536) between Bristow Road (State Route 1303) to the east and the Boone County line to the west. This general area has been identified in the Kenton County Comprehensive Plan, Direction 2030, for Mixed Use for Industrial, Commercial and Office uses. In addition, the Kenton County Site Readiness Working Group assembled by Judge/Executive Kris Knochelmann a few years ago, which was tasked with assessing the availability of potential industrial sites for future employers in the county, concluded a significant lack of available sites. The group also worked with national consultants and various

stakeholders, to identify potential future development areas. This area was identified for future industrial development.

The specific property to be developed is a farm owned by Lloyd and Judith Spegal, containing just over 108 acres on the south side of the road, currently in unincorporated Kenton County. The Spegals, who are both retired, are second generation owners of the farm. The property has been listed for sale for well over a decade and is currently under contract to an entity of VanTrust Real Estate, a national real estate developer. The buyer proposes to build an industrial park on the site which will include (4) buildings totaling approximately 1.2 million square feet. The estimated project cost is \$70 million. The buildings are proposed to be "speculative", which means that the property will be built and offered for lease or sale. As a result, the potential users/owners/tenants are not known at this time. The zoning, however, does prohibit any heavy industrial uses that create a lot of noise, odor, smokestacks, etc.



I had initially reached out to the Spegals, through their real estate broker, while still on City Council several years ago. My intention was to discuss the possibility of annexation into the city and rezoning as industrial. The owners were not interested in annexation at that time. Shortly after taking office as mayor in 2015, I also met with newly elected Judge Knochelmann to discuss this area and asked that he support the idea of the city ultimately annexing this area for future industrial development, if amenable to the owners. I explained that I thought the city being involved was logical in order to better mitigate the impact on our residents who surround the property and that we would have a greater incentive and ability to focus on the project within our city. Additionally, I noted that I believed Independence needed to attract employers

in order to diversify our tax base (discussed below). I felt like this area presented our best opportunity due to its distance from the interstate, Kentucky 536 expansion plans, close proximity to other industrial development, as well as the fact that it would have very limited impact on existing residential. Judge Knochelmann agreed and we have since had many conversations about the area. Upon putting the property under contract in the Spring of 2020, the developer contacted me to discuss the possibility of annexation and rezoning the property. As we moved through the process, Judge Knochelmann and Kenton County, as well as Tri County Economic Development (Tri-Ed) were very helpful in working toward the current proposal.

Benefit to City/Residents

While jobs are important, we live in a metropolitan area with many employment opportunities nearby. As such, jobs within the city are not as critical to our residents, although it is still beneficial. As indicated above, I had long ago reached the conclusion that Independence's tax base was too heavily reliant on residential property taxes and that this was not sustainable. Unless we developed other revenue sources, I believed property taxes would continue to rise and/or services would have to be reduced.

I've often spoke of a couple of seminal moments during my time in local government. The first was as a new Councilmember in 2010. The city had tightened its belt considerably during the Great Recession and held tax rates the same while cutting services and putting off expenditures. As the economy slowly began to improve it was apparent that it was time to get back on track with things like replacing police cruisers, road improvements, etc. One of my fellow Councilmembers proposed increasing our payroll tax, rather than taking what is known as the "compensating tax rate", which would have resulted in a nominal property tax increase. I argued against raising the payroll tax because I recognized that Independence was already at a disadvantage in attracting employers. In making my case, I collected data from numerous Northern Kentucky cities. I found that property tax revenue typically accounted for approximately 18% to 35% of total revenue in these cities. At the time, more than 50% of Independence's revenue was derived from property taxes. Additionally, I recognized that Independence offers limited appeal to potential employers due to lack of interstate, as well as our location further from the urban core. Our current payroll tax rate of 1.25% was below the area average and potentially gave us an upper hand in attracting employers. I concluded that an increase to 1.5% would reduce our chances and ultimately cost residents more in the long run than a nominal property tax increase at that time.



