

Memorandum

City of Lawrence

City Manager's Office

TO: Diane Stoddard, Interim City Manager
CC: Casey Toomay, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: July 7, 2015
RE: City Commission 6-9-15 Study Session Follow Up: Neighborhood Revitalization Area (NRA)

The June 9, 2015 study session provided the City Commission an opportunity to discuss economic development topics, including the Neighborhood Revitalization Area (NRA), Industrial Revenue Bonds (IRB) and the City application for incentives. At this meeting, the Commission directed staff to outline issues related to these topics and provide a suggested review and recommendation process.

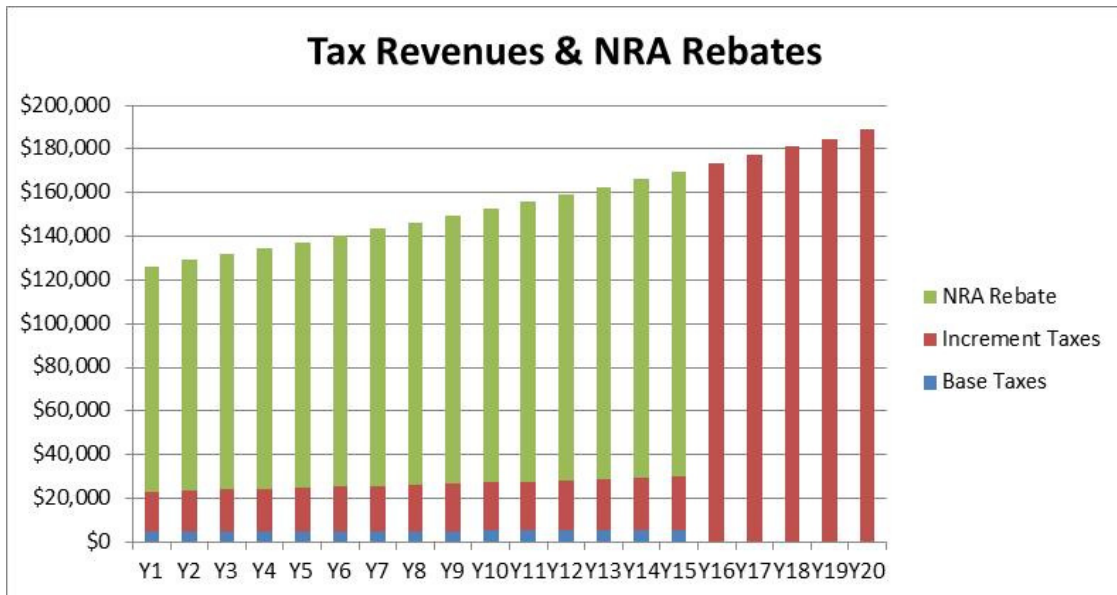
The following outlines topics related to the NRA, a community improvement incentive tool. A separate memo has been prepared which addresses the review and recommendation process for further policy considerations for the NRA and IRB and changes to the City application.

NRA Overview

The Neighborhood Revitalization Area was authorized by the State in 1994 to allow municipalities to revitalize designated areas or districts determined by the governing body to be in need of improvement. Municipalities can designate individual parcels or entire neighborhood areas for participation in the program.

The NRA program works by providing a property tax rebate on the incremental increase in property value resulting from improvements. The base value, or what the property was valued at prior to improvements, is shielded from the rebate so taxing jurisdictions continue to get at least the same level of ad valorem tax revenue as was previously realized. In addition, during the NRA period, taxing jurisdictions gain additional ad valorem tax revenue on the incremental increase in property valuation for the percentage not granted for rebate. Once the NRA period ends, total property valuation goes on the tax rolls, with taxing jurisdictions typically realizing a substantial increase in tax revenues as compared to the un-improved property value.

Graph 1: Sample rebate and tax revenues received during and after NRA duration



Although there may be spin-off employment (both temporary construction jobs as well as permanent positions) as a result of the project, the NRA is a revitalization tool. As such, completion of project improvements fulfills the primary objective of the program.

To be eligible for an NRA, a project must first pass state eligibility as per K.S.A. 12-17,115 which is detailed in **Addendum A**. Additional eligibility requirements can be required by municipalities and specified in local policy.

City NRA Background

Current City NRA policy was authorized in 2011 (see **Addendum B**) to promote the reinvestment and revitalization of properties which in turn will have a positive economic effect upon a neighborhood and the City in general. Each local taxing jurisdiction (City, County, and School District) separately considers their participation in the NRA. A cooperative agreement is executed by the taxing jurisdictions choosing to participate in the NRA, primarily to stipulate administrative processing.

