

DRAFT
City of Lawrence
Public Incentives Review Committee
June 24, 2014 minutes

MEMBERS PRESENT: Mike Amyx, Mike Gaughan (via telephone), Linda Jalenak, Brian Iverson, Brad Burnside, Shannon Kimball, Boog Highberger, Jeremy Farmer

MEMBERS ABSENT: none

STAFF PRESENT: David L. Corliss, Diane Stoddard, Britt Crum-Cano

PUBLIC PRESENT: Jim Heffernan, H.E.R.E. Kansas, and Stan Hernly, Hernly Associates and several members of the general public

Mayor Amyx called the meeting to order. Commissioner Gaughan joined the meeting via telephone. Mr. Iverson made a motion to approve the minutes of May 21, 2014. The motion was seconded by Ms. Jalenak and was approved unanimously.

Ms. Crum-Cano provided an overview of the Neighborhood Revitalization Area (NRA) tool. Mr. Highberger joined the meeting.

H.E.R.E. Project (1101/1115 Indiana) Request:

Mr. Heffernan provided an overview of the project, which would be located south of 11th Street between Mississippi and Indiana Streets. He stated that there is a challenge with the grade change on the site, which has 6 stories of fall between the southeast corner and northwest corner of the project. This does enable the project to hide the parking garage, which would be the first automated robotic parking garage in the State of Kansas. The project would include 624 beds and three commercial spaces. He stated that the University of Kansas represents 33,000 people including students and faculty. He believes that the project will be a benefit to the community due to the proximity of campus. The property would generate sales tax revenue related to the commercial space and this benefit is not included in the analysis.

Vice Mayor Farmer joined the meeting.

Mr. Heffernan also mentioned interior amenities for the residents, including workout areas and study rooms. The building would be a hotel-environment that currently is not represented in the market. He stated that the building would incorporate several environmental features. He stated that the plans are to open the project in the Fall of 2015 with the start of the academic year. He is hopeful that there might be a reconfiguration of Fambrough Drive coordinated with the project. He noted that he was able to reach agreement with the owner of 1115 Indiana and so that home would be razed for that property to be incorporated into the project.

He stated that the investment of the project is unprecedented in size and complexity to any other in the community. He said that there were a number of benefits that were not accounted for in the model and he also said if one looked at the benefit cost analysis over a longer time period, that would affect the numbers in the analysis.

Ms. Crum-Cano reviewed the analysis for the project. She briefly reviewed current NRA projects that had been approved. She stated that the request from the applicant is a 12 year, 95% NRA and industrial revenue bond financing to access a sales tax exemption on the materials used in construction of the project. She stated that there were several NRA policy elements met by the project and that the project met IRB policy criteria. She mentioned that the City's model for benefit-cost analysis does not include intangibles and that the model was primarily developed for industrial projects. She mentioned that the sales tax exemption for construction materials would benefit the project by around \$2.4 to \$2.5 million, depending upon project costs. She ran the model for several different scenarios on a 15-year evaluation period. She also ran the model for a 20 year evaluation period. She stated that the longer the evaluation period, the higher the benefit-cost ratio would be. She ran analysis on return on equity and internal rate of returns and concluded that the project returns were very low without incentives, though there is no set return rate that determines whether a project will proceed or not.

Mr. Heffernan added that there are limitations to the model. He stated that the property tax increase over the existing property taxes would be 800% for each taxing unit. He stated that there are risks with the project due to the magnitude of the project. He stated that adding the sales tax rates back into the project enables it to meet the thresholds.

Mr. Highberger asked whether there was any consideration to provide affordable units. Mr. Heffernan responded that displacing 103 units is unique and that it only makes financial sense given the rents that would be charged. He stated that they understand the market and the economics of the project.

Ms. Kimball asked about the rents. Mr. Heffernan provided the schedule of rents for the project, which is based on bedrooms.

Commissioner Gaughan asked how the development proposed here at KU compared to projects elsewhere. He stated that the Champaign, Illinois project did not require incentives. Mr. Herrernan stated that the rents are higher in the project and it is a 26 story building, so has much greater density.

