TO: Mayor and City Council

SUBJECT: Public Hearing and Issuance of Industrial Revenue Bonds (Textron Aviation) (Districts II, III and IV)

INITIATED BY: Office of Urban Development

AGENDA: New Business

Recommendation: Close the public hearing and place the ordinance on first reading.

Background: Since 1991, the City Council has approved issuance of Industrial Revenue Bonds (IRBs) totaling over $1.3 billion to finance the expansion and modernization of Cessna Aircraft Company facilities in Wichita. The City Council also authorized 100% ad valorem tax exemptions for all bond-financed property for periods of up to ten years.

On November 8, 2016, the City Council approved an amendment to an existing letter of intent (LOI) to issue IRBs for Cessna. The amendment allowed Cessna Aircraft Company to transfer the LOI to Textron Aviation and allow for IRBs to be utilized on any of its facilities in Wichita. Action was taken at the same time to refund all outstanding Cessna Aircraft Company bonds, refinance all outstanding Beechcraft bonds and acquire all bond-financed property for the benefit of Textron Aviation.

Textron Aviation is requesting the issuance of IRBs in three series with a total amount not to exceed $519,327,000.

Textron is in the Aerospace and Advanced Manufacturing clusters of the Blueprint for Regional Economic Growth (BREG) and is a main supplier to another BREG cluster, Aerospace.

Analysis: Textron Aviation was created in 2014 when Textron Inc. merged Cessna and Beechcraft corporations and is now the world’s largest manufacturer of general aviation aircraft. Textron Aviation also manufactures aircraft parts and provides aircraft maintenance and support services. Textron Aviation currently has several major production and support segments in Wichita including the Citation family of business jets, the Caravan family of turboprop aircraft, the Hawker and Beechcraft lines and world-class service and maintenance operations.

Bond proceeds will be utilized for three purposes. First, $320,392,000 in outstanding Cessna bonds will be refunded in the name of Textron Aviation. Second, $70,935,000 will be used to refinance the outstanding Beechcraft bonds and acquire the assets financed by those bonds. Finally, $128,000,000 will be used to finance capital investment in the Wichita facilities in 2016. In addition to authorizing the issuance of the Series 2016 IRBs, the attached bond ordinance also authorizes the release of property financed by Series 2006 Bond, which has been surrendered.

Financial Considerations: Textron Aviation agrees to pay all costs of issuing the bonds and agrees to pay the City’s $2,500 annual IRB administrative fee for the term of the bonds. Under the City’s Economic Development Incentive Policy, the Company qualifies for a 100% five-plus-five year tax exemption.
In 2016, Textron Aviation invested over $109 million in tooling and equipment, and over $18 million in real property improvements. The balance of the issue is for the cost of issuance of the bonds.

Based on the current mill levy, the value of the abated taxes on that investment could be as much as $438,888. This estimate assumes that 80% of the $18 million cost of improvements to real property will be reflected in an increase in property value. The actual increase in valuation, if any, will be determined by the Sedgwick County Appraiser’s Office in the future as part of its ongoing reappraisal process. The tax abatement would be shared among the taxing entities as follows:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>$119,699</td>
</tr>
<tr>
<td>County</td>
<td>$107,602</td>
</tr>
<tr>
<td>State</td>
<td>$  5,493</td>
</tr>
<tr>
<td>USD 259</td>
<td>$206,094</td>
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</tbody>
</table>

The analysis of the ratio of benefits to costs based on the fiscal and economic impact model of the Wichita State University's Center for Economic Development and Business Research was conducted in 2013 in connection with the Letter of Intent, with the following benefit/cost ratios:

- City of Wichita: 4.00 to 1
- City General Fund: 1.81 to 1
- Sedgwick County: 3.73 to 1
- USD 259: 1.83 to 1
- USD 261: 1.84 to 1
- State of Kansas: 4.19 to 1

The IRBs will be purchased by Textron Aviation and will not be offered to the public.

The purchase price of $1,000 and other considerations as listed under the purchase option provision of the Lease Agreement has been paid for conveyance of the 2006 IRB-financed property.

**Legal Considerations:** The firm of Gilmore & Bell, P.C. serves as bond counsel in the transaction and has prepared bond documents needed for the issuance of bonds. All bond documents have been reviewed and approved by the Law Department.

**Recommendations/Actions:** It is recommended that the City Council close the public hearing and place on first reading the Bond Ordinance authorizing the execution and delivery of documents for the issuance of Taxable Industrial Revenue Bonds in three series in an amount not to exceed $519,327,000, release and convey the 2006 bond-financed property and authorize the necessary signatures.

**Attachments:** Bond Ordinance