To date, the below NRAs have been authorized by the City, County and USD 497 School District.

| Neighborhood Revitalization Areas (NRA) | | | | | | | |
|--|--------------------------------------|------|----------------|-------------------------|--------------------|---|---|
| NRA | Project Status | Ord. | % Rebate | Duration | First NRA Tax Year | Last NRA Tax Year | County Admin Fee |
| 8th and Pennsylvania District: 720 E 9th St. | Project completed: Continuing NRA | 8093 | 95% | Based on amount rebated | 2011 | Once maximum amount due (\$324,673.18) has been rebated or 12-31-2032, whichever comes first. | 0.00526% of total. |
| | | | | | | | |
| 1040 Vermont (Treanor Headquarters) | Construction completed: Nov 2012 | 8625 | Years 1-4: 95% | 10 Years | 2013 | 2022 | One-Time Fee: Equal to 2.5% of the increment for the 1st NRA Rebate |
| | | | Years 5-6: 85% | | | | |
| | | | Year 7: 70% | | | | |
| | | | Year 8: 50% | | | | |
| | | | Year 9: 30% | | | | |
| | | | Year 10: 20% | | | | |
| 810/812 Pennsylvania (Cider Building) | Construction completed: April 2013 | 8753 | 95% | 10 Years | 2014 | 2023 | \$100 annually |
| 1106 Rhode Island St. (Hernly Associates) | Under construction | 9022 | 85% | 10 Years | 2016 | 2025 | \$100 annually |
| 1101/1115 Indiana St. (HERE Kansas) | Under construction | 9021 | 85% | 10 Years | 2017 | 2026 | \$100 annually |
| 900 Delaware St. (9 Del Lofts) | Under construction | 9040 | 95% | 15 Years | 2016 | 2030 | \$100 annually |
| 705 Massachusetts St. (Eldridge expansion) | Construction not yet commenced | 9086 | 85% | 15 Years | 2017 | 2031 | \$100 annually |
| 1001 Massachusetts (Masonic Temple) | Postponed due to change in use | 8671 | n/a | n/a | n/a | n/a | n/a |

Terminology

For clarification, the below terms are used throughout this memo:

Private-initiated NRA requests: Request is for an NRA that will benefit a single ownership interest. Project is typically to be located on a very small number of parcels (e.g. one or two).

Public-initiated NRA requests: Request is for an area-wide NRA that can apply to a number parcels and benefit multiple, private owners having property located within the NRA district or area. Typically a governing body such as the City or County will initiate the NRA in order to promote investment in an area of the community needing revitalizing.

NRA Discussion Topics

The below discussion topics were brought up at the June 9, 2015 Commission study session. This section is followed by considerations staff has identified related to these topics.

- 1. Commission consideration or rejection of an NRA Request**
- 2. NRA application and administrative Fees**
- 3. Eligibility requirements for an NRA**
- 4. Analysis of NRA requests**
- 5. Rebate level and duration**

Considerations for NRA Discussion Topics

1. Commission consideration or rejection of an NRA Request

What should be the overall process for consideration of an NRA request, including *if* and *when* an NRA application would be considered or rejected?

2. NRA application and administrative Fees

Currently, the City does not have an NRA application or administrative fee. Should the City be charging fees and if so, what amount?

- The City Commission may want to take into consideration the staff time required to process and administer an NRA as well as other, required expenses (e.g. publication charges for printing ordinances or resolutions in the local newspaper, additional consultant and study fees.)

NRA Staff Time Requirements:

| | |
|---|--|
| Procedural Intensity: high | Allow ~2-3 months for processing. If considered, must be presented to PIRC, the City Commission (2X), the County Commission, and the School Board. |
| Analysis: high | Requires both a cost-benefit and detailed financial "but for" analysis. Necessitates multiple meetings with applicant and County Appraiser. May require additional studies if information outside the scope of cost-benefit and "but for" is needed. |
| Document Preparation: high | Requires Cooperative Agreement, Performance Agreement, NRA Plan, NRA Ordinance, publication of Ordinance in local newspaper |
| Administrative Processing: low-moderate | Requires property owner to submit an annual application for rebate and proof of tax payment. Requires City staff resources for processing/tracking. |

Staff time to process an NRA application and publications costs are estimated at approximately \$3500.

| Suggested NRA Application Fee | | | | | |
|-------------------------------|------------------|------------|-------------|---------|-----------------|
| Assistance Program | Publication Fees | Staff Fees | Staff Time* | Total | Application Fee |
| NRA | \$270 | \$3,200 | 80 | \$3,470 | \$3,500 |

*Staff time includes analysis, drafting technical reports, presentations to PIRC and governing bodies, time preparing regulating documents.

- Fees charged by other communities. For reference, a survey of NRA fees charged by neighboring communities is included in **Addendum C**. (It should be noted that the majority of NRA programs in neighboring communities are public-initiated.)
- Should NRA fees differ by project type or project expense, and if so, under what terms? Although publication charges and staff time remains consistent regardless of the scale of the project for private-initiated NRA requests, smaller projects may have difficulty affording the application fee.