Mayor Amyx asked whether the only way to make this work is to incentivize the project to cover the debt in the first 12 years. Mr. Heffernan replied that the first 12 years allowed for the project to get through construction to get the permanent financing in place.

Ms. Kimball stated that this is a really neat project but she has a concern that the process for incentives is being treated as an after thought. She stated that she thought it was very important and that this was the first time she has heard this since she has to

take it back to their board. She told Mr. Heffernan that she needed to feel more comfortable with the numbers to take it back to her board. Mr. Heffernan stated that any of the scenarios were greater than 10%. Ms. Kimball stated that the model didn't necessarily reflect the correct return for the school district due to the state funding model.

Mr. Burnside asked about projects in the community with escalated rents in the market. Mr. Heffernan stated that he studied the Varsity House project due to its proximity but he didn't think that the project was directly comparable to the amenities offered with his project. Their project will create an experience.

Ms. Jalenak asked about the concept for the commercial space. Mr. Heffernan stated that restaurants are probable for the space. He stated that accommodations are a major factor in students making determinations of where to attend college. He said that housing was an important factor in attracting students. He stated that he didn't think that the project would hurt any of the taxing jurisdictions and that it had significant upsides and created some synergies for the general economy. He added that public parking on the street would also be a positive benefit.

Mr. Corliss stated that there is no city debt or risk involved in the project. He stated that there is a risk that it would be constructed and not work but that is a risk in the marketplace. He stated that the location adjacent to KU was a good place for student density. He referred to a table in Ms. Crum-Cano's report that demonstrated that even with an 85% rebate, the taxing jurisdictions would double the amount of current taxes being collected on the parcel. He stated that there is a risk in the marketplace and his own financing partners would need to be in place but there would be no city risk with the project. He stated that the community has struggled to find appropriate mixed uses in that neighborhood. He did state that discussion about precedent is important but also the magnitude of the project is the largest project in the community.

Mr. Heffernan asked about whether the evaluation period of 15 years was mandated. Ms. Crum-Cano stated that it was not, but typically this has been the horizon analyzed.

Commission Gaughan asked about prior NRA projects. It was clarified that the Poehler building did not receive an NRA incentive. NRA projects include 720 E. 9th Street, 1040 Vermont (Treanor Headquarters) and the Cider Building on Pennsylvania. The Masonic Temple had been approved, but the project did not proceed so it is inactive.

Mr. Iverson agreed that \$75 million is a huge investment in the community. He asked about whether the difference in increment of \$33,000 per year would make a difference on whether the project will proceed or not. Mr. Heffernan stated that his investors believe there is a difference. He stated that if he didn't need the money, he wouldn't be asking.

Mayor Amyx stated that he thought this was a neat project. However, at no time had any public incentives been discussed. Mr. Heffernan agreed, but he had sent the letter in March.

Ms. Kimball made a motion to recommend a 10 year 85% NRA. The motion was seconded by Commissioner Gaughan. Mayor Amyx asked about this project versus the 9th & New Hampshire project. Ms. Stoddard responded that both were pay as you go projects with no risk to the City. Mr. Heffernan asked about the term of the TIF at 9th & New Hampshire. Ms. Stoddard replied that it is a 20 year TIF.

Mr. Corliss asked about whether the total \$600,000 difference between the 12 year 95% versus the 10 year 85% was accurate. Mr. Heffernan stated this amount was less if discounted back to today's dollars.

Mr. Iverson stated that he thought that without this project, the property would likely sit in the same condition and the same level of taxes would be continued. He stated that he did not personally have an issue with a 95% 12 year abatement and didn't see a risk to the City. He stated that he saw a significant benefit to the City.

Mr. Burnside stated that he saw a large upside to the project for tax revenues. Ms. Jalenak stated that she had some hesitation like Ms. Kimball regarding deviating from the policy but thought that the project was worth it. Mr. Burnside added that the project was outside of the norm. Mr. Highberger stated that he thought the density was good and the location. He stated that he shared some of the same concerns as Ms. Kimball. He said that returning to what he saw as the intent of the NRA, he didn't believe that it was intended to build luxury housing. He stated that he could not support public subsidy for the project given that it did not include an affordable housing project.

