

City of Lawrence Neighborhood Revitalization Plan and Program: 1106 Rhode Island Street

Definition:

Area - used interchangeably with "Property", referring to the property located at 1106 Rhode Island Street, Lawrence, Kansas, which includes Lot 118 and 120, Lawrence, Douglas County, Kansas

Plan:

The Area, at 1106 Rhode Island Street, is located at the southeast corner of 11th St. and Rhode Island St., two blocks east of Lawrence's historic downtown district in East Lawrence. The Hernly Associates, Inc. submission proposes retaining the buildings on site that are considered "Contributing" to the North Rhode Island Street Historic Residential District and adding new space that enhances the usefulness of the property. Due to historic contributions these structures provide to the community, the City desires the property rehabilitated to productive use. The applicant plans on rehabilitating the existing house, large barn and garage located on the property. Hernly Associates, Inc. estimates the costs for these renovations to 1106 Rhode Island to be \$896,585. Hernly Associates, Inc. has requested a Neighborhood Revitalization Act (NRA) be placed on the property. The following is the Neighborhood Revitalization Plan ("Plan") for this area.

This Plan is required by the Kansas Neighborhood Revitalization Act (the "Act") (see Appendix 1) in order to create a neighborhood revitalization area intended to encourage both reinvestment and improvements to a specific area or Property of the community. The governing body of the City of Lawrence (the "Governing Body" has determined that the a "neighborhood revitalization area" as described in K.S.A. 12-17,115(c) (3):

An area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significances should be preserved or restored to productive use.

The Governing Body has also determined that the rehabilitation, conservation, and redevelopment of the Property is necessary to protect the public health, safety and welfare of the residents of the City of Lawrence, as required by K.S.A. 12-17,116.

In accordance with K.S.A. 12-17,117, the components of this Plan include:

1. A general description of the Plan's purpose;
2. A legal description and map of the Property (Area);
3. The existing assessed valuation of the real estate comprising the Property;
4. A list of the name and address of the owner of record within the Property;
5. The existing zoning classifications and Property boundaries and the existing and proposed land uses of the Property;
6. The proposals for improving or expanding municipal services within the Property;
7. The term of the Plan;

8. The criteria used to determine what property is eligible for revitalization, including a statement specifying that property, existing buildings, and new construction is eligible for revitalization;
9. The contents, procedure and standard of review for an application for a rebate of property tax increments;
10. A statement specifying the maximum amount and years of eligibility for a rebate of property tax increments; and
11. A section regarding the establishment of a Neighborhood Revitalization Fund.

Section 1: Purpose

Establish a property revitalization tax rebate program (the "Program" or "Revitalization") to provide incentives for property owners to build public and private infrastructure. The Program is intended to revitalize the property at 1106 Rhode Island Street.

The Program will provide a valuable incentive to private developers/property owners to redevelop the Area and will accomplish the following city goals including, but not limited to, the following:

- The opportunity to promote redevelopment activities which enhance Downtown
- The opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized on site around Lawrence
- The opportunity to attract unique retail and/or mixed use development which will enhance the economic climate of the City and diversify the economic base

