

SUBJECT: Kinetic Aviation Proposal

REQUESTED BY: Ric Davidge, Economic Development

PREPARED BY: Ric Davidge

DATE: 1/21/00

FOR AGENDA OF: January 24, 2000 Regular Council Meeting

SUMMARY:

Consistent with your unanimous direction, by formal motion of the Council, on August 9, 1999 (attached), I present my own recommendations and identification of other than city incentives for Kinetic Aviation.

Since last the Council discussed the negotiations with Kinetic Aviation, Bill Montagne and I have been working with a large equity investor from Fairbanks. Given the possibility that a single equity investor could fund the entire project, negotiations between Kinetic and I were set-aside for about three months. In mid December '99 it became clear to me that this possibility was becoming more and more remote and Kinetic and I restarted from where we had left off although there were continuing (on and off) indications that this would work. As late as last week I advised the Mayor that this was still a possibility. In the morning of Tuesday, January 18th, I advised the Mayor that we needed to move forward.

The Council's action of August 9, 1999 asked that I proceed with negotiations with Kinetic Aviation and develop an appropriate package of incentives from the City of Wasilla, for presentation at the next council meeting. Items to be considered were:

- Development Leases
- Leveraging
- Tax waivers or deferrals
- Site and facility development options
- Coordination of Federal, State, and Borough incentives

As I have discussed with a number of you individually over the past few months, we (Bill and I) have explored a wide menu of options. I have discovered that some options are not available to the City or Kinetic because our median income exceeds federal regulatory caps to allow some federal program applications and the borough does not have an approved Economic Development District Plan (under development at the RC&D) that could open other federal participation. There were other programs that just did not fit the specifics of what Kinetic needs or how the city could participate.

Presented to council on 1/24/2000
 Action taken: Approved Denied
 other _____
 Verified by RD

This broad program review, and my direct negotiations with Kinetic Aviation, have resulted in my following two recommendations:

1. The City of Wasilla should provide the land (initially 2 acres for Phase I and up to 6 acres in Phase III) under a development lease for Phase 1 of the attached business plan for 20 years with renewable based on performance as laid out in the lease to include job creation and capital investment incentives.

The incentives are:

For every 20 full time jobs created by Kinetic the City will waive one years fair market lease payment, land and building.

For every one million dollars of capital investment made by Kinetic, the City will waive five (5) years fair market lease payment on the land.

These labor and investment incentives have been used successfully in cities like Seward, Alaska and across the nation.

2. The City of Wasilla should facilitate the construction of the first building (32,000 sq. ft) at an estimated cost of \$2.2M. Funding for the building may be provided by a loan from an Alaskan bank with an 80% federal guarantee letter from the US Dept of Agriculture, Rural Development office in Palmer. The city should build this facility under a design/build strategy. I recommend the city then lease the structure to Kinetic for up to five years and then sell it to Kinetic or a third party recovering the investment and paying off the loan.

Providing a building to attract new industry, especially manufacturing, is a common strategy by many communities seeking to attract new jobs and economic activity.

The level of risk is then a \$2.2M debt to the City. This is minimized by the 80% federal guarantee on the loan, however, should Kinetic fail the city will be liable for the \$2.2M debt. The city would own a building of value, which may be greater than the debt, at the airport that could be leased or sold to another user, which in my opinion is possible. The recommended sale, by year five, allows Kinetic to get underway without this cash or debt burden. Then when cash flow is sufficient Kinetic can pay off the city or the bank as negotiated. Please review the new business plan to confirm that Kinetic projects being in positive cash flow by the end of year three.

Council approval, following public hearings, and a signed Letter of Agreement with Kinetic Aviation consistent with my recommendations will allow:

Kinetic to go forward on additional financing for the project
Kinetic to begin securing a 10% deposit on each of its 900+ tentative orders
Private equity investors are activated including some local investors
Kinetic may secure other loans for operation and startup that may be necessary

Kinetic can move forward with the FAA type certification on the Mountain Goat
Kinetic would finalize all tool/die development for manufacturing
Kinetic would initiate manufacturing, marketing, and sales efforts
The President of Kinetic will become a resident of the area

Other programs and incentives I have identified and presented to Kinetic Aviation that assist in making this deal are:

