Memorandum
City of Lawrence
City Manager's Office

TO: David L. Corliss, City Manager
CC: Diane Stoddard, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: September 9, 2014
RE: Technical Report: NRA request for 9 Del Loft Apartments

Project Overview

Tony Krisnich of 9 Del Lofts, LLC, (Developer) is proposing the development of vacant land located at 900 Delaware Street into an affordable, multi-family housing complex. Located on the southeast corner of 9th Street and Delaware Street, adjacent to the East Lawrence Historic Warehouse, in Lawrence, Kansas, the project calls for approximately 43 apartment units: 18, one-bedroom units (five at market rate); 16, two-bedroom units (three at market rate); and four, three-bedroom units (one at market rate).

Project financing will rely on Federal Low-Income Housing Tax Credits (LIHTC) as well as private funding. As per the Developer, tax credits have already been awarded to the project by the Kansas Housing Resources Corporation (KHRC). It should also be noted that as per the Developer's legal representative, the property owner will be required to hold the property for a minimum of 20 years due to the compliance obligations of affordable housing programs.

Previously, the Developer had asked for and was granted City assistance for infrastructure improvements for the project. On June 3, 2014, the City Commission received and considered an infrastructure assistance request from the Developer and authorized rebating up to $270,967 in related expenses.

Request for NRA Assistance

A Request Letter and Incentives Application were received on August 13, 2014 from 9 Del Lofts, LLC requesting a 15-year, 95% Neighborhood Revitalization Area (NRA).

The following presents details and analytical results associated with this request.

Eligibility

The NRA is one of several economic development tools utilized by municipalities to promote economic growth through neighborhood enhancement. Authorized by the state, NRAs are intended to encourage the reinvestment and revitalization of properties which in turn have a positive economic effect upon a neighborhood and the City in general.

The use of an NRA is particularly applicable for use in areas where rehabilitation, conservation, or redevelopment is necessary to protect the public health, safety or welfare of the residents of the City. Typically, a percentage of the incremental increased value in property taxes (due to improvements) is rebated back to the developer/applicant over a period of time to help offset redevelopment costs and make the project financially feasible.

Project eligibility for NRA consideration is governed by both State statutes (KSA 12-17,114 et seq.) and City policy (Resolution 6954).

State Eligibility

Below outlines State requirements for NRA eligibility.

State Requirements

Statutory Criteria	Governing Body determines that rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of residents and the proposed project meets at least one of the below criteria:		
	1	An area in which there is a predominance of buildings or improvements which by reason of dilapidation, deterioration, obsolescence, inadequate provision of ventilation , light, air or open spaces, high density of population and overcrowding, the existence of conditions which endanger life or property by fire and other causes or a combination of such factors, is conductive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare.	***Health & Safety Need***
	2	An area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land uses relationships, faulty lot layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions deterioration of site or other improvements, diversity of ownership, tax, or special assessment delinquency exceeding the actual value of the land, defective or unusual conditions of title, or the existence of conditions which endanger life or property by fire and other causes or a combination of such factions substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations, or constitutes an economic or social liability and is detrimental to the public health, safety or welfare in its present condition and use.	***Economic Need***
	3	An area in which there is a predominance of buildings or improvements that should be preserved or restored to productive use because of age, history, architecture or significance should be preserved or restored to productive use.	***Preservation of Community/Historical Asset***

Conclusion—State Eligibility:

Development would replace a vacant, underutilized property with affordable housing that provides energy efficient and environmentally friendly features. In addition, the project would bring needed density and additional economic viability to the area in support of revitalization of the East Lawrence Historic Warehouse District. It should be noted that while the project does not lie within the district, it is directly next to and adjacent to the district. Residential density next to the revitalization district would likely provide additional market and economic support for the area and downtown (two blocks to the west), as well as bring needed affordable housing to the community at large.

City Eligibility

Resolution 6954 outlines the City's policy for establishing an NRA. City Policy Guidelines include:

- ***Typical Rebate Amounts & Duration***

  As per NRA policy, the City typically follows the below standard practice:

  - Does not provide more than 50% rebate on incremental property taxes
  - Does not establish an NRA for a period of time longer than 10 years

  However, there is an exception provision within the policy which allows the City to *"consider a greater rebate and/or a longer duration if sufficiently justified in the "but for" analysis."*[1]

[1] Resolution 6954, Section 4: Amount of Rebate

- ***Cost-Benefit Ratio***

  Resolution 6954, Section Two speaks to the cost-benefit ratio threshold. Specifically, the statement, *"It is the policy of the City to only consider the establishment of Neighborhood Revitalization areas which yield a benefit/cost ratio of at least 1.25.",* indicates that for every $1 of cost incurred as a result of the project, $1.25 is received as benefit) for economic development projects.

SECTION TWO: <u>POLICY STATEMENT:</u> It is the policy of the City to consider the establishment of Neighborhood Revitalization areas in order to promote reinvestment and revitalization of properties which in turn have a positive economic effect upon a neighborhood and the City in general. An applicant may request the City consider the establishment of a Neighborhood Revitalization area under the NRA either for a specific property, group of properties or neighborhood area. In considering the establishment of an NRA, the Governing Body shall consider the criteria outlined in Section Three. In determining the amount of a rebate, the Governing Body may balance the desirability of the project versus the amount and duration of the rebate and the requirements set forth in Section Four. It is the policy of the City to only consider the establishment of Neighborhood Revitalization areas which yield a benefit/cost ratio of at least 1.25.

From Resolution 6954, dated October 25, 2011.

Eligibility Criteria

For an NRA to be established, the project must not only meet statutory requirements, but also a majority of City policy criteria. The project meets City policy eligibility as detailed below:

City Policy: NRA Eligibility			
City Policy Criteria	When considering the establishment of a NRA, the City shall consider not only the statutory criteria, but if the project meets a majority of the below criteria:		**Eligible**
	1	The opportunity to promote redevelopment activities which enhance downtown	Y
	2	Provides the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized.	Y
	3	Provides 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.	N/A
	4	Provides the opportunity to enhance neighborhood vitality as supported by the City's Comprehensive Plan or other sector planning document(s).	Y
	5	Provides the opportunity to enhance community stability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.	Y
	Project must meet or exceed a 1:1.25 cost-benefit ratio.		See Analysis

Conclusion—City Eligibility:

As indicated above, the proposed redevelopment of 900 Delaware Street by 9 Del Lofts, LLC appears to meet a majority of City criteria. The project meeting the cost-benefit ratio is further explained in the following cost-benefit analysis section.