My second "aha" moment was shortly after taking office as mayor. While I was on Council we had many discussions about the poor condition of Holton Drive, which is part of the small portion of Independence in the Northern Kentucky Industrial Park off of Industrial Road. The road needed replacement and was going to cost over \$600,000 at a time when our annual road budget was \$750,000 for the entire city. It was hard to justify spending most of our budget when we knew many of our residential streets were in dire need. I asked our finance director to give me a report on total tax revenue generated by the companies on Holton Drive. As it turns out, that one street and its four employers accounted for approximately 8% of our total city budget. In addition to showing me the need to find the funds to make

street repairs, it also demonstrated how important good employers are to a city. This could be the long term solution to our underfunded roads program, increasing our public safety budget to keep up with growth, improving recreation programs/assets and so many other things.

In putting together the deal for the proposed industrial development, we worked hard to analyze revenue and costs of existing industrial in the city. We also worked with Tri-Ed and Kenton County to take more of a "macro-level" look at regional industrial uses. This data was used to create various models to project revenue under different use scenarios. These scenarios included various mixes of warehouse/distribution, office and manufacturing. These models projected between 440 and 600 new jobs, with payroll tax revenue ranging from approximately \$260,000 to \$440,000. In the final analysis, and looking at most likely scenarios based on the proposed buildings, we are projecting overall annual revenue to the city of approximately \$750,000. Our fiscal year 2020-21 total general fund revenue was budgeted at \$9,991,688.80. That means this one project in our city of more than 28,000 residents, which encompasses less than 1% of the land area of the city, is projected to increase city revenues by about 7.5%. Furthermore, this amount is nearly 17% of 2020-21 projected property tax revenue. Put another way, this project will create the equivalent direct revenue of nearly 1,600 existing homes (based on 2019 median home value and current tax rate). In addition, industrial land use creates far less of a drain on services such as police, fire/EMT, schools, roads and recreation programs/facilities.

To that last point, while we are certain that industrial development is less costly to the city (based on demand on services) and generates greater revenue than single-family residential development, we wanted to take a closer look at that. We are working with the Ohio Kentucky Indiana Regional Council of Governments (OKI) to complete a Fiscal Impact Analysis Model (FIAM) which compares the two. While we are still fine tuning the FIAM, the initial results indicate a positive net impact on the city of just \$7,534 for single-family residential development, as opposed to \$409,316 for industrial development. Stated another way, the positive fiscal impact to the city for industrial development is projected to be 54 times greater for industrial development. As I've delved deeper into some of the variables of this model, however, I suspect we're going to find the net impact of industrial might actually be greater, whereas residential is slightly overstated.

Benefit to Region

In addition to the above benefits, this development opens up the much needed additional land and industrial space referenced in the prior section regarding the Kenton County Site Readiness Working Group. Further, this will be the first development in an approximately 400 to 500 acre area which has been earmarked for future industrial development. The catalytic impact of this project is expected to create more "shovel ready" sites in Northern Kentucky. These sites will not only lead to more jobs and revenue for Independence, but for NKY as a whole.

Impact on Neighboring Residential

This site is not directly adjacent to any large scale residential development. The only nearby development is the Glenhurst subdivision to the south. While a small portion of the site does abut some of the remaining vacant land for the Glenhurst development, this area will likely never be developed due to the steep terrain and several creeks that cross it. Additionally, the vast majority of Glenhurst is nowhere near the proposed development. We have taken a hard look at the northern portions of the subdivision that

are closer to the proposed industrial site. In addition to completing on-site inspections with the development team, we've asked them to provide engineers drawings showing viewsheds. In order to confirm the accuracy of the developer's drawings, we had them reviewed by our city engineer. In addition, we had the city engineer complete independent drawings from various points including Badger Court and Glenhurst Drive, as well as Hogrefe Road at Freemont Drive and Sinclair Drive. This included animated models simulating a "drone's eye view" from these location. All drawings and models were completed based on the proposed buildings being in place. These concluded minimal, if any, impact on homes within the city.