1. The Matanuska-Susitna Borough recently passed a property tax deferral program that allows the borough to defer property taxes for up to 5 years for a new business. On behalf of Kinetic Aviation the city should request this deferral. This would allow Kinetic to get into positive cash flow quicker so that it gets out of debt sooner ensuring its success. This is of course subject to approval by the borough assembly.
2. The City of Wasilla could defer property taxes for up to five (5) years to run concurrently with a deferral by the borough. This would require an ordinance to bind this agreement.
3. State of Alaska, New Business Incentive Program passed into law in 1998. Although there is no appropriation for this program, I have worked closely with the State Director of Development and Commissioner of Community and Economic Development on possible application of this program on Kinetic Aviation. The Commissioner has confirmed that Kinetic would likely meet the requirements of this program and Kinetic and I have identified upwards of \$262K in reimbursable expenses that may qualify. Once the venture is underway, Kinetic can make application to the state for this program and if specific expenses are approved in advance by the state, the administration would recommend to the legislature approval of the Kinetic specific reimbursements.
4. Bill Montagne, President of Kinetic Aviation is in discussions/negotiations with other state and federal agency programs he and I have identified, who have expressed interest in the venture. Participation by other government programs would make this venture more secure.

Benefits to the City of Wasilla and the Area Economy based on the Business Plan and my Experience:

1. An Aircraft manufacturer located at the Wasilla Municipal Airport

Economic activity

Payroll potentially \$57M in first 7 years based on production

Local Purchasing: undetermined

Service Contracts: undetermined

Skilled and Professional Jobs created

Potentially up to 600 FT positions at full production

2. Possible expansion into other co-located aircraft related manufacturing to include:
Aircraft Float Manufacturer
Aircraft Ski Manufacturer
3. Increased sales tax revenue (2% on parts and \$10 per plane sold)
4. Significant diversification of the city's economic and employment base
5. Commitment from Kinetic to work with the borough School-to-Work program providing training and job opportunities to local high school students
6. Commitment from Kinetic to work closely with the University of Alaska Aviation Technology program providing on the job training and job opportunities

Risks to the City of Wasilla

1. If the venture fails the city would be liable for the \$2.2M loan/debt for the building.
2. The city land would return to the city with a building(s) and improvements such as paved parking, access, that may not be easily converted, leased, or sold.
3. If a speculative project is partially funded by local taxpayer's dollars vs. solely private sector investment, there is political risk.

In Conclusion:

I have tried to structure a deal that works for Kinetic Aviation while limiting the exposure of the city. If the Council approves these two recommendations, the City of Wasilla will have taken, in my opinion, an important step forward in enabling new jobs and private investment into this community. Assisting the financing of Kinetic Aviation is a good, and in my opinion, very conservative first step. I believe the risk is small especially when compared to the potential return.

Next Step:

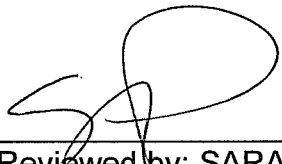
Formalize a Letter of Agreement between the City of Wasilla and Kinetic Aviation consistent with Council direction.

FISCAL IMPACT:

1. \$2.2M loan
2. Free land lease for up to 5 years
3. Property tax deferral for up to 5 years

After the Letter of Agreement is signed and the \$2.2 M loan for the building negotiated and approved, specific action of the Council, following public hearings, will be required to move forward.

RECOMMENDED ACTION:



Reviewed by: SARAH PALIN, Mayor

Attachments:

MOTION: Council Member Cottle moved that the Mayor and her administration proceed with negotiations with Kinetic Aviation and develop an appropriate package of incentives from the City of Wasilla, for presentation at the next council meeting. Items to be considered are: development lease leveraging; tax waivers or deferrals; site and facility development options; and coordination of Federal, State, and Borough incentives.

Discussion followed.

Mr. Davidge answered questions from the council.

VOTE: The motion passed unanimously.

B. Greater Wasilla Chamber of Commerce Funding Request.

MOTION: Council Member Chappel moved to fund up to \$4,000, with 50 percent of the funding to come from council contingency, 25 percent from administration, and 25 percent from the planning budget, for a Flightseeing Tour sponsored by the Chamber of Commerce. (See page 5.)

Discussion followed.

MOTION: Council Member Keller moved to postpone the issue until the next regular city council meeting.

VOTE: The motion to postpone failed with Council Members Cottle and Keller in favor. (Council Member Patrick was absent and excused)

Discussion continued.

VOTE: The motion failed with Council Members Bennett, Chappel and Fuller in favor.

12. COMMUNICATION

- A. **IM No. 99-82:** Wasilla Municipal Airport Re-Opening Celebration.
- B. **IM No. 99-79:** The Governmental Accounting Standards Board New Financial Reporting Model.
- C. Regular Planning Commission Meeting Minutes: July 27, 1999.
- D. Draft Parks And Recreation Commission Meeting Minutes: July 8, 1999.