Analysis

Estimated fiscal impacts to taxing jurisdictions is examined through a cost-benefit analysis and project financial feasibility is examined through a "But For" analysis (pro forma), both of which are required by current NRA policy.

Cost-Benefit Analysis

Based on information received through the incentives application, staff conducted analysis of the costs and benefits associated with the project utilizing the City's economic development cost-benefit model. This model measures estimated fiscal impacts to four taxing jurisdictions: City, County, School District, and State. Furthermore, the model outputs a ratio reflecting the comparison of estimated costs to estimated benefits returned to the jurisdictions as a result of the project.

Assumptions utilized within the model:

- *Capital Investment & Job Creation*
  According to the incentives application received, approximately $7.2 million will be invested in purchasing and redeveloping the property. Project completion is anticipated in May 2015. Once redeveloped, the project is expected to support two new, full-time jobs anticipated to have an average annual salary of $50,000.

- *Property Taxes*
  In its present condition, the property generates approximately $1,200 per year in real property taxes. Under the NRA program, these "base" property taxes are shielded from rebates and would continue to be paid by the property owner. Only a percentage of the incremental increase in property value resulting from project improvements is subject to NRA rebates and then only during the NRA period. After the NRA period, no reimbursements are made on property taxes and the property returns fully to the tax rolls.

900 Delaware Street Tax History

Year	Appraised			Assessed			Total Tax
	Land	Improvements	Total	Land	Improvements	Total	
2014*	$78,530	$0	$78,530	$9,424	$0	$9,424	$1,228
2013	$78,530	$0	$78,530	$9,424	$0	$9,424	$1,192
2012	$78,530	$0	$78,530	$9,424	$0	$9,424	$1,176

*Source: Douglas County Appraiser's Office, * Estimated tax amount for 2014*

The following table provides a summary of the estimated base and incremental tax amounts the developer would be responsible for given a 10- and 15-year, 85% and 95% NRA provided by all taxing jurisdictions. As base taxes are shielded from rebate, these tax revenues remain the same over the NRA period regardless of the rebate percentage granted.

85% NRA Rebate: Estimated Tax Paid by Developer		
	Total over 10 year NRA period (2016-2025)	***Total over 15 year NRA period (2016-2030)***
Amount due on Base Value	*$12,409*	*$18,690*
Amount due on Incremental Value	*$35,862*	*$56,889*
Total developer paid taxes over NRA period	***$48,272***	***$75,579***

95% NRA Rebate: Estimated Tax Paid by Developer		
	Total over 10 year NRA period (2016-2025)	***Total over 15 year NRA period (2016-2030)***
Amount due on Base Value	*$12,409*	*$18,690*
Amount due on Incremental Value	*$11,954*	*$18,963*
Total developer paid taxes over NRA period	***$24,363***	***$37,653***

- *City Infrastructure Grant*

  On June 3, 2014, the City Commission authorized City assistance of up to $270,967 for the below infrastructure improvements for the 9 Del Lofts project.

City Infrastructure Grant: 9Del Lofts	
Description	**Authorized 6-3-14**
Relocation of Sanitary Sewer Main	$69,505
Site Water Line (Fire and Domestic, New Fire Hydrant)	$17,545
Sanitary Sewer Connection to Building	$3,355
Site Storm Sewer	$37,840
Public Street Improvement Plans (Street Storm and Patching)	$16,157
Private Drive-9th Street Extension to east and 10' trail along Delaware	$47,565
System Development Charges	
Water	$45,000
Meter	
Sewer	
Burying of overhead utility lines	$34,000
TOTAL	**$270,967**

  Some of the above expenses apply only to the project, while others benefit both the project and neighborhood. For cost-benefit analysis purposes, $222,326 was the grant amount identified that represented the expenses attributed only to the project. The remaining $48,641 benefits both the project and neighborhood and was not included within the cost-benefit analysis.

- *Model Evaluation Period*

  For projects contributing to traditional economic development goals (i.e. primary job creation, high wage jobs, capital investment infusion) the model evaluation period has typically been 15 years. However, in projects that do not have traditional economic goals as their primary community contribution or projects that provide substantial intangible benefits, which would not be considered within the model (e.g. affordable housing), a longer evaluation period may be appropriate.

  Given the minimum 20 year ownership period required by tax credit compliance, staff feels a 20 year evaluation period is appropriate for this project and the below cost-benefit scenarios were ran using this evaluation period. However, for comparison purposes, results of a 10-year, 85% NRA are shown for both a 15-year and 20-year evaluation period in Addendum A. In general, the shorter the model evaluation period, the lower the cost-benefit ratios will be for the taxing jurisdictions.

Cost-Benefit Model Results:
Several cost benefit scenarios were ran utilizing information provided on the incentives application submitted by 9 Del Lofts LLC. Given the required minimum holding period for the project (as per tax credit compliance), Staff ran scenarios utilizing a 20 year evaluation period. (Additional Model results are shown in Addendum A.)

- *NRA Only—No City Grant*
  The following shows results for a 20 year evaluation period without infrastructure grant values included in the analysis. As can be seen, the project exceeds a 1.25 cost-benefit ratio for all taxing jurisdictions, when not accounting for the City infrastructure grant.

9 Del: NRA Results + $0 City Grant					
Incentive Package	City	County	USD 497	State	Total Package Value
10-Year, 85% NRA, $0 City Grant	3.15	2.43	6.03	n/a	$200,526
10-Year, 95%% NRA, $0 City Grant	3.09	2.27	5.59	n/a	$232,048
15-Year, 85% NRA, $0 City Grant	3.03	2.04	4.98	n/a	$318,700
15-Year, 95%% NRA, $0 City Grant	2.95	1.83	4.39	n/a	$368,101

- *Inclusion of City Grant*
  Assuming a 20 year holding period, the following table shows results when City infrastructure grant amounts are included in the analysis. As can be seen, cost-benefit ratios remain the same for all taxing jurisdictions except for the City. When accounting for the City infrastructure grant, City ratios drop below breakeven levels (breakeven = 1:1 or for every $1 of public investment, $1 of benefit is realized).