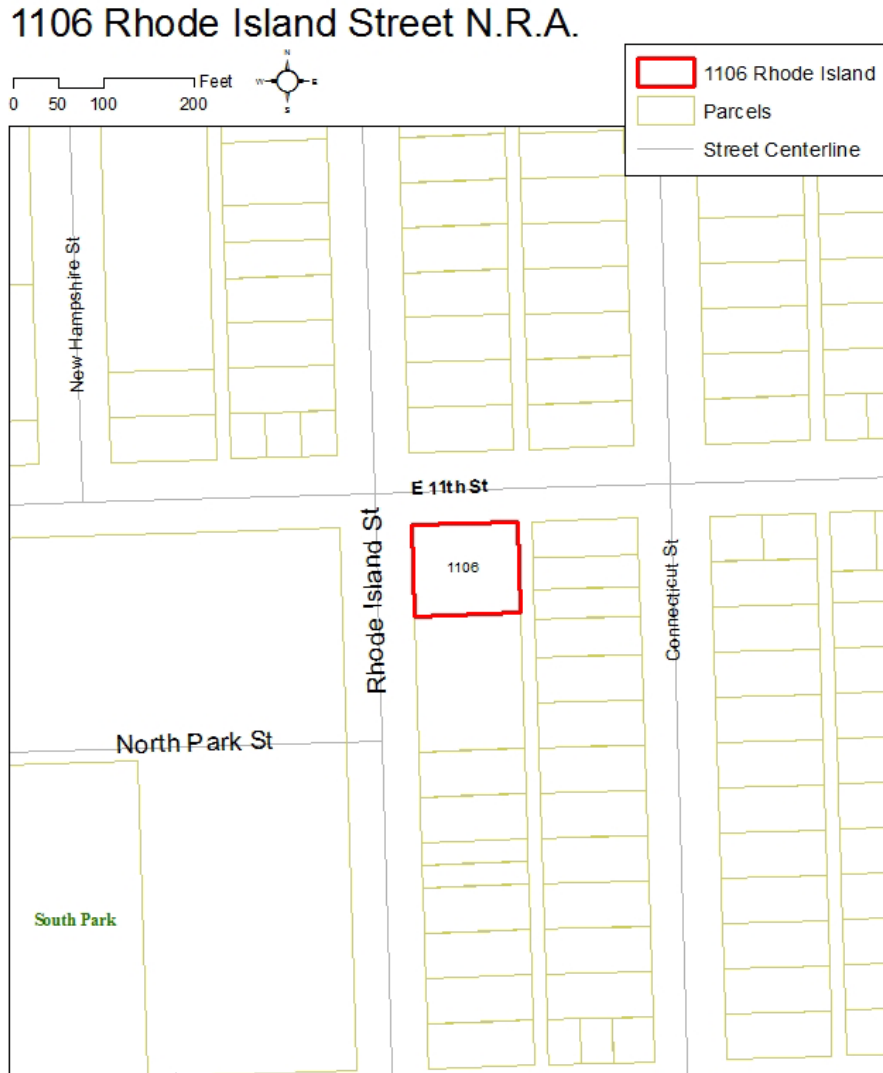
For Purposes of this Plan, the term "improvements" shall include the private and public infrastructure for rehabilitating and redeveloping the Property to achieve the foregoing goals.

Section 2: Legal Description & Map of Neighborhood Revitalization Property

The Property shall include the Area described herein:

Lots 118 and 120 on Rhode Island Street in the original townsite of the City of Lawrence, Kansas, Douglas County, Kansas.

As depicted below:



Section 3: Value of Real Properties

The appraised value of the real estate in the Area is:

2014 Appraised Values

Land:	\$40,000
Building:	\$43,900
Total Value:	\$83,900

The assessed value of the real estate in the Area is:

2014 Assessed Values

Land:	\$4,600
Building:	\$5,049
Total Value:	\$9,649

Section 4: Owner of Record of the Lots

City of Lawrence
6 East 6th Avenue
Lawrence, Kansas 66044
Future Owner:
1106 Rhode Island, LLC
1106 Rhode Island St.
Lawrence, KS 66044

Section 5: Existing Zoning Classifications and Property Boundaries; Existing and Proposed Land Uses

Land use for the property is currently specified as single family, residential. Current property zoning is RM12, Multifamily Residential which is designed to accommodate up to 12 dwelling units per acre.

The NRA is granted only to the proposed project and is also contingent upon the rezoning of the property to enable the project to proceed.

Existing Zoning Map



Existing Land Use Map

1106 Rhode Island Street N.R.A.



Zoning Map with Project

To accommodate office uses and residential uses, the property will need to be rezoned to RMO – Multi-Dwelling Residential Office District. The RMO allows a maximum 5 dwelling units and office uses subject to setback and parking restrictions and 22 dwelling units per acre.



Land Use Map with Project



Section 6: Proposals for Improving Municipal Services in the Property

There are no proposals currently for improving municipal services or infrastructure in the Area with this Plan.