Assuming larger scale projects can afford higher fees, application fees for private-initiated NRAs could be adjusted based on project capital investment with the City providing a subsidy or waiving the fee for smaller scale projects and charging the full amount for larger scale projects. For example,

| | |
|---|---------|
| \$1,000,000 capital investment or less: | \$1,000 |
| Over \$1,000,000 capital investment: | \$3,500 |

- Lower application fees may be more appropriate for public-initiated NRAs. If administratively processed, public-NRAs would require substantially less staff time to administer and process and publication fees would be eliminated. Application fees could be adjusted according to property type. For example,

| | |
|--------------------------|-------|
| Residential application: | \$25 |
| Commercial application: | \$100 |

- What are the advantages and disadvantages of charging annual administrative fees? Most annual administrative fees are low and do not cover the administrative time required to process.

3. Eligibility requirements for an NRA

Do current City policy eligibility requirements reflect the Commission's intentions for the use of the NRA tool?

It is important to note that current City NRA policy was written envisioning the use of the tool for private-initiated NRAs. Eligibility requirements were not crafted to address the specifics for a larger NRA area.

In addition to meeting state eligibility criteria, current city policy outlines the below eligibility considerations:

| Current City 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 | Provides the opportunity to promote redevelopment activities which enhance downtown | |
| | 2 | Provides the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized. | |
| | 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. | |
| | 4 | Provides the opportunity to enhance neighborhood vitality as supported by the City's Comprehensive Plan or other sector planning document(s). | |
| | 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. | |
| | Project must meet or exceed a 1:1.25 cost-benefit ratio. | | |

- Commission may wish to discuss eligibility requirements based on the type of NRA project. Eligibility requirements would likely differ substantially if the application is for a public-initiated NRA as compared to a private-initiated NRA application.
- If applicable, the Commission may wish to discuss how NRA policy would be implemented for private-initiated vs. public-initiated NRAs. (e.g. Create separate policies, add a special section within main NRA policy, rely on NRA plans for specifying eligibility/participation details, etc.)

4. Analysis of NRA requests

Should analytical requirements be added or eliminated based on project type or NRA request?

Current policy requires a cost-benefit analysis be performed for all NRA requests and the project meet or exceed a 1:1.25 cost-benefit ratio (for every \$1 in public cost, \$1.25 is returned in benefit). The policy also requires a “but for” analysis which examines project feasibility through a financial pro forma.

- The Commission may wish to consider the type and level of analysis to be performed, depending on NRA type.
 - A cost-benefit analysis is currently required by City NRA policy for all projects seeking an NRA in order to estimate a project’s cost-benefit ratio. Employment data such as the number of full-time, permanent jobs created and associated wages are a primary driver of the City’s cost-benefit model, although an NRA is designed as a revitalization tool and not intended for job creation.

In projects where job creation is a primary benefit, performing a detailed cost-benefit analysis would be appropriate. However, in projects which primarily provide community development benefits (e.g. community enhancement, historic preservation, quality of life enhancement), a cost-benefit analysis may be less effective in evaluating the public benefits to the community.

Similarly, the type of project may determine when a “but for” analysis is appropriate. For example, a public-initiated NRA would not be conducive to a “but for” analysis.

- Governing bodies may wish to consider the level of analysis required for a public-initiated NRA verses a private-initiated NRA. For public-initiated NRAs with multiple, private participants, performing analysis will be extremely difficult and time intensive.
- For private-initiated NRA requests, governing bodies may also wish to discuss if/when additional analysis is required to expand the context of the value of the project to the community. (Refer to **Addendum E: Expanding Analytical Tools for Incentive Analysis.**)

5. Rebate level and duration

Should a set rebate percentage level and duration period be implemented and if so, would there be occasions when the Commission would consider deviating from the standard?

The rebate amount and duration of the NRA is determined by the governing body. Current policy mentions that standard practice is for a 10-year, 50% rebate, but that a greater rebate percentage and/or a longer duration period can be considered if justified in the "But For" analysis.

- The City Commission may wish to change the NRA policy so that a 10-year, 50% rebate level is only examined regardless of the request, unless the Commission directs Staff otherwise.

Staff Recommendations:

The below is initial input from Staff. Staff would recommend the Commission seek additional input from the Joint Economic Development Council (JEDC), Public Incentives Review Committee (PIRC) prior to implementing policy changes. In addition, Douglas County and USD 497 School Board should be consulted since they also participate in NRAs.