9 Del: NRA Results + $222,326 City Grant					
Incentive Package	City	County	USD 497	State	Total Package Value
10-Year, 85% NRA, City Grant of $222,326	0.68	2.43	6.03	n/a	$422,852
10-Year, 95% NRA, City Grant of $222,326	0.62	2.27	5.59	n/a	$454,374
15-Year, 85% NRA, City Grant of $222,326	0.56	2.04	4.98	n/a	$541,026
15-Year, 95% NRA, City Grant of $222,326	0.48	1.83	4.39	n/a	$590,427

As illustrated above, meeting the City policy's cost-benefit threshold depends on if the City Infrastructure Grant is considered within the analysis.

- *No City NRA Participation*

  Scenarios were run assuming the City did not participate in the NRA, providing only the infrastructure grant. As seen below, just the inclusion of City infrastructure pushes the ratio below the 1.25 threshold.

No City NRA Participation + City Grant

9 Del: No City NRA + $222,326 City Grant					
Incentive Package	**City**	**County**	**USD 497**	**State**	**Total Package Value**
10Y-85% County/USD/State NRA, City Grant of $222,326	1.07	2.81	7.06	n/a	$348,713
10Y-95% County/USD/State NRA, City Grant of $222,326	1.07	2.55	6.37	n/a	$398,682
15Y-85% County/USD/State NRA, City Grant of $222,326	1.07	2.57	6.42	n/a	$421,934
15Y-95% County/USD/State NRA ,City Grant of $222,326	1.07	2.22	5.46	n/a	$502,083

Conclusion--Model Results:

Model results show that the cost-benefit threshold of 1.25 can be met for all taxing jurisdictions, with the exception of the City, for a 10- or 15-year NRA at both the 85% and 95% rebate levels.

Meeting the City policy's cost-benefit threshold depends on if the City Infrastructure Grant is considered within the analysis. If the grant is not considered within the analysis, the City 1.25 cost-benefit threshold can be met with a 10- or 15-year NRA at both the 85% and 95% rebate levels. If the infrastructure grant is included, the cost-benefit ratio falls below breakeven levels for the City in all NRA scenarios.

“But For” Analysis

In order to provide a NRA rebate, the City must be convinced that without public assistance, the project will not be financially feasible. Whether or not the project would proceed if incentives are unavailable speaks to the “but for” test; But for the incentives, the project would not proceed.

Although there is no definite way to know in advance if the project will or will not proceed if incentives are not provided, there are financial metrics that can be examined to get a reasonable perspective. Through examining developer’s pro forma and other financial documents, project cash flow and return rates can be compared with and without public assistance.

- Projected Cash Flow

  The Developer provided estimated annual revenues and expenses for the project, which were used to project annual cash flow over a minimum 15 year period. Property valuation information was provided by Douglas County Appraiser’s Office and was used to project annual property taxes.

  In examining project cash flow, results show:

1. *Without NRA incentives, the project won’t cash flow.*

   The below table shows cash flow results when NRA incentives are not provided. As can be seen, cash flow is negative for each year of operations.

Cash Flow Analysis: 9 Del Lofts															
	2016	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Operating Year	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	**Y9**	**Y10**	**Y11**	**Y12**	**Y13**	**Y14**	**Y15**
After Tax Cash Flow: No NRA	($10,923)	($10,546)	($10,224)	($9,958)	($9,751)	($9,608)	($9,531)	($9,524)	($9,589)	($9,731)	($9,954)	($10,261)	($10,657)	($11,145)	($11,731)

2. *With the addition of NRA rebates, cash flow becomes positive in the years provided.*

   The below table shows cash flow results when a 10-year NRA is provided by all taxing jurisdictions.

Cash Flow Analysis: 9 Del Lofts															
	2016	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Operating Year	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	**Y9**	**Y10**	**Y11**	**Y12**	**Y13**	**Y14**	**Y15**
After Tax Cash Flow: 10Y-85% NRA	$7,497	$8,272	$9,002	$9,684	$10,316	$10,894	$11,415	$11,876	$12,274	$12,605	($9,954)	($10,261)	($10,657)	($11,145)	($11,731)
After Tax Cash Flow: 10Y-95% NRA	$9,664	$10,486	$11,264	$11,995	$12,677	$13,306	$13,879	$14,394	$14,846	$15,233	($9,954)	($10,261)	($10,657)	($11,145)	($11,731)

Below shows cash flow for a 15-year, 95% NRA with all taxing jurisdictions participating.

Cash Flow Analysis: 9 Del Lofts															
	2016	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Operating Year	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	**Y9**	**Y10**	**Y11**	**Y12**	**Y13**	**Y14**	**Y15**
After Tax Cash Flow: 15Y-95% NRA	$9,664	$10,486	$11,264	$11,995	$12,677	$13,306	$13,879	$14,394	$14,846	$15,233	$15,551	$15,796	$15,965	$16,053	$16,056

Cash flow without City participation in the NRA can also provide positive cash flow over a 15 year rebate period.

No City NRA Participation

Cash Flow Analysis: 9 Del Lofts															
	2016	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Operating Year	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	**Y9**	**Y10**	**Y11**	**Y12**	**Y13**	**Y14**	**Y15**
After Tax Cash Flow: 15Y-85% NRA (no city NRA)	$2,666	$3,314	$3,914	$4,463	$4,957	$5,395	$5,772	$6,086	$6,332	$6,509	$6,611	$6,635	$6,577	$6,433	$6,199
After Tax Cash Flow: 15Y-95% NRA (no city NRA)	$4,265	$4,945	$5,577	$6,159	$6,688	$7,160	$7,572	$7,922	$8,205	$8,419	$8,559	$8,622	$8,604	$8,501	$8,308

- Return Rates

  One common financial metric that can be examined for project feasibility is the Internal Rate of Return (IRR). The IRR is a complex formula that takes into consideration annualized compounded return rates based on the project's anticipated operating expenses and revenues over time, as well as recapture returns from selling the property at the end of a holding period. The IRR a developer requires to proceed is subjective and depends on various factors, including shareholder demand for returns, investment goals, availability of alternate projects and comparative potential returns, and many other financial and investor considerations.