Section 7: Term of the Plan

1. This Plan and tax rebate Program shall be effective upon the adoption of this Plan by ordinance of the Governing Body of the City of Lawrence.
2. This Plan and tax rebate program (the "Term") shall expire after **ten (10) years** from the date of adoption unless extended by the ordinance of the Governing Body prior to its expiration. The Governing Body reserves the right to evaluate the Program at any time.
3. The owner of the property at the time the property taxes are paid will be eligible for a property tax rebate on the incremental taxes associated with improvements to the Property (the "tax increment"). The Tax Increment will equal the property tax assessment against the Property for the first year after the improvements are completed (i.e. determined including the value that such improvements add to the assessed value of the Property) reduced by the property tax assessed against the Property for the base year (the year this Plan is approved) (i.e. determined without the value that the improvements add to the assessed value of the Property). The Tax Increment will then remain constant throughout the Term of the rebate program. The tax rebate will be determined based on the Tax Increment and the following table:

Table 1:

1106 Rhode Island Street NRA Rebate Schedule			
NRA Year	Tax Year	Rebate %	Year Rebate Paid to Property Owner
0	2015	n/a	n/a
1	2016	85% of increment	2017 (for 2016 Taxes)
2	2017	85% of increment	2018 (for 2017 Taxes)
3	2018	85% of increment	2019 (for 2018 Taxes)
4	2019	85% of increment	2020 (for 2019 Taxes)
5	2020	85% of increment	2021 (for 2020 Taxes)
6	2021	85% of increment	2022 (for 2021 Taxes)
7	2022	85% of increment	2023 (for 2022 Taxes)
8	2023	85% of increment	2024 (for 2023 Taxes)
9	2024	85% of increment	2025 (for 2024 Taxes)
10	2025	85% of increment	2026 (for 2025 Taxes)

4. This Plan and the Program is subject to approval of each taxing unit, including Douglas County and USD 497 and the City entering into an agreement with such other taxing units relating to the implementation and payment of tax rebates provided for under this plan.

Section 8: Contents of an Application for Rebate, Application Procedures and Standards of Criteria Used to Review an Application

The Letter of Proposal submitted by Hernly Associates shall serve as the application for the Program under this Plan. **No further applications are anticipated related to the Property. Please refer to Exhibit A.**

1. The improvements must result in an assessed value increase for the Property within twelve months of completing the improvements. Some improvements, regardless of cost, may not result in an increase in assessed value and thus would not make the property eligible for a property tax rebate. Such determinations will be made solely and independently by the Douglas County Appraiser's Office and the County Clerk.
2. General Provisions Applicable to all Rebate Applications on Eligible Property
 - a) Any otherwise eligible Property with delinquent real property or special assessments shall not be eligible for a rebate until such time as all taxes and assessments have been paid. If delinquency occurs after entry into the Program, the rebate will be suspended until such time as all taxes are paid in full. The County Treasurer will monitor real estate tax delinquencies for Property participating in the Program. The County Treasurer will notify the City if a Property becomes ineligible for the program due to tax or special assessment delinquencies.
 - b) The Property owner shall notify the City when all improvements covered under the application have been completed and the city shall inspect the improvements for compliance with the required building, health and safety codes of the City. The City shall notify the County Appraiser by December 1st that the improvements have been substantially completed.
 - c) The County Appraiser shall conduct an on-site appraisal as a part of the normal valuations following completion of the Improvements and determine the increase in the taxable valuation due to the Improvements. On or before December 1st of each calendar year, the City shall notify the County Appraiser, in writing, of each property in the Area for which Improvements have been determined to be substantially completed so that the County Appraiser may conduct on-site inspections as a part of the normal valuations to determine the increase in taxable valuations due to the Improvements. The County Appraiser will notify the City and the County Clerk of the valuation.
 - d) A tax rebate will be based on the Tax Increment as provided in Section 7.3.
 - e) Upon payment in full of the real estate tax (first and second installments) for the Property for the year following the completion of the improvements provided for in Section 7.3 and within thirty (30) days after the County distributes property tax collections to the City, The City shall pay the owner the amount determined under the Plan. If the owner appeals the appraised value of the Property to the County Appraiser, no payment will be made until the appeal is resolved.
 - f) For any improvements that are only partially completed as of December 1st of each year, the Property owner shall file a written document with the

City indicating the status of construction as of December 1st. The City shall share that document with the County Appraiser.

- g) If this Plan is repealed or the rebate criteria changed, any approved applications shall be eligible for rebates for the remaining Term of the rebate originally provided in the plan
- h) Any taxes paid under protest for a eligible property will suspend the rebate until the protest has been resolved.
- i) Construction of an Improvement must begin on or after the date of the designation of the District and be located within the District.