Public-Initiated NRAs

- Utilize the NRA plan for detailing specifics on eligibility and participation for public-initiated NRAs. The NRA plan should reflect revitalization objectives for the area, define NRA boundaries, eligibility requirements, amounts, duration, and participation rules.
- Participation to be administratively approved—no economic development analysis required. Staff suggests the creation of eligibility and participation rules for administrative approval and processing as compared to utilizing analytics for determining eligibility and assistance provided through regulatory approval.
- Create a separate application, customized for each NRA area
- Charge low application fees depending on project type (residential, commercial)

Private-Initiated NRAs

- Identify process for accepting or rejecting an NRA request for consideration:
 - Define conditions under which a private-initiated NRA request will not be considered.
 - Update City policy eligibility requirements to eliminate NRA requests that the City commission does not wish to consider
 - Private-initiated NRA requests that meet state and city policy requirements should be eligible for consideration
- Charge application fees according to project capital investment
- Define conditions under which the application fee can be waived or subsidized for projects in extreme need or that provide extreme community benefits
- No annual administrative fee. Staff feels charging annual administrative fees would not be cost-effective since the administrative burden would be too high relative to the amount of revenue collected.
- Staff to only perform analysis at a set 10-year, 50% NRA rebate level unless directed otherwise by the City Commission.

- Revise policy to eliminate the routine requirement for cost-benefit analysis
- Staff would suggest additional studies/analytics be employed if the City Commission chooses to consider a larger rebate percentage and/or longer duration period other than a 10-year, 50% NRA rebate level.

For NRA requests wishing consideration of a rebate percentage larger than 50% or in excess of a 10 year duration, require applicant to prove the project provides exceptional benefit(s) to the community. If the City Commission desires, additional third-party studies should be commissioned by a city-selected vendor at the expense of the applicant.

Policy Review

Current policy is attached at the end of this document, along with a redlined version with some possible, initial changes related to a public-initiated NRA. *Note that any changes to NRA policy should also be reviewed by the County and School District.*

Requested Action

City Commission to provide input on NRA topics and changes to current NRA policy. Direct staff on next steps for review and revision.

List of Addendums

- A: Kansas NRA Statute, NRA Definitions
- B: Current City NRA Policy
- C: Potential NRA Policy Changes
- D: Other Community NRA Programs and Fees
- E: Analytics Memo

Addendum A

K.S.A. 12-17, 115

12-17,115. Same; definitions. As used in this act:

(a) "Dilapidated structure" means a residence or other building which is in deteriorating condition by reason of obsolescence, inadequate provision of ventilation, light, air or structural integrity or is otherwise in a condition detrimental to the health, safety or welfare of its inhabitants or a residence or other building which is in deteriorating condition and because of age, architecture, history or significance is worthy of preservation.

(b) "Municipality" means any municipality as defined by K.S.A. 10-1101, and amendments thereto.

(c) "Neighborhood revitalization area" means:

(1) An area in which there is a predominance of buildings or improvements which by reason of dilapidation, deterioration, obsolescence, inadequate provision for ventilation, light, air, sanitation, 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 conducive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare;

(2) an area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land use 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 factors, 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; or

(3) an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to productive use.

(d) "Governing body" means the governing body of any municipality.

(e) "Increment" means that amount of ad valorem taxes collected from real property located within the neighborhood revitalization area or from dilapidated structures outside the revitalization area that is in excess of the amount which is produced from such property and attributable to the assessed valuation of such property prior to the date the neighborhood revitalization area was established or the structure was declared dilapidated pursuant to this act.

History: L. 1994, ch. 242, § 11; L. 1996, ch. 228, § 8; July 1.

Addendum B

Current Neighborhood Revitalization Act Policy (Resolution 6954)

RESOLUTION NO. 6954

A RESOLUTION ESTABLISHING A POLICY OF THE CITY OF LAWRENCE, KANSAS RELATING TO NEIGHBORHOOD REVITALIZATION AREAS.

WHEREAS, the City of Lawrence, Kansas (the "City") is committed to the high quality and balanced growth and development of the community while preserving the City's unique character and broadening and diversifying the tax base; and

WHEREAS, the economic development goals of the City include the expansion of existing businesses, development of new businesses, economic development activities which are environmentally sound, diversification of the economy, quality in-fill development, historic preservation, and the creation of quality jobs; and

WHEREAS, neighborhood revitalization areas are an economic development tool established by K.S.A. 12-17,114 et seq. (the "Neighborhood Revitalization Act") which can assist with spurring reinvestment and revitalization of properties which can benefit a neighborhood and the general public; and

WHEREAS, the City finds it in the best interest of the public to establish certain policies and guidelines for the consideration of requests to utilize the Neighborhood Revitalization Act ("NRA") within the City of Lawrence.

NOW, THEREFORE, THE GOVERNING BODY OF THE CITY OF LAWRENCE, KANSAS DOES HEREBY RESOLVE;

SECTION ONE: This policy shall be entitled the Neighborhood Revitalization Act Policy of the City of Lawrence.

