DRAFT
City of Lawrence
Public Incentives Review Committee
July 10, 2012 meeting minutes

MEMBERS PRESENT:	Mayor Bob Schumm, Vice Mayor Mike Dever, School Board Member Shannon Kimball, County Commissioner Mike Gaughan (via conference call), Boog Highberger, Cindy Yulich
MEMBERS ABSENT:	Jeff Morrison, Rob Chestnut
STAFF PRESENT:	David L. Corliss, Diane Stoddard, Britt Crum-Cano, and Emily Kotay Consultants via conference call: David MacGillivray, Principal and Tony Schertler, Sr. Vice President with Springsted, Inc.
PUBLIC PRESENT:	Bill Fleming, Jean Milstead, Hubbard Collinsworth and several other members of the public.

Mayor Bob Schumm called the meeting to order.

A motion was given by Cindy Yulich to approve the meeting minutes from June 19, 2012 and seconded by Boog Highberger. Motion passed 5-0.

Bill Fleming with Treanor Architects provided an overview of the new redevelopment district, including both proposed South and North Projects. Located at the southeast corner of the 9th & New Hampshire intersection, plans for the South Project include a 4-story hotel with ground level retail, and partial fifth floor for a restaurant. The North Project will be located at the northeast corner of the same intersection and will include a drive-through bank, offices, and amenity space on the ground level. Apartment units will take up the remaining floors of the North Project. Both projects are slated for underground parking garages. Mr. Fleming pointed out that the final unit mix might vary slightly from what is presented today, but these assumptions are in line with assumptions used in the financial analysis performed by Springsted.

Mr. Fleming reiterated that the incentives requested will likely not cover all the developer's costs for constructing the public improvements. Estimated costs for the South Project are $3.3M and $3.4M for the North Project.

Mayor Bob Schumm asked if TIF and TDD revenues generated from the South Project (hotel) would cover the developer's public improvement expenses for that project. Mr. Fleming said that that project is anticipated to almost break even in paying back eligible costs. It was acknowledged that the North Project (apartments/bank) would likely not pay back developer's costs since there will be no retail element to generate TDD or TIF sales tax revenues.

It was noted that the developer is not fronting the acquisition costs associated with the Art Center's project and the City will be responsible for funding that expense. It was also mentioned that a performance agreement between the developer and City would be needed for the project, but is not yet formalized.

Shannon Kimball asked if the underground parking on each project would be limited to users of hotel/retail building and if so, how that would be policed. Mr. Fleming responded that parking will mainly be for servicing users of the project. However, it is undetermined at this time how that will be enforced.

Diane Stoddard presented the incentive request. The Developer is asking for three types of incentives for support of these projects: TIF, TDD, and IRB.

The Lawrence Arts Common project would require the City to acquire the property currently occupied by the Salvation Army at an estimated expense of $900K. Negotiations are proceeding, but nothing is final at this point.

The IRB will serve as a conduit financing mechanism to alleviate sales tax on construction-related expenses. The developer will be responsible for repayment of all principal and interest associated with these bonds. There is no City liability.

The developer is fronting all expenses for public improvements. Thus, the TIF and TDD are structured as "pay-as-you-go" incentives in which the developer will be reimbursed only though project performance. This puts project risk on the developer, not the City.

Next steps include a public hearing scheduled for July 24, 2012. There will be several additional steps involved before this project returns to the City Commission for approval (estimated October of this year).

David MacGillivray of Springsted introduced his consulting group and provided background on their experience and roll in performing the Financial Feasibility Study and needs analysis for this and similar projects.

Tony Schertler added additional detail on the analysis performed. A financial feasibility study is required by the State to determine if projected revenues exceed project costs. In this case they do not, but since the City is not issuing debt to cover project expenses (developer will cover these costs), this is not an issue.

The needs analysis (aka "but for") reports compare project returns with returns for like-type real estate projects to evaluate the need for public assistance. Both of the reports for the South and North projects conclude they do need financial assistance in order to proceed.

Mayor Bob Schumm mentioned that the difference between original TIF & this new request is that the original TIF required the City to front the money to pay for public expenses. This TIF is structured as a pay-as-you-go with the Developer fronting the expenses and is a better deal for City.

Boog Highberger asked what would be a reasonable range of returns for this type of project. Mr. MacGillivray responded that PriceWaterhouse Cooper (PWC) publishes return rates for each segment of the real estate industry. Springsted also uses additional sources for comparison. Returns for both the South and North Projects are on the low end of the range. It was noted that returns presented in the report are unleveraged (assumes no debt) in order to make a direct comparison with the PWC data.

Shannon Kimball mentioned that the feasibility study assumes a fixed mill levy rate over 20 year life of the TIF and asked what would happen to the numbers if the mill levy varies. Mr. MacGillivray explained that there are several variables involved in the calculations (property values, tax rates, assessed value, mill levy rates, etc.), but generally as amounts increase, public expenses will be paid back sooner.

Mike Dever asked for clarification on the IRB. Diane Stoddard explained that in this case it is serving as a financing conduit mechanism so that construction expenses could be exempt from local and state sales tax. The developer would be issued a project exemption certificate that could be used for purchasing materials without sales tax charged. Although the City's name is on the bonds, the City has no legal or financial obligations for paying bond interest or principal. This is just a way for the developer to be treated like the City in getting sales tax exemptions. This was also done for other Lawrence projects, including the Holidome, Eldridge Hotel, Bowersock Dam, and Hospital.

Bill Fleming mentioned that the estimated value of the sales tax exemption on construction costs was netted out of the overall project costs before rates of return where calculated. If this had not been done, the returns would have been even lower than that shown in the current Springsted reports.

Shannon Kimball asked if the 900 New Hampshire parcel will contribute more money to the existing 9th & New Hampshire parking garage if removed from the existing district and placed within a new district. Diane Stoddard mentioned that negotiations call for an $850,000 contribution from the developer as that parcel's share of expenses toward the parking garage in exchange for relocating the parcel to a new TIF district. This is substantially more than the amount of taxes that would be generated by the parcel (~$8,000/year) over the remaining life of bonds issued for building that garage (~ nine years).

Boog Highberger asked for clarification on why the TDD will be utilized to payback the 900 New Hampshire share of existing park garage contribution. Diane Stoddard mentioned that TIF law does not allow revenues generated within one district to pay for expenses incurred in another district. TDD does not have that restriction.

Cindy Yulich made a motion to recommend the City Commission approve the Developer's incentive requests for TIF, TDD, and IRB on both the North and South Projects.

Motion seconded by Mike Dever.

Motion carried 5-1, with Boog Highberger voting against.

The meeting was adjourned at approximately 3:50 pm.