Transportation

One of the key concerns for a project of this scale, both to developers and to area residents, is transportation. This project hinges upon the proposed reconstruction of State Route 536. The past year has involved multiple meetings and conversations with the Kentucky Transportation Cabinet (KYTC), as well as our state legislators, to address the specific issues pertaining to this project. The first phase of the KY 536 realignment essentially runs from the Boone County line to Bristow Road (State Route 1303), or right in front of the proposed industrial development. I am assured this road project is scheduled to be "let" (bid awarded) this spring, with construction to start shortly thereafter. After many projects were put on hold as a result of the reduction in fuel tax revenues caused by the pandemic, we contacted KYTC to see if this project was on the list. I was assured that funding was already in place and that the project was not in jeopardy. As if that wasn't enough, we received word in the fall that Kenton County had been awarded a federal BUILD grant for this road project. This created an even more secure layer of funding and virtually assures the project will stay on track. In short, the KY 536 project is expected to begin this spring/summer and continue into next year. At the same time, the industrial developer proposed beginning site work this summer and breaking ground on the first building next spring. We would anticipate road work is completing just as the first industrial spaces are coming on line. I am particularly thankful Senator Damon Thayer, Representative Kim Moser, Representative Sal Santorro, Representative Savannah Maddox, Judge/Executive Kris Knochelmann and Senator Mitch McConnell, as well as Chief Engineer Bob Yeager and the staff at KYTC District 6, for all of their help moving this project forward.

The second concern is the impact of truck traffic. First, there is no reason to believe the project will generate any significant traffic east of the site. The impact is expected to be between the site and the interstate, along Mt. Zion Road. The advantage of this site is that it impacts very little of Independence since it's in the southwestern corner of the city. I do realize, however, that many Independence residents travel Mt. Zion Road. Fortunately, the combination of the KY 536 project, coupled with the upcoming reconstruction of the interchange at Mt. Zion and associated work on that section, is expected to significantly mitigate existing and future traffic problems. With the help of several of the previously named parties, we were also able to get a roundabout added back to the plan at the entrance to the project. This will keep traffic flowing smoothly in and out, as well as past the industrial park. We've also worked with the developers to insure prominent signage at the site so trucks don't "overshoot" and continue on into the city. Lastly, I was aware of the issue of "truck stacking" in which trucks pull off while waiting to load or unload. In fact, we met with Boone County Judge/Executive Gary Moore to discuss the challenges and solutions Boone County has faced with Amazon and other logistics facilities. The severity of the problem is highly dependent on the end user. As a result, our development agreement requires the developer provide a plan to mitigate truck stacking once they've leased the space and know exactly

who the user is and what they will be doing. We've all agreed that building permits for improvements will not be issued until the city approves this plan. Additionally, they've modified the proposed public street to add a third lane so trucks can pull over if they have to wait. This street, within the development and off of Mt. Zion Road, will accommodate approximately 30 trucks.

Site Challenges

As I said, I've been looking at this area as the great hope for Independence for several years. As we've looked at aerial photos and topographical maps, we knew the site would present significant challenges and I began to wonder how realistic any development beyond residential would be. A few years ago we met with Tri-Ed and discussed the possibility of a pilot project in which they would fund environmental consultants to evaluate issues such as stream mitigation, soils testing, topography, etc. Unfortunately, this project never came to fruition. As the developer began their due diligence over the past year, they have identified several of these challenges, such as a reported \$2 million for stream mitigation, the necessity to put in an 1,800 foot +/- public street, significant grading issues and the need to add up to 50' of fill in some areas.

The Developer

VanTrust Real Estate is a national real estate development company based in Kansas City, with regional offices across the country, including Columbus, Ohio. The company specializes in various property types including office, industrial, multifamily, retail, institutional, governmental, hospitality, and recreational. VanTrust has completed several projects in the Greater Cincinnati area, particularly in Northern Kentucky. Some of these include the Kroger Distribution Center located just across the Boone County border on Mt. Zion Road. They've also constructed several buildings around Ted Bushelmann Way in Florence (behind Chuy's, Drakes, Aldi, et cetera, on Houston Road). Among these are the Wayfair Outlet. As a commercial real estate appraiser, I am familiar with the company and their reputation for building good quality, well-conceived projects. The latter is particularly important. Independence saw a few development projects begun by small local or regional developers in the years leading up to the Great Recession. The recession drove the failure of developers and these projects with them. The sites remain vacant and overgrown today. I was relieved to learn VanTrust was the buyer of this particular site because I knew they have the resources and experience to bring a project of this scale to fruition.