SECTION TWO: POLICY STATEMENT: 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.

SECTION THREE: CRITERIA:

1. ELIGIBLE AREAS: Eligible areas may include a defined geographic area which encompasses more than one property, or it may be a single property/lot.

2. STATUTORY FINDINGS AND OTHER CRITERIA:

Addendum B (continued)

A. STATUTORY CRITERIA. It shall be the policy of the City to create a Neighborhood Revitalization area, if, in the opinion of the Governing Body, the rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of the residents of the City of Lawrence, it is in the best interest of the City to do so, and if, in the opinion of the Governing Body, one of the following findings, set forth in K.S.A. 12-17,115 can be made:

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 conducive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare;
2. an area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land use 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 factors, 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; or
3. an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to productive use.

B. OTHER CRITERIA. Additionally, the Governing Body will consider whether a project meets the Policy Statement outlined in Section Two, and the project meets a majority of the following criteria when considering the establishment of a Neighborhood Revitalization area:

1. the opportunity to promote redevelopment activities which enhance Downtown Lawrence;
2. the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized;
3. 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;
4. the opportunity to enhance the vitality of a neighborhood within the City as supported by the City's Comprehensive Plan and/or other sector planning documents;
5. the opportunity to enhance the community's sustainability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.

Addendum B (continued)

SECTION FOUR: AMOUNT OF REBATE:

As a standard practice, the City will not provide a rebate amount in excess of 50% of the incremental property taxes and will not establish an NRA for a period of time longer than 10 years. The City may consider a greater rebate and/or a longer duration if sufficiently justified in the “but for” analysis required by Section Five. The determination of the rebate amount and duration of the NRA is the sole discretion of the Governing Body.

SECTION FIVE: PROCESS:

1. An applicant wishing to request that the City to create a Neighborhood Revitalization Area in the City of Lawrence shall submit a request to the City. The request shall include information that would be required for a revitalization plan. Such requirements are set forth in K.S.A. 12-17,117. The applicant shall also submit a “but for” analysis to the City demonstrating the need for the NRA and the purpose for which the NRA revenue will be used. The analysis should support that “but for” the NRA, the project will be unable to proceed. The applicant shall provide City Staff with pro forma cash flow analysis and sources and uses of funds in sufficient detail to demonstrate that reasonably available conventional debt and equity financing sources will not fund the entire cost of the project and still provide the applicant a reasonable market rate of return on investment.

The applicant shall furnish such additional information as requested by the City in order to clarify the request or to assist staff or the Governing Body with the evaluation of the request.

2. The Governing Body shall receive the request and determine whether to consider the request or deny the request. If the Governing Body wishes to consider the request, the request shall be referred to the City's Public Incentive Review Committee for review and a recommendation. Staff will perform a benefit/cost analysis on the project. The Governing Body may also set a date for a public hearing to consider the establishment of a revitalization area and a revitalization plan.

3. Douglas County and USD 497 are also important parties related to a NRA request. When an NRA is considered, the City and the applicant will work with Douglas County and USD 497 to seek concurrence from these entities regarding the establishment of an NRA.

4. The Governing Body will determine whether one of the findings set forth in Section Three can be made regarding the request. Additionally, the Governing Body shall consider the other criteria outlined in Section Three.

5. The Governing Body shall hold a public hearing, after the required statutory notice is provided, and consider adoption of the revitalization plan to establish the revitalization area.

6. The City will require a performance agreement with the property owner to require adherence to the adopted Neighborhood Revitalization Plan.

7. The merits of the proposal under this policy shall guide the decision on the application without regard to the applicant.

SECTION SIX: PUBLIC INCENTIVES REVIEW COMMITTEE AND GOVERNING BODY ANNUAL REVIEW OF THIS POLICY: Annually, the Public Incentives Review Committee and the Governing Body shall review this policy.

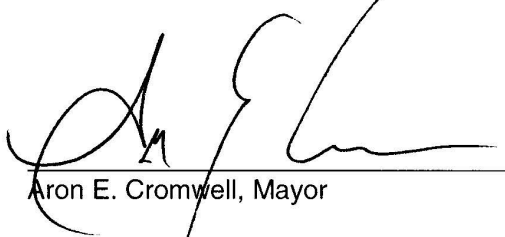
Addendum B (continued)

SECTION SEVEN: AUTHORITY OF GOVERNING BODY: The Governing Body reserves the right to deviate from any policy, but not any procedure set forth in state law, when it considers such action to be of exceptional benefit to the City or extraordinary circumstances prevail that are in the best interests of the City. Additionally, the Governing Body, by its inherent authority, reserves the right to reject any proposal or petition for creation of a NRA at any time in the review process when it considers such action to be in the best interests of the City.

SECTION EIGHT: REPEAL OF RESOLUTION 6921. Resolution 6921 is hereby repealed.

