# Memorandum
# City of Lawrence
# City Manager's Office

TO: David L. Corliss, City Manager
CC: Diane Stoddard, Assistant City Manager
FROM: Roger Zalneraitis, Economic Development Coordinator/Planner
DATE: February 24, 2011
RE: 9th and New Hampshire TIF request

*Project and Incentive Request*

First Management is constructing a new, 55 unit apartment building at the intersection of 9th and New Hampshire in Downtown Lawrence. The building will include space to allow First Management to relocate its operations Downtown, as well as a new restaurant and two professional fitness centers. The building is projected to cost about $10.8 to construct. A preliminary appraisal estimates that the building will be worth about $10.6 million (appraisal is attached).

The property is located in a Tax Increment Finance, or TIF, District that was established by the City in 2000 and will expire in 2020. Within a TIF District, some or all of the incremental property taxes that result from an increase in property value may be applied to public projects located in that District. This particular District was established to finance a parking garage as well as several other street and infrastructure improvements. Many, but not all, of the street and infrastructure improvements in the original plan have been made. The New Hampshire Street public parking garage has also been constructed. The City is currently paying off the debt on the parking garage using general tax revenue. Unless otherwise allocated, incremental property taxes generated from the 9th and New Hampshire apartment complex would be used to help pay off the remaining debt on the parking garage.

The owners of the building have requested $280,000 of the TIF funds to help with public infrastructure associated with the project. The primary reason they have made this request is because of the gap between the appraisal estimate ($10.6 million) and the costs of construction ($10.85 million). The TIF financing would make the equity and debt contribution to the project equal to the appraised value of the apartment building.

*Methodology*

The City requested staff to conduct an analysis of the costs and benefits associated with this project. The analysis does not include any review of TIF District policies, or a "but for" evaluation of whether the project would occur if the incentive was not provided. It is solely designed to determine whether the incentive request is financially feasible given the expected incremental tax revenue and costs to the community.

This analysis was more complicated than usual, as there were several “moving parts” to consider for a comprehensive evaluation. For this proposal, we looked at both the incremental property taxes generated by the building, as well as the economic impact both of the new residents as well as the additional employees at the building.

The 9th and New Hampshire property is currently valued at $459,000. Based on the appraisal, the property will likely be valued around $10.6 million when completed. Thus, there will be $10.15 million on incremental property value that can be used to finance TIF projects in the district. This results in about $265,000 per year in TIF-eligible property taxes (the State collects 20 mills of education-related property taxes that are not TIF-eligible by law).

The developer provided employment, wage, and operating revenues for the different businesses at the building. In total, about 53 new jobs would be created with an average wage of $17,400 per year (this excludes benefits). Typically when we look at cost-benefit analyses, we see much higher wages than this. The reason for the lower wages than what we normally see is because almost all of the new jobs created will be retail or restaurant jobs. In Lawrence, the average retail job pays around $19,000 per year, and the average restaurant job pays about $11,000 per year. The salaries offered at the retail and restaurant establishments in the 9th and New Hampshire building will be slightly higher than this the citywide average.

Staff also estimated the average wage for residents of the apartment complex based on the amount that would be charged for the apartments. We believe there will be around 62 new residents in these apartments (this is one person in each studio and one bedroom apartment, and two people in the two bedroom apartments). Rents will range from $775 per month for a studio up to $1,100 per month for a 2 bedroom apartment. Staff believes that the average income for each resident of these apartments will be around $39,000 per year. This is based on residents of the apartment complex spending no more than 25% of their income on rent.

We also had to estimate a multiplier for the new residents and businesses in the apartment complex. Typically, we use a multiplier for an industry as calculated by the Bureau of Economic Analysis (BEA). However, for this building there are four businesses in three different industry categories. Furthermore, residents have their own multiplier effect. Staff blended the BEA multipliers for these different categories based on new residents and new employment. This created an estimated multiplier to determine the indirect jobs and wages that would be created as a result of this apartment complex.

Staff also believes that some of the indirect jobs created by residents through the multiplier effect are in the businesses that will be housed in the apartment building (the fitness centers and the restaurant). The multiplier was therefore reduced slightly to take this into account. Failing to do so risks double-counting spin-off jobs from new residents.

Finally, when creating a TIF District, the benefits and costs are only evaluated for the life of the District. In this case, the District will expire in approximately 10 years.

Therefore, staff elected to look at the benefits and costs generated by the project over the next 10 years.

*Results*

A copy of the results is attached. Over the next 10 years, the apartment complex will generate about $7 million of tax revenues (this is not discounted). The City and State receive around $2 million each, and the School District (USD 497) and State receive about $1.4 million each. Property taxes from new apartments account for about one-third of the revenues for the City, two-thirds of the revenues for the County, and about half of the revenues for the School District.

There are about $3 million in costs resulting from this project over the next 10 years. This includes some capital costs to accommodate new residents and jobs, as well as ongoing annual costs for providing services to these new residents and employees. Unlike the revenues, costs are not evenly distributed. Almost half of the costs accrue to Lawrence. About $600,000 of costs fall to the County and State each.

The TIF rebates would likely occur in the first two years of the project. As noted, the project will generate around $265,000 of TIF-eligible incremental property taxes each year. That means that the applicant would receive the vast majority of its rebate in the first year, but not all of it. Around $15,000 would be rebated in the second year. Rebating $280,000 of incremental property taxes to the developer would further reduce the benefits by $73,000 to the City, $98,000 to the County, and about $110,000 from the School District. The difference is a result of the different property tax rates for each jurisdiction.

Once accounting for the incentive, the cost-benefit ratio for the City would be about 1.25 over the next 10 years. The City economic development policy uses a 1.25 ratio as the threshold for approving tax abatements. The policy does not speak to a ratio requirement for TIF projects, however. The City would reach a breakeven point on the project about five years after the building opens. The County has a cost-benefit ratio of about 2.13, and the School District a little over 5. The School District is high because they have the least amount of new costs associated with the project. The County's cost-benefit ratio reflects the fact that before the incentive, they receive about $2.40 of revenue for every dollar of additional costs. The County would breakeven about two years after the apartments open.

In present value, the City can expect to receive about $255,000 over the next 10 years as a result of this project after the rebates are included. The County will receive approximately $480,000, and the School District will receive about $960,000 of benefits. The benefits accruing to the School District include a substantial transfer from the State for new students.