Vice Mayor Farmer stated that he agreed with Mr. Iverson's observation about the property. He asked if a \$67,000 investment would be worth it. He asked if the developer could come with some different options if more could be subsidized with public incentives could the rents come down. He stated that he thought the investment was worth it for the project of this size.

Mayor Amyx stated that he thought that the rents that need to be achieved would be a concern, even though that would be decided by the market.

Mayor Amyx recapped the motion, which was to recommend approval of the 10 year 85% abatement. Vice Mayor Farmer stated that this process was important and said that he was supportive of the 12 year 95% level. Motion failed. Vice Mayor Farmer made a motion to recommend a 12 year 95% NRA. The motion was seconded by Mr. Burnside. The motion was tied with Vice Mayor Farmer, Mr. Burnside, Mr. Iverson and Ms. Jalenak voting in favor of the motion and Mayor Amyx, Mr. Highberger, Ms. Kimball, and Mr. Gaughan voting against.

Ms. Kimball made a motion to send the project to the City Commission with a positive recommendation for the project, without the group weighing in on the incentive level due to the policy. The motion was seconded by Jalenak. The motion was approved unanimously.

Ms. Kimball left the meeting.

1106 Rhode Island Project

Mr. Hernly provided background regarding the project. The project was a historic home and it was a junk yard for Packard cars for some period of time. He recapped that the City owns the property due to its deteriorated condition and that the City had sent out a RFP for proposals for the purchase and preservation of the property. The property consists of the house and a barn. The overall plan would have the house be a three bedroom house and there would be a new garage constructed with an apartment above. The barn would be an architecture office for Hernly Associates. He stated that on the design side they have had review by the Historic Resources Commission and he has had discussions with the neighborhood. The property is within the South Rhode Island Historic District. The structures that will maintain are contributing to this historic district and the plan would be to restore these structures to strengthen that contribution.

Ms. Crum-Cano stated that the request included a proposal to purchase the property and also have a development grant and a 10 year 85% NRA. The project does qualify for state and local eligibility for the NRA. She stated that there is great sensitivity in the model related to the amount of the grant and a purchase price for the property. She also added that there are intangibles with this project as it had been blighted for a number of years and it also has a historic component.

Mr. Hernly added that there were costs related to rehabilitating the historic properties versus a greenfield project. He stated that state and federal historic tax credits are planned to be used to the project. These are funds to take as depreciation over the life of the property and the developer has taken that as a credit at the front of the project. Another complicating factor is that the finished value of the property is based upon incomes from the property from rents. He is proposing 85% of the high end of the market for the rental rates. There are some grants that have not been secured yet. He stated that what is being asked in terms of financial assistance from the City totaled \$26,100.

Mr. Iverson asked whether the property was currently on the tax rolls. Ms. Crum-Cano stated that it is currently on the tax rolls even though it is in the name of the City because it isn't being used for a municipal use. Ms. Jalenak asked whether taxes were current. Ms. Crum-Cano stated they were. Mr. Highberger asked about staff's recommendation. Ms. Crum-Cano stated that staff is recommending the NRA, the purchase price and up to a \$26,100 grant for the project. Ms. Crum-Cano stated that the project would not meet the benefit cost threshold if the grant package were higher. Mr. Corliss stated that he thought it was difficult to value the property for any different amount than the court did. Mr. Corliss thought that the property was worth by \$90,000, though the court had required the City to pay \$114,000 for the property. He didn't think it would be fair to penalize the project for this. Mr. Iverson stated that if the cost were factored in if it would be an acceptable ratio. Ms. Crum-Cano stated it was and reminded everyone that it was a 20 year evaluation time horizon.

Mr. Highberger made a recommendation to support the staff recommendation of \$26,100 grant package, the purchase price and a 10 year 85% NRA. Motion was seconded by Ms. Jalenak. Motion was approved unanimously.

It was decided that rather than scheduling a meeting now, a meeting time in August would be determined on the policy issues.

Vice Mayor Farmer made a motion to adjourn. Mr. Iverson seconded the motion. Motion approved unanimously.