SECTION NINE: EFFECTIVE DATE: This Resolution shall take effect immediately.

ADOPTED by the Governing Body this 25th day of October, 2011.



Aron E. Cromwell, Mayor

ATTEST:



Jonathan M. Douglass, City Clerk

Addendum C

Suggested Neighborhood Revitalization Act Policy Changes

RESOLUTION NO. ~~6954~~XXXX

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WHEREAS, the economic development goals of the City include the expansion of existing businesses, development of new businesses, economic development activities which are environmentally sound, diversification of the economy, quality in-fill development, historic preservation, and the creation of quality jobs; and

WHEREAS, neighborhood revitalization areas are an economic development tool established by K.S.A. 12-17,114 et seq. (the "Neighborhood Revitalization Act") which can assist with spurring reinvestment and revitalization of properties which can benefit a neighborhood and the general public; and

WHEREAS, the City finds it in the best interest of the public to establish certain policies and guidelines for the consideration of requests to utilize the Neighborhood Revitalization Act ("NRA") within the City of Lawrence.

NOW, THEREFORE, THE GOVERNING BODY OF THE CITY OF LAWRENCE, KANSAS DOES HEREBY RESOLVE;

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SECTION TWO: POLICY STATEMENT: 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.~~

Addendum C (continued)

SECTION THREE: CRITERIA:

1. ELIGIBLE AREAS: Eligible areas may include a defined geographic area which encompasses more than one property, or it may be a single property/lot.

2. STATUTORY FINDINGS AND OTHER CRITERIA:

A. STATUTORY CRITERIA. It shall be the policy of the City to create a Neighborhood Revitalization area, if, in the opinion of the Governing Body, the rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of the residents of the City of Lawrence, it is in the best interest of the City to do so, and if, in the opinion of the Governing Body, one of the following findings, set forth in K.S.A. 12-17,115 can be made:

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 conducive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare;
2. an area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land use 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 factors, 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; or
3. an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to productive use.

B. OTHER CRITERIA. Additionally, the Governing Body will consider whether a project meets the Policy Statement outlined in Section Two, and the project meets a majority of the following criteria when considering the establishment of a Neighborhood Revitalization area:

1. the opportunity to promote redevelopment activities which enhance Downtown Lawrence;

Addendum C (continued)

2. the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized;
3. 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;
4. the opportunity to enhance the vitality of a neighborhood within the City as supported by the City's Comprehensive Plan and/or other sector planning documents;
5. the opportunity to enhance the community's sustainability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.

SECTION FOUR: **AMOUNT AND DURATION OF REBATE:**

~~As a standard practice, it is the policy of the City to provide a 50% NRA rebate percentage for no longer than 10 years for projects that meet statutory and other criteria as specified in Section Three. Staff will only analyze requests at the 10 year, 50% rebate level unless directed otherwise by the Governing Body.~~

~~The City Commission can choose to consider a larger rebate percentage and longer duration period, if the applicant can prove the project will provide exceptional benefit to the City or extraordinary circumstances prevail that are in the best interests of the City.~~

~~the City will not provide a rebate amount in excess of 50% of the incremental property taxes and will not establish an NRA for a period of time longer than 10 years. The City may consider a greater rebate and/or a longer duration if sufficiently justified in the "but for" analysis required by Section Five. The determination of the rebate amount and duration of the NRA is the sole discretion of the Governing Body.~~

SECTION FIVE: **PROCESS:**

1. An applicant ~~wishing requesting the to request that the City consideration of a to create a~~ Neighborhood Revitalization Area in the City of ~~Lawrence~~ shall submit a ~~City incentives application, a non-refundable application fee, and a narrative description of the project, describing its public benefits, the level of assistance requested and why assistance is needed, request to the City.~~

~~The applicant shall furnish additional information, as requested by the City, in order to clarify the request or to assist the Governing Body or Staff with the evaluation of the request.~~

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Addendum C (continued)

~~The request shall include information that would be required for a revitalization plan. Such requirements are set forth in K.S.A. 12-17,117. The applicant shall also submit a "but for" analysis to the City demonstrating the need for the NRA and the purpose for which the NRA revenue will be used. The analysis should support that "but for" the NRA, the project will be unable to proceed. The applicant shall provide City Staff with pro forma cash flow analysis and sources and uses of funds in sufficient detail to demonstrate that reasonably available conventional debt and equity financing sources will not fund the entire cost of the project and still provide the applicant a reasonable market rate of return on investment.~~

~~The applicant shall furnish such additional information as requested by the City in order to clarify the request or to assist staff or the Governing Body with the evaluation of the request.~~

2. The Governing Body shall receive the request and determine whether to consider ~~the request~~ or deny the request.

If the Governing Body wishes to consider the request, the request shall be referred to the City's Public Incentive Review Committee for review and a recommendation. Unless directed otherwise by the Governing Body, Staff will perform analysis for the project at the 50%, 10-year rebate level.