Industrial Revenue Bonds

We initially went into this project with the idea that we did not want to offer any incentives to the developer and said as much. Fortunately, this did not deter them. As we began discussion, one of the city's biggest concerns was whether or not logistics (warehouse and distribution) was in the best interest of the city. Based on the data we had compiled and advice of organizations such as Tri-Ed, we knew that logistics users tend to offer fewer and lower paying jobs, as compared to office and manufacturing. I discussed our concerns with the developers and mentioned we had limited potential for industrial land in the city. We essentially have one chance to come up with a plan that meets the city's goals and I wasn't sure logistics uses were part of that. Our goal was to build a park that at least offered jobs and revenue similar to most of the users in our existing industrial park. Understandably, the developers were concerned about omitting these uses since there is high demand right now and they wanted to be able to suit a variety of users. As a result, they proposed doing something that would compensate the city if revenue goals weren't met. In the end, the proposal was made to utilize industrial revenue bonds (IRBs).

This is a somewhat complex economic development tool built into Kentucky statutes. Typically, the city or county agrees to receive, in lieu of property taxes, the equivalent of a percentage of the property taxes they, and the other local taxing districts, would normally be due and the remainder is given back to the developer to compensate for infrastructure costs. In this case, they proposed that instead of the developer receiving the proceeds, the city would. We ultimately proposed an IRB plan in which the city, the Independence Fire District and Kenton County received an amount equal to 100% of the taxes to which they would have been entitled to. The other local taxing districts (Kenton County School District, Kenton County Library District, the Kenton County Health District, the Kenton County Extension District, and Planning and Development Services of Kenton) would receive 55% of the taxes they were entitled to, with the remainder going to the city. While it was not my desire to "short change" these districts, I learned that by receiving 55% the school district essentially receives the same net revenue they would have because of the way their regular tax revenue is split with the state. Additionally, the project would create no additional demand on school services. Regarding the other districts, the project would also create very little, if any, additional demand on their services. More importantly, even at 55% of revenue, this was a huge increase over what was currently being received on 100 acres that was taxed at an agricultural rate with a homestead exemption. Essentially, this structure appears to be a win for everyone.

As the developer got further into their due diligence and found that they would literally be spending millions more than anticipated due to stream mitigation, the street and other site work, they asked if we consider allowing them to keep \$100,000 or the estimated \$300,000 +/- of the additional revenue created by the IRB. While I would not agree to that, we ultimately agreed to allow up to \$50,000 per year back to the developer to mitigate these additional costs. A secondary consideration in this decision was realizing that this first project would likely serve as a catalyst to more industrial development in the region. I was willing to concede a little more on this first project to get things started, rather than risk losing the opportunity.

Conclusion

While I will be among those that hate to see the cows on the green hillside go away as I drive Mt. Zion Road, I believe this project is clearly in the best interest of Independence. The immensely positive fiscal impact is clear. What must then be considered is that a significant increase in revenues for the city is not same as profit for a private company. To a city and its residents, increasing revenues means we relieve the tax burden on residential property owners and have the resources to improve services to them. Services such as police/fire/EMS protection, road improvements, schools and recreation programs to name a few. Alternatively, we have estimated that site would accommodate 257 new homes based on current zoning and development trends in the area. As demonstrated by the previously referenced FIAM, those new homes would create about as much additional cost for services as they would bring in revenue. The industrial use, however, would have far fewer calls for emergency services, not create any additional students for the already overburdened schools, not utilize our recreation programs and would require only about 1,800 feet of public streets to be maintained, as opposed to more than 10 times that number to accommodate 257 homes in a subdivision. Although truck traffic will increase, it is not anticipated to be nearly as impactful as 257 more homes with 2 to 3 cars coming and going. Think about how many trips your household makes in an average week and multiply that by 257. Also consider that you'll be standing in line at Kroger with these folks, be behind them in the McDonalds drive-through or the ticket line at the Independence Day Celebration. They'll be adding to your child's class size and so on.

Furthermore, based on the developer's plans, and secured by the development agreement and current zoning requirements, the development will include good quality buildings which offer above average aesthetics for this property type. At the same time, the completed development is expect to boost revenues to the city by more than 7%, improving services and reducing the tax burden on residents. In addition, it is expected to serve as a catalyst to similar development in the area, further increasing these positive impacts to our city, placing it on firm, sustainable footing for years to come.

Finally, I would be remiss if I did not thank those that have been critical in bringing the project to this point. In addition to those already mentioned, I am very thankful to the City Council for their support of the project and Planning Development Service of Kenton County for their help. I am also particularly thankful to our City Administrator, Mr. Chris Moriconi, who has been with me every step of the way, as well as our City Attorney, Mr. Jack Gatlin.