  Due to investor subjectivity and the confidential nature of financial documents that have to be examined in order to calculate the IRR, a typical return rate benchmark for the property type and community is difficult to access. However, it should be noted that property valuation within the IRR analysis was based on capitalization rates (cap rate) for the property type and community, as determined by the Douglas County Appraiser's Office.

  In lieu of local IRR comparison data, one proxy benchmark that can be used when measuring the IRR is two times the "risk free" investment yield. Typically, the 10-year Treasury Bill is considered risk free and rate information is easily available. The below table illustrates project IRRs with and without incentives as compared to the investment threshold proxy[2].

9 Del: Return Rates (est.)--15 Year Holding Period

NRA Scenarios	Investment Threshold	Average ROE: No Incentives	Average ROE: With Incentives	IRR: No Incentives	IRR: With Incentive
All Jurisdictions Participating in NRA					
10Y-85% NRA + $270,967 City Infrastructure Grant	8.10%	0.30%	0.54%	5.96%	6.44%
10Y-95% NRA + $270,967 City Infrastructure Grant			0.57%		6.49%
15Y-95% NRA + $270,967 City Infrastructure Grant			0.73%		6.71%
No City NRA Participation					
County/USD/State **10Y**-95% NRA + $270,967 City Infrastructure Grant	8.10%	0.30%	0.50%	5.96%	6.35%
County/USD/State **15Y**-85% NRA + $270,967 City Infrastructure Grant			0.58%		6.45%
County/USD/State **15Y**-95% NRA + $270,967 City Infrastructure Grant			0.61%		6.51%

[2] Investment threshold proxy = 2 * 10-Year average Treasury Bill rate.

Overall, this seems to be a difficult project to make happen financially and even with public assistance, the returns are low. Without incentives, average project return on equity (ROE)[3] is 0.30% with an internal rate of return (IRR)[4] of 5.96%, as compared to an 8.10% investment threshold. With the addition of NRA incentives, analysis shows project returns improve, but are still relatively low, especially in comparison to the investment proxy threshold. Depending on the incentive package, return on equity ranges from 0.50%-0.73% with IRRs ranging from 6.35%-6.71%.

Conclusion—But For Test

Analysis shows that the project will not meet cash flow or have reasonable return rates without NRA assistance. Therefore, it is reasonable to assume that the project would not be able to proceed "but for" public incentives.

Other Considerations

Other non-quantifiable project benefits should also be considered within the context of this request, including:

- The opportunity to deliver needed, affordable housing within the community
- The opportunity to provide additional traffic in support of Downtown Lawrence and the East Lawrence Historic District.
- The opportunity to support on-going area revitalization and increase synergies between area projects.

Performance Agreement

Per City policy, the property owner/development team would be required to enter into a performance agreement with the City in order to receive NRA rebates. The most significant reason for this is to make sure the developer coordinates with the City and County at the beginning of the establishment of the district and to ensure that there are no delinquent property taxes during any of the years of the NRA plan.

[3] Return on Equity: ROE = Cash Flow/Equity

[4] Internal Rate of Return: IRR = Discount rate that makes the net present value of all cash flows from a particular project equal to zero.

Professional Staff Opinion & Recommendation

Eligibility: Staff believes the project as proposed will meet State and City NRA eligibility criteria.

But-For Test: Examination of estimated cash flows and return rates, with and without public assistance, indicates the "but for" test has been met for the project.

Cost-Benefit Threshold: The project meets the preferred 1.25 cost-benefit ratio for the County, School District and State.

Model results for the City depend on the assumption to include or exclude the value of the infrastructure grant that has been previously authorized. However, even if the grant is considered within the analysis, additional intangible benefits of the project, which should also be taken into consideration, may usurp the need for the City to meet the cost-benefit ratio threshold.

Staff Recommendation:
Due to the affordable housing component of the project and the strong intangibles that are not represented in the numbers, Staff would recommend participation at the requested 95% level for all jurisdictions for a 15-year period. While the NRA policy suggests a 10-year limit, the policy also suggests that longer durations may be appropriate if the analysis bears out the need. In this case, the "but for" test points to the need for the NRA incentive in order to make the project viable. Adding to the 9 Del Loft development and other housing opportunities in the area, the project will help to sustain the density for vibrancy in the area.

PIRC Requested Action

Public Incentives Review Committee to provide recommendation on the participation of each jurisdiction in a NRA for 900 Delaware Street, including duration and percentage rebate level.

Addendum A: Additional Cost-Benefit Model Scenarios

All Jurisdictions Participating in NRA + No City Grant

9 Del: NRA Results + $0 City Grant					
Incentive Package	**City**	**County**	**USD 497**	**State**	**Total Package Value**
10-Year, 20% NRA, $0 City Grant	3.45	3.22	8.18	n/a	$46,410
10-Year, 25% NRA, $0 City Grant	3.42	3.15	7.99	n/a	$59,771
10-Year, 50% NRA, $0 City Grant	3.31	2.84	7.16	n/a	$119,542

All Jurisdictions Participating in NRA + City Grant

9 Del: NRA Results + $222,326 City Grant					
Incentive Package	**City**	**County**	**USD 497**	**State**	**Total Package Value**
10-Year, 20% NRA, $222,326 City Grant	0.98	3.22	8.18	n/a	$268,736
10-Year, 25% NRA, $222,326 City Grant	0.95	3.15	7.99	n/a	$282,097
10-Year, 50% NRA, $222,326 City Grant	0.84	2.84	7.16	n/a	$341,868

Comparison of 15Y vs. 20Y Evaluation Period: All Jurisdictions Participating in NRA + City Grant

9 Del: NRA Results + City Infrastructure Grant						
Incentive Package	**City**	**County**	**USD 497**	**State**	**Total Package Value**	
10-Year, 85% NRA, $222,326 City Grant	0.20	2.07	5.28	n/a	$422,852	***15 Year Evaluation Period***
10-Year, 85% NRA, $222,326 City Grant	0.68	2.43	6.03	n/a	$422,852	***20 Year Evaluation Period***

Addendum B: Model Results

Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

Project Summary

Capital Investment in Plant:	$6,970,000
Annual Local Expenditures by Firm:	$0
Retained Jobs:	2
Average Wage per Retained Job:	$50,000
Indirect Jobs Created:	2
Economic Value per Indirect Job:	$22,983
Total New Households:	2
Discount Rate:	6.24%
Cost and Revenue Escalation:	1.00%
Number of Years Evaluated:	20

Incentives

IRB Offered	No	
Value of IRB Construction Sales Tax:	$0	
Tax Rebate:	0%	annually over 10 years
Length of Tax Abatement/s:	0 Years	
Value of Tax Abatements, Total:	$0	
Other Incentives		
Site Infrastructure:	$222,326	
Facility Construction:	$0	
NRA Rebates:	$368,101	
Value of All Incentives Offered:	**$590,427**	
Value of All Incentives per Job per Year:	$14,761	
Value of Incentives in Hourly Pay:	$7.10	
Value of Incentives per Dollar Invested:	$0.08	

Summary of Results

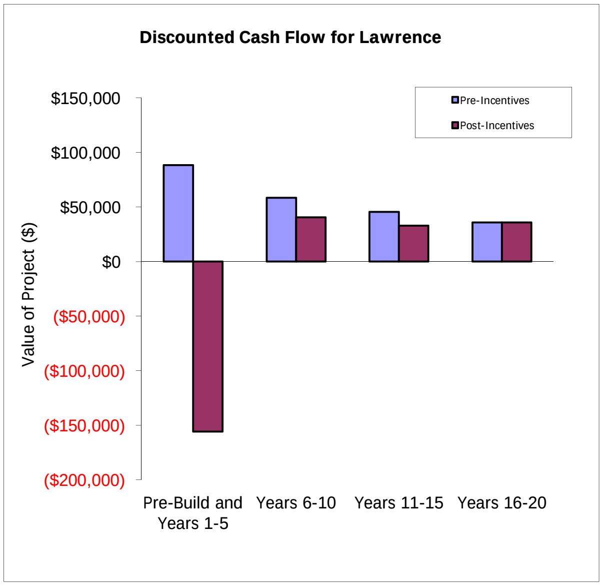
Returns for Jurisdictions	**Lawrence**	**Douglas County**	**USD 497**	**State of Kansas**
Revenues	$541,694	$249,181	$385,455	$690,042
Costs	$136,614	$60,470	$41,564	$0
Revenue Stream, Pre-Incentives	*$405,080*	*$188,711*	*$343,891*	*$690,042*
Value of Incentives Offered	$304,416	$106,749	$169,326	$3,681
Revenue Stream with Incentives	**$100,663**	**$81,962**	**$174,565**	**$686,361**

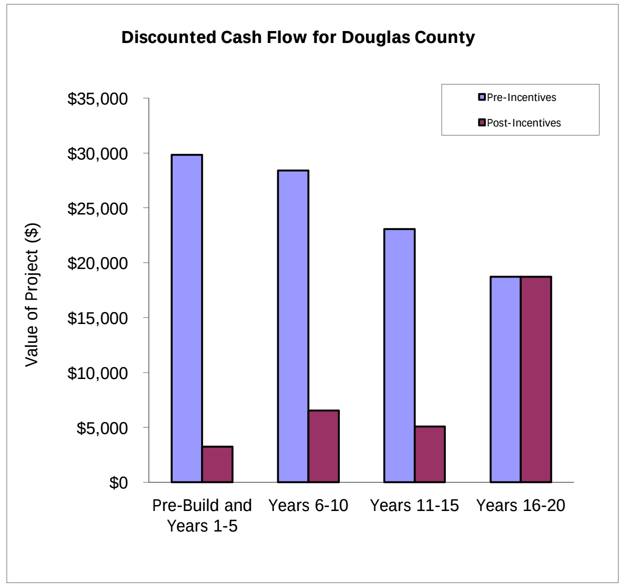
Returns for Jurisdictions, Discounted	**Lawrence**	**Douglas County**	**USD 497**	**State of Kansas**
Discount Rate	6.24%			
Discounted Cash Flow, Without Incentives	$228,208	$100,031	$185,832	$458,559
Benefit/Cost Ratio, Without Incentives	*3.53*	*3.46*	*8.83*	*#DIV/0!*
Discounted Cash Flow, With Incentives	($46,600)	$33,614	$80,481	$456,269
Benefit/Cost Ratio, With Incentives	**0.48**	**1.83**	**4.39**	**#DIV/0!**

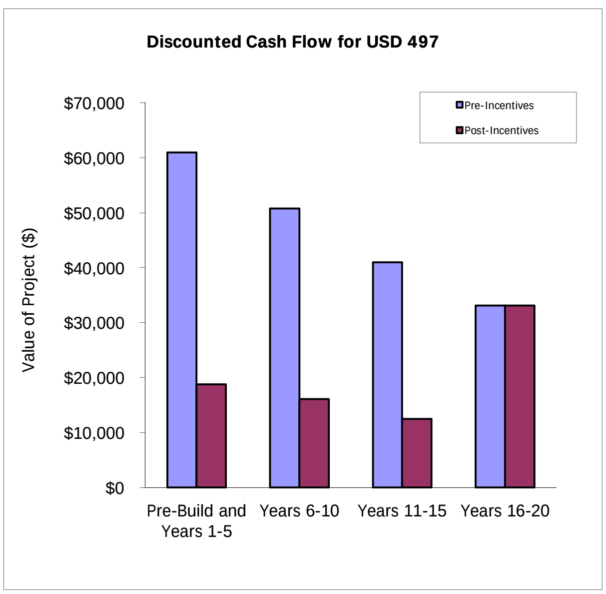
Cost-Benefit Model Results: 9 Del Apartments