The Governing Body may also set a date for a public hearing to consider the establishment of a revitalization area and a revitalization plan.

3. The applicant shall submit a "but for" analysis to the City demonstrating the need for the NRA and the purpose for which the NRA revenue will be used. The analysis should support that "but for" the NRA, the project will be unable to proceed. The applicant shall provide City Staff with pro forma cash flow analysis and sources and uses of funds in sufficient detail to demonstrate that reasonably available conventional debt and equity financing sources will not fund the entire cost of the project and still provide the applicant a reasonable market rate of return on investment.

4. The applicant shall provide City Staff with information required for a revitalization plan as set forth in K.S.A. 12-17,117.

~~Staff will perform a benefit/cost analysis on the project. The Governing Body may also set a date for a public hearing to consider the establishment of a revitalization area and a revitalization plan.~~

~~3. 5.~~ Douglas County and USD 497 are also important parties related to a NRA request. When an NRA is considered, the City and the applicant will work with Douglas County and USD 497 to seek concurrence from these entities regarding the establishment of an NRA.

~~64.~~ The Governing Body will determine whether one of the findings set forth in Section Three can be made regarding the request. Additionally, the Governing Body shall consider the other criteria outlined in Section Three.

~~7. 5.~~ The Governing Body shall hold a public hearing, after the required statutory notice is provided, and consider adoption of the revitalization plan to establish the revitalization area.

~~86.~~ The City will require a performance agreement with the property owner to require adherence to the adopted Neighborhood Revitalization Plan.

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Addendum C (continued)

~~9.7.~~ The merits of the proposal under this policy shall guide the decision on the application without regard to the applicant.

SECTION SIX: PUBLIC INCENTIVES REVIEW COMMITTEE AND GOVERNING BODY ANNUAL REVIEW OF THIS POLICY:

~~Annually~~Periodically, the Public Incentives Review Committee and the Governing Body shall review this policy.

SECTION SEVEN: AUTHORITY OF GOVERNING BODY: The Governing Body reserves the right to deviate from any policy, but not any procedure set forth in state law, when it considers such action to be of exceptional benefit to the City or extraordinary circumstances prevail that are in the best interests of the City. Additionally, the Governing Body, by its inherent authority, reserves the right to reject any proposal or petition for creation of a NRA at any time in the review process when it considers such action to be in the best interests of the City.

SECTION EIGHT: REPEAL OF RESOLUTION 69~~5421~~. Resolution 69~~5421~~ is hereby repealed.

SECTION NINE: EFFECTIVE DATE: This Resolution shall take effect immediately.

ADOPTED by the Governing Body this __ the day of _____, 201~~5~~⁴.

~~Aron E. Cromwell~~Jeremy Farmer, Mayor

ATTEST:

~~Jonathan M. Douglass~~Diane M. Bucia, Acting City Clerk

Addendum D

Other Community NRAs

Fees Charged for Other NRA Programs:

| NRA Fees | | |
|---------------|--|--|
| | Application | Annual/Admin |
| Atchison | \$25 | 5% of the increased tax bill will be withheld annually by the County for administration of the plan, with a \$25.00 minimum. |
| Lawrence | None | None |
| Leavenworth | None | None |
| Lenexa | \$25 for single family and two families, \$100 for commercial | None |
| Manhattan | * | * |
| Olathe | None | 2.5% county administrative fee (year one); and Minus 7.5% for the Public NRA Funds if Single and Two Family Residential in year one, and 10% for every year thereafter; -OR- Minus 17.5% for the Public NRA Funds if Commercial/Industrial in year one, and 20% for every year thereafter. |
| Overland Park | * | * |
| Shawnee | None | For commercial property, Johnson County retains 30% of applicable County taxes as an administration fee for an incremental increase of \$100,000 or greater. |
| Topeka | None | 5% of the 95% rebate remains in a neighborhood revitalization fund for administrative costs. |
| Wichita | None | 5% County administrative fee |
| WyCo UG | An application fee of \$1,000 is required for all commercial, industrial, office, retail, historical, and environmentally contaminated projects. If the project is in a Special Projects Area and the construction cost is over \$10 million, the application fee is \$2,000 | None |

*Comparable program not located.