Section 9: Amount of Tax Rebate, Rebate Term, and Maximum Rebate Limit

- 1. The eligible tax rebate is set forth in Table 1, Section 7. If there is no Tax Increment generated for a specific property due to a diminution of assessed values, no tax rebate shall be provided for the Property.
- 2. Douglas County will retain an annual administrative fee of \$100 from the Increment of the rebate program. The remaining Increment for any given year shall be distributed to the taxing jurisdictions in accordance with regular property tax distribution procedures.
- 3. The maximum rebate shall be the sum of all incremental increases in taxes for the duration of the ten year period as further defined in the Table 1, Section 7.

Section 10: Neighborhood Revitalization Fund

Upon Governing Body approval of the Plan, the 1106 Rhode Island Street Neighborhood Revitalization Fund will be established.

Section 11: Other City Requirements

1. The Improvements must conform to all codes, rules, and regulations that are in effect at the time the improvements are made. Improvements must be authorized by public improvement plans or building permit when applicable.
2. Any otherwise eligible property with delinquent taxes or special assessments shall not be eligible for a rebate until such time as all delinquent taxes and assessments have been paid.
3. The NRA is granted only to the proposed project and is also contingent upon the rezoning of the property to enable to project to proceed.

Appendix I: Summary of the Kansas Neighborhood Revitalization Act

The Kansas Neighborhood Revitalization Act (NRA) allows the governing body of any municipality to pass an ordinance designating an area within that municipality as a "Neighborhood Revitalization Area" if it finds that "the rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of the residents of the municipality." K.S.A. 12-17,116.

KSA 12-17,115(b) and 12-17,116 provide that all municipalities are authorized to participate in Neighborhood Revitalization Area programs. In addition, KSA 12-17,119, provides that two or more (i.e. all) taxing jurisdictions within a Neighborhood Revitalization Area are specifically authorized to enter into interlocal agreements pursuant to 12-2901 to exercise the powers authorized by the Act (including utilizing all or a part of the other taxing jurisdictions tax increment). The interlocal agreement(s) must be submitted to and approved by the Kansas Attorney General.

The Neighborhood Revitalization Area Act expressly provides for additional home rule provisions which are not in conflict with this act. KSA 12-17,120 permits cities to enact and enforce additional laws and regulations on the same subject of revitalization, provided they are not in conflict with the Act. This would mean, for example, that cities should be able to adopt provisions permitting use of some of the increment which is not returned to taxpayers, to be used instead for other infrastructure improvements within the NRA Property, and conceivably, even for revitalization grants or other incentives that would spur revitalization and rehabilitation in the NRA Property. The ability of cities to go beyond the statutes will depend in a large part upon the scope of their agreement with the other taxing jurisdictions.

Exhibit A: Hernly Associates Request Letter



May 30, 2014

City of Lawrence
Mayor and City Commissioners
6 E 6th Street
Lawrence, KS 66044

Re: 1106 Rhode Island Street Property

Hernly Associates and our development group are very excited about the potential rehabilitation of 1106 Rhode Island Street. This project provides an opportunity to bring a derelict property into a good and profitable use and eliminate a 30+ year old eyesore from downtown Lawrence. We are working hard to find a way to bring the rehabilitation to fruition, but it is not easy. The "improvements" (ie. the buildings) on the property have been allowed to languish for so long that they actually subtract from the value rather than add to the value. The property would be worth more if the buildings were demolished and removed rather than left in place.

We have prepared detailed construction cost projections for the rehabilitation work and we have prepared detailed pro forma spreadsheets for the entire project, which calculates probable return on investment for our development group. We have prepared pro forma scenarios with and without economic development incentives. In order to make the project feasible we are requesting a development rebate grant of up to \$26,100 and a Neighborhood Revitalization Area designation for 85% property tax rebate of the incremental increase of property taxes over ten years.

What our pro forma spreadsheets reveal is that the cost of rehabilitation is too high to make it viable without economic development incentives. There are two sticking points in this regard. One is the amount of financing available for the project and one is the potential cash flow after rehabilitation.

PROJECT FUNDING:

Three components make up the project funding. These are Developer Investment, Bank Financing, and Development Incentives.

- **DEVELOPER INVESTMENT:** Our development group consists of five individuals who are willing to invest a total of \$150,000 of capital toward the project.
- **BANK FINANCING:** Two banks are interested in providing mortgage financing for the project; both are able to loan up to 80% of the "as-completed as-stabilized" appraised value. The appraised value will be based on the income the property can produce, not what it costs to rehabilitate the property. The amount of bank financing available for the project is approximately \$459,000.
- **DEVELOPMENT INCENTIVES:** The remainder of initial funding for the project will come from various incentives. These are anticipated to include Historic Preservation Tax Credits, various state and local grants, and "gap" bank financing.

The following table shows the anticipated initial funding sources included in the *pro forma* with a city grant. Amounts are tentative, and depend on actual development costs and securing funding levels from the various sources.

Investor's Equity - cash	16.85%	\$150,000
Fed Tax Credits	7.42%	\$73,000
KS Tax Credits	8.76%	\$86,500
Preservation Grants	5.62%	\$32,000
Development Grants (City)	3.09%	\$26,100
Development Fee Loan	7.69%	\$70,000
Mortgage (not to exceed 80% of appraised)	50.56%	\$459,000
TOTAL PROJECT FUNDING	100%	\$896,600

We are using state and federal historic preservation tax credits to help close some of the funding gap. These use a portion of the depreciation typically spread over the depreciable life of the property as "upfront development cash" in lieu of depreciation. We will use secondary bank funding to convert the federal tax credit to "development cash", and also to cover a portion of non-construction development costs.

The last funding piece is grants, and both *pro forma*s show that approximately \$58,000 in grant funds is needed to fully fund the project. We will apply for local and state historic preservation grants, but these are very competitive, especially for an entity that is not a non-profit organization. The *pro forma* with a City grant of \$26,100 reduces the historic preservation grant level required to \$32,000, which seems more possible. The city grant request is for fees that would be paid to the city as part of the development, or items which the city has potential in-house funding sources to cover the cost of the work. We have estimated the construction amounts using Means Cost Estimating Manuals and have used City fee schedules for others. The amounts are as shown in the following table:

Replat submittal/review fee rebate	\$200
Rezoning submittal/review fee rebate	\$200
Site Plan submittal/review fee rebate	\$200
BZA submittal/review fee rebate	\$200
Demolition Permit for out buildings and rear porch on house rebate	\$50
Building Permit fee rebate	\$3,950
Dumpster during construction rebate	\$3,450
Water service connections house/apartment and office – rebate from utility funds for installation of new water service lines	\$7,350
Sanitary sewer service connections house/apartment and office – rebate from East Lawrence sanitary sewer system upgrade program	\$10,500
TOTAL ESTIMATED FINANCIAL ASSISTANCE FROM CITY	\$26,100

CASH FLOW:

The second, and most significant sticking point, is that the monthly rental amounts that can be charged for the rehabilitated property are not high enough to sufficiently cover the monthly expenses projected to be incurred. Our *pro forma*s use residential rental amounts equivalent to the 85th percentile lease rates for the residential portion of the property. For the office portion, the portion that will be occupied by Hemly Associates, the *pro forma* with NRA and City Grant uses a premium lease rate for the first five years to maintain a positive cash flow; the *pro forma* without NRA or City Grant uses a super-premium lease rate, which is not realistic or sustainable.

The NRA property tax rebate requested is 85% of the tax increment increase on the property improvements for 10 years. Our *pro forma*s show that a Neighborhood Revitalization Area economic development incentive that rebates 85% of the projected property tax increase for ten years makes the difference between a viable development project and one that investors would not support.

The two comparative pro forma spreadsheets, one with and one without economic development incentives, provide a "but-for" comparison for you to consider. The comparison between the two over a 10-year and 20-year time period are shown in the following table:

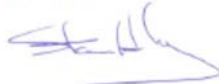
	With ED Incentives	Without ED Incentives
10 Year Ave. Annual Return on Investment	7.13%	1.60%
20 Year Ave. Annual Return on Investment	9.72%	6.82%

Without economic development incentives no investor can justify investing in this project. Without incentives the residential and office lease rates can't support the necessary cash flow needed for the project. Without economic development incentives this project is not viable.

The requested Development Grant from the City and the requested NRA tax rebate aren't just incentives, they are the funds that make it possible to reach the long term goal of rehabilitating this historic property. With the incentives this project becomes viable for our investors.

Please let me know if you have any questions regarding the proposed project or the information provided.

Sincerely,



Stan Hemly