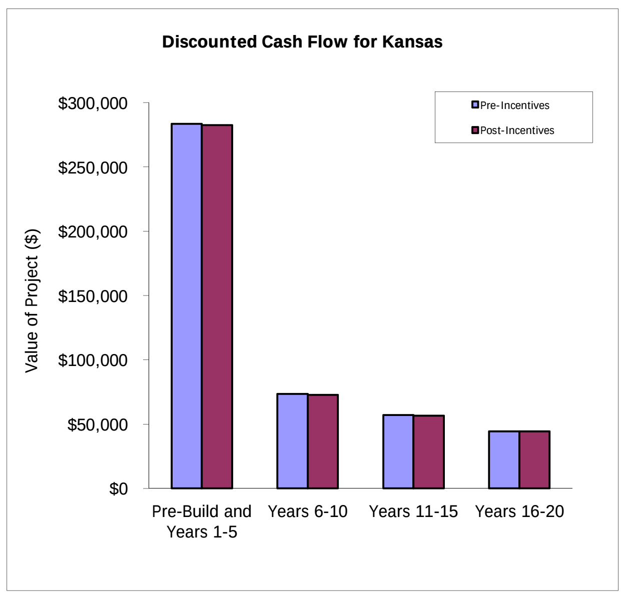
Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

Graphs of Benefits and Costs by Time Period, with and Without Abatement





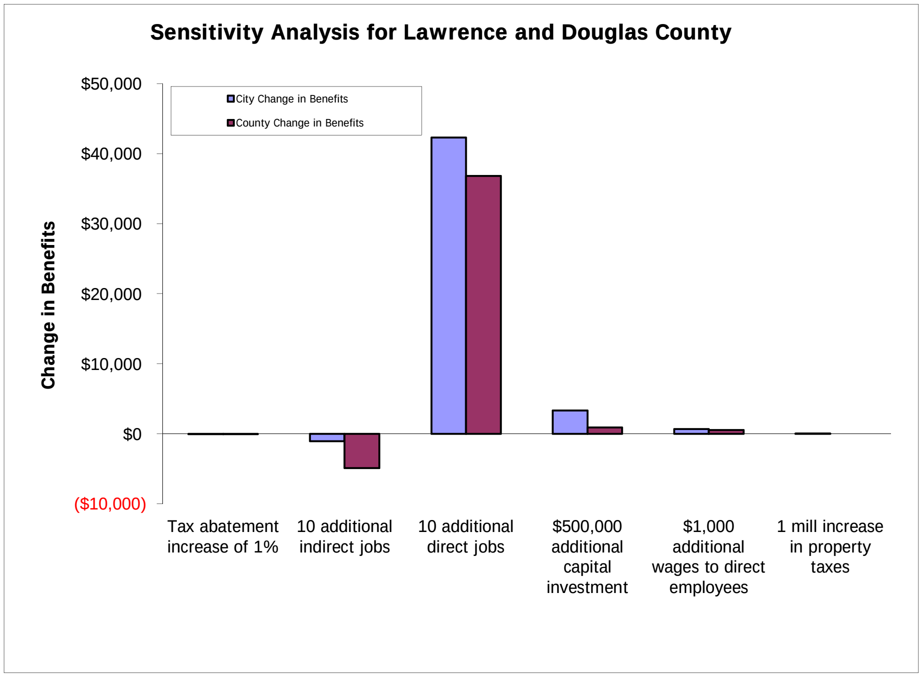




Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

Sensitivity Analysis



Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

APPENDIX 1: Annual Results Not Discounted

Lawrence: Annual Results (not discounted)					
Year	**Revenues**	**Costs**	**Incentives**	**Net**	**Cumulative**
Pre-Operation	$0	$0	$0	$0	$0
1	$71,732	($42,198)	($5,048)	$24,486	$24,486
2	$22,892	($4,537)	($5,157)	$13,199	$37,685
3	$23,181	($4,582)	($5,269)	$13,330	$51,015
4	$23,473	($4,628)	($5,383)	$13,463	$64,477
5	$23,770	($4,674)	($5,499)	$13,597	$78,074
6	$24,072	($4,721)	($5,618)	$13,732	$91,806
7	$23,422	($4,768)	($5,740)	$12,914	$104,720
8	$23,401	($4,816)	($5,864)	$12,721	$117,440
9	$23,703	($4,864)	($5,991)	$12,847	$130,288
10	$24,009	($4,913)	($6,121)	$12,975	$143,263
11	$24,321	($4,962)	($6,389)	$12,969	$156,233
12	$24,636	($5,011)	($6,528)	$13,097	$169,330
13	$24,957	($5,062)	($6,669)	$13,226	$182,556
14	$25,282	($5,112)	($6,813)	$13,357	$195,913
15	$25,613	($5,163)	$0	$20,449	$216,362
16	$25,950	($5,215)	$0	$20,735	$237,098
17	$26,293	($5,267)	$0	$21,026	$258,123
18	$26,640	($5,320)	$0	$21,321	$279,444
19	$26,993	($5,373)	$0	$21,620	$301,064
20	$27,352	($5,427)	$0	$21,925	$322,989

Douglas County: Annual Results (not discounted)					
Year	**Revenues**	**Costs**	**Incentives**	**Net**	**Cumulative**
Pre-Operation	$0	$0	$0	$0	$0
1	$23,335	($20,773)	($6,099)	($3,537)	($3,537)
2	$10,142	($1,908)	($6,231)	$2,003	($1,534)
3	$10,315	($1,927)	($6,366)	$2,022	$488
4	$10,492	($1,946)	($6,504)	$2,041	$2,529
5	$10,672	($1,965)	($6,645)	$2,061	$4,590
6	$10,855	($1,985)	($6,789)	$2,081	$6,671
7	$11,042	($2,005)	($6,936)	$2,101	$8,773
8	$11,233	($2,025)	($7,086)	$2,122	$10,894
9	$11,427	($2,045)	($7,240)	$2,142	$13,037
10	$11,625	($2,066)	($7,396)	$2,163	$15,200
11	$11,827	($2,086)	($7,557)	$2,185	$17,385
12	$12,033	($2,107)	($7,720)	$2,206	$19,591
13	$12,243	($2,128)	($7,887)	$2,228	$21,818
14	$12,458	($2,149)	($8,058)	$2,250	$24,068
15	$12,676	($2,171)	($8,233)	$2,272	$26,340
16	$12,898	($2,193)	$0	$10,706	$37,046
17	$13,125	($2,215)	$0	$10,911	$47,957
18	$13,357	($2,237)	$0	$11,120	$59,077
19	$13,593	($2,259)	$0	$11,334	$70,410
20	$13,833	($2,282)	$0	$11,551	$81,962

Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

APPENDIX 1: Annual Results Not Discounted (Continued)

USD 497: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$16,335	($3,894)	($9,675)	$2,766	$2,766
2	$16,610	($1,810)	($9,884)	$4,915	$7,681
3	$16,890	($1,828)	($10,098)	$4,963	$12,644
4	$17,175	($1,846)	($10,317)	$5,012	$17,656
5	$17,466	($1,865)	($10,540)	$5,061	$22,716
6	$17,762	($1,884)	($10,769)	$5,110	$27,826
7	$18,065	($1,902)	($11,002)	$5,160	$32,987
8	$18,373	($1,921)	($11,240)	$5,211	$38,198
9	$18,687	($1,941)	($11,484)	$5,262	$43,460
10	$19,006	($1,960)	($11,732)	$5,314	$48,774
11	$19,333	($1,980)	($11,986)	$5,367	$54,141
12	$19,665	($1,999)	($12,246)	$5,420	$59,560
13	$20,004	($2,019)	($12,511)	$5,473	$65,034
14	$20,349	($2,040)	($12,782)	$5,528	$70,561
15	$20,702	($2,060)	($13,059)	$5,583	$76,144
16	$21,061	($2,081)	$0	$18,980	$95,124
17	$21,426	($2,101)	$0	$19,325	$114,449
18	$21,800	($2,122)	$0	$19,677	$134,126
19	$22,180	($2,144)	$0	$20,036	$154,162
20	$22,568	($2,165)	$0	$20,403	$174,565

State of Kansas: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$222,662	$0	($210)	$222,452	$222,452
2	$22,434	$0	($215)	$22,219	$244,671
3	$22,661	$0	($220)	$22,441	$267,112
4	$22,890	$0	($224)	$22,666	$289,778
5	$23,121	$0	($229)	$22,892	$312,670
6	$23,355	$0	($234)	$23,121	$335,791
7	$23,591	$0	($239)	$23,352	$359,143
8	$23,830	$0	($244)	$23,586	$382,729
9	$24,071	$0	($250)	$23,822	$406,551
10	$24,315	$0	($255)	$24,060	$430,611
11	$24,561	$0	($261)	$24,300	$454,911
12	$24,810	$0	($266)	$24,543	$479,454
13	$25,061	$0	($272)	$24,789	$504,243
14	$25,315	$0	($278)	$25,037	$529,280
15	$25,571	$0	($284)	$25,287	$554,567
16	$25,830	$0	$0	$25,830	$580,397
17	$26,092	$0	$0	$26,092	$606,489
18	$26,356	$0	$0	$26,356	$632,845
19	$26,623	$0	$0	$26,623	$659,468
20	$26,893	$0	$0	$26,893	$686,361

Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

APPENDIX 2: Discounted Annual Results

Lawrence: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	($222,326)	($222,326)	($222,326)
1	$67,517	($39,719)	($4,751)	$23,047	($199,279)
2	$20,281	($4,019)	($4,569)	$11,693	($187,586)
3	$19,330	($3,821)	($4,393)	$11,115	($176,470)
4	$18,423	($3,632)	($4,225)	$10,566	($165,904)
5	$17,560	($3,453)	($4,063)	$10,044	($155,860)
6	$16,738	($3,283)	($3,907)	$9,548	($146,312)
7	$15,329	($3,121)	($3,757)	$8,451	($137,860)
8	$14,415	($2,967)	($3,613)	$7,836	($130,024)
9	$13,743	($2,820)	($3,474)	$7,449	($122,575)
10	$13,103	($2,681)	($3,341)	$7,081	($115,494)
11	$12,492	($2,549)	($3,282)	$6,662	($108,832)
12	$11,911	($2,423)	($3,156)	$6,332	($102,500)
13	$11,357	($2,303)	($3,035)	$6,019	($96,481)
14	$10,829	($2,190)	($2,918)	$5,721	($90,760)
15	$10,326	($2,082)	$0	$8,244	($82,516)
16	$9,847	($1,979)	$0	$7,868	($74,648)
17	$9,391	($1,881)	$0	$7,509	($67,138)
18	$8,956	($1,788)	$0	$7,167	($59,971)
19	$8,541	($1,700)	$0	$6,841	($53,130)
20	$8,146	($1,616)	$0	$6,530	($46,600)

Douglas County: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$21,964	($19,552)	($5,741)	($3,329)	($3,329)
2	$8,985	($1,690)	($5,521)	$1,774	($1,555)
3	$8,601	($1,607)	($5,309)	$1,686	$131
4	$8,234	($1,527)	($5,105)	$1,602	$1,733
5	$7,883	($1,452)	($4,909)	$1,523	$3,256
6	$7,548	($1,380)	($4,721)	$1,447	$4,703
7	$7,227	($1,312)	($4,539)	$1,375	$6,078
8	$6,919	($1,247)	($4,365)	$1,307	$7,385
9	$6,626	($1,186)	($4,198)	$1,242	$8,627
10	$6,344	($1,127)	($4,036)	$1,181	$9,808
11	$6,075	($1,072)	($3,882)	$1,122	$10,930
12	$5,818	($1,019)	($3,733)	$1,067	$11,997
13	$5,572	($968)	($3,589)	$1,014	$13,010
14	$5,336	($921)	($3,452)	$964	$13,974
15	$5,110	($875)	($3,319)	$916	$14,890
16	$4,894	($832)	$0	$4,062	$18,952
17	$4,688	($791)	$0	$3,897	$22,849
18	$4,490	($752)	$0	$3,738	$26,588
19	$4,301	($715)	$0	$3,586	$30,174
20	$4,120	($680)	$0	$3,440	$33,614

Cost-Benefit Model Results: 9 Del Apartments

Scenario: 15-Year, 95% NRA (all jurisdictions), 20Y Evaluation Period

APPENDIX 2: Discounted Annual Results (Continued)

USD 497: Annual Results (discounted)					
Year	**Revenues**	**Costs**	**Incentives**	**Net**	**Cumulative**
Pre-Operation	$0	$0	$0	$0	$0
1	$15,375	($3,665)	($9,106)	$2,603	$2,603
2	$14,715	($1,604)	($8,757)	$4,355	$6,958
3	$14,084	($1,524)	($8,421)	$4,139	$11,096
4	$13,480	($1,449)	($8,097)	$3,933	$15,030
5	$12,903	($1,378)	($7,787)	$3,738	$18,768
6	$12,351	($1,310)	($7,488)	$3,553	$22,321
7	$11,823	($1,245)	($7,200)	$3,377	$25,699
8	$11,318	($1,184)	($6,924)	$3,210	$28,909
9	$10,835	($1,125)	($6,658)	$3,051	$31,960
10	$10,372	($1,070)	($6,403)	$2,900	$34,860
11	$9,930	($1,017)	($6,157)	$2,757	$37,616
12	$9,508	($967)	($5,921)	$2,620	$40,237
13	$9,103	($919)	($5,693)	$2,491	$42,727
14	$8,716	($874)	($5,475)	$2,368	$45,095
15	$8,346	($831)	($5,265)	$2,251	$47,346
16	$7,992	($790)	$0	$7,202	$54,548
17	$7,653	($751)	$0	$6,902	$61,450
18	$7,328	($714)	$0	$6,615	$68,065
19	$7,018	($678)	$0	$6,340	$74,404
20	$6,721	($645)	$0	$6,076	$80,481

State of Kansas: Annual Results (discounted)					
Year	**Revenues**	**Costs**	**Incentives**	**Net**	**Cumulative**
Pre-Operation	$0	$0	$0	$0	$0
1	$209,577	$0	($198)	$209,379	$209,379
2	$19,875	$0	($190)	$19,684	$229,064
3	$18,896	$0	($183)	$18,713	$247,776
4	$17,965	$0	($176)	$17,789	$265,566
5	$17,081	$0	($169)	$16,911	$282,477
6	$16,239	$0	($163)	$16,077	$298,554
7	$15,440	$0	($157)	$15,283	$313,837
8	$14,679	$0	($151)	$14,529	$328,366
9	$13,957	$0	($145)	$13,812	$342,178
10	$13,269	$0	($139)	$13,130	$355,308
11	$12,616	$0	($134)	$12,482	$367,790
12	$11,995	$0	($129)	$11,866	$379,656
13	$11,404	$0	($124)	$11,281	$390,937
14	$10,843	$0	($119)	$10,724	$401,661
15	$10,309	$0	($114)	$10,195	$411,855
16	$9,801	$0	$0	$9,801	$421,657
17	$9,319	$0	$0	$9,319	$430,976
18	$8,860	$0	$0	$8,860	$439,836
19	$8,424	$0	$0	$8,424	$448,260
20	$8,009	$0	$0	$8,009	$456,269

Addendum C: Cost-Benefit Model Limitations

This analysis utilized the City of Lawrence's Cost-Benefit Model. The City's cost-benefit model provides a framework for estimating the fiscal impacts of a project, assuming it were in existence and in use today, through the examination of costs and benefits to various taxing jurisdictions (City, County, School District, State).

The Cost-Benefit model is one tool that government decision makers can incorporate in their decision-making process. However, as with most models, it does have limitations, including

- **Does not consider intangible effects**
  The model does not speak to the effects of intangible costs or benefits resulting from the project, since intangible effects are difficult, if not impossible to assign a dollar value.

- **Does not consider private or market effects**
  The model only seeks to quantify the cumulative effect on public revenues and expenses and not the effect on private interests that may be affected by the project. Thus, the model only considers public, or governmental, costs and revenues.

  Logic would dictate that any development may also have a financial impact on the private sector. For example, if one were analyzing a proposal to build a new baseball stadium, the new tax revenue from the building and property – as well as the costs for providing additional public security and emergency services (police, fire, ambulance, etc.) – would factor into the analysis. However, the effect of the stadium on neighboring property values or the impact on business at local restaurants would not be accounted for within the model.

  The cost-benefit model does not consider market impacts of the project, including the amount of market share the project captures from existing businesses or the amount of new revenues brought into the community as a direct result of the project. A market study can be employed to study these effects.

- **The model considers direct effect economic impacts**
  Multipliers used within the model are applied to direct effects such as the number of jobs created by the project and associated wages. The model does not attempt to measure all indirect effects such as capturing visitor spending associated with the project, nor the economic effects of that spending as outside dollars circulate through the community over time.

- **Model assumes current effects**
  The model is run on assumptions and estimations provided at the time of analysis. The current effects aspect of the model means that the analysis provides a means of estimating the financial impact of a development as if the project were in existence and in use today, given estimated costs and assumptions that are usually defined prior to the project being constructed or operational. Given that it may be difficult to predict future costs and benefits accurately, there is an implicit assumption that future changes affect both revenues and costs.

  In addition, the model does not reflect any changes in economic adjustments over time due to macroeconomic conditions, regional industrial structure, public policies, and technological advances.

- **Does not consider fiscal impacts of temporary or part-time employment**
  Employment analyzed is for full-time, permanent positions related to the project and does not consider temporary jobs created due to project construction or part-time positions created during project operation.

Other considerations for decision making:
It is important to remember that there could be several important considerations that fall outside of the realm of municipal budgets. For example, fiscal impacts of development on abutters, local businesses and natural resources are not accounted for in the cost-benefit model.

The model also does not consider issues of equity and social responsibility. For instance, while it may be easy to identify the fiscal downsides of low-income housing on municipal and school budgets, municipalities may also bear some level of responsibility for ensuring access to affordable housing, as is dictated by the Fair Housing Act. Finally, communities maintain certain values that cannot be assigned a price tag, such as the intrinsic value of nature, cultural heritage, and aesthetics.

Depending on the project, it may be prudent to employ other analytical models or studies (e.g. economic impact analysis; pro forma/but-for analysis; trade area analysis; tourism impact, market demand and other studies; etc.) in conjunction with the cost-benefit model, as well as non-quantifiable elements, to gain insight into the project's overall value to the community.