Addendum D

Other Community NRAs

Information on Other NRA Programs:

Atchison, Kansas:

<http://www.cityofatchison.com/category/subcategory.php?fCS=1-15>

Lenexa, Kansas:

http://www.lenexa.com/commdev/nrd_taxrebate.html

Olathe, Kansas:

<http://www.olatheks.org/Finance/EconomicDevelopment/NRA>

Shawnee, Kansas:

<http://www.cityofshawnee.org/WEB/ShawneeCMS.nsf/c0019294e957d2c28525754a004b58b4/19c94bb954be5f158625772f00473865?OpenDocument>

Topeka, Kansas:

http://www.topeka.org/planning/econ_dev_programs.shtml

Wichita, Kansas:

<http://www.wichita.gov/Government/Departments/CMO/Pages/Neighborhood.aspx>

Wyandotte County Unified Government:

http://www.wycokck.org/InternetDept.aspx?id=21098&menu_id=1454&banner=15284

Addendum E

Memo: Expanding Analytical Tools for Incentive Analysis

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager
CC: Diane Stoddard, Assistant City Manager
Casey Toomay, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: March 10, 2015
RE: Expanding Analytical Tools for Incentive Analysis

Introduction

The City of Lawrence values the use of analytics when considering public investment in economic development or related community enhancement projects. Currently, the City performs a cost-benefit analysis (to estimate fiscal impacts to taxing jurisdictions) and a "But For"/Pro forma analysis (to estimate financial feasibility) for incentive requests on economic development projects. However, there have been recent incentive requests for projects that are not primarily related to economic development (the creation of primary jobs and associated wages and new capital investment), but rather oriented to service, community improvement, or historic preservation. This has prompted staff to identify additional analytical resources that could be utilized when evaluating incentive requests.

This memo presents background on the models currently employed in-house and offers suggestions for enhancing analytical tools, depending on the project type and requested public assistance.

Background

As per City Policy, there are two primary analytical models that are routinely used to examine an incentive request: cost-benefit (or benefit-cost) and "But For"/Pro forma.

Cost-Benefit Analysis

- Measures: Fiscal impact on City, County, School District, and State over proposed incentive period
- Model Type: Proprietary, City of Lawrence

- **Output:** Ratio comparing the overall fiscal costs and benefits to the various local jurisdictions.
- **Threshold:** Preferred City Ratio: 1:1.25 cost to benefit ratio
- **Used for:** Mandatory for NRA and Tax Abatements applications. Typically utilized when examining other public assistance requests for economic development or related community improvement projects. Often used when examining initial incentive requests/inquiries for a “first blush” perspective.

“But For”/Pro forma Analysis

- **Measures:** Overall, estimated financial performance/investment potential via detailed comparison of project expenses to anticipated revenues. Within incentive request context it is used to examine the need for financial assistance.
- **Model Type:** Financial performance (e.g. Pro forma).
- **Output:** Return on investment, cash flow projections. Note the City recently subscribed to the Price Waterhouse Cooper Real Estate Investor Survey, which provides national level data on returns for the most commonly invested real estate property types. This data will be used in addition to other sources, to help examine return metrics.
- **Threshold:** Varies. Depends on returns on investment and/or cash flow requirements as determined by project investors and lenders. City considers cash flow and reasonable return rates on investment.
- **Used for:** City: Mandatory for NRA, TDD, CID, TIF
State: Financial Feasibility Reports

Expansion of City Analytical Tools and Models

In addition to a cost-benefit and “But For”/Pro forma analysis, the City may want to consider utilizing additional analytical resources to broaden and enhance the public investment perspective for decision making. Staff believes the addition of the following analytics could aid decision making, depending on the parameters of the project being examined.

- **Economic Impact Analysis (EIA)**
Quantitative methodology used to estimate the overall economic contribution of a project, business, or industry to the local or surrounding community. EIA results are helpful in informing decision makers and the public about how and in what form the benefits and costs of the project will ultimately be distributed within the economy.

- **Market Impact Assessment**

Specialized market analysis designed to identify financial impacts to existing, local businesses when a competitive project (specifically those seeking public assistance) is proposed.

- Estimate share of revenues captured away from local, existing businesses by new project.
- Identify net new market effects on local private and public revenues as a result of the project:
 - Estimate net new increase in sales revenues and sales taxes on retail components of project
 - Estimate local, net new increase in operational revenues (e.g. net new rental revenue as a result of project)

- **Business Viability Studies**

Examination of business and marketing plans to estimate future viability of a business and its service(s) or product(s). Utilized when considering support for start-up or early stage business ventures.

- **Qualitative Studies**

The above methods are quantitative and won't address intangible benefits and costs. Although they can still be an important consideration when examining support for a project, intangible outcomes are hard to measure and hard to value. For example, social responsibility (providing affordable house), community image and pride, historic preservation, and environmental priorities, and others are some intangibles that might be considered in light of public assistance for a project.

Capturing some sense of the value of intangibles can be done through surveys.

The below is an overview of current and additional quantitative analytic options.

| Options for Economic Development and Community Investment Analysis | | | | | |
|--|--|--|---|---|--|
| Model/Study Type | Used For Examining | Measures | ~Cost | Notes | Analysis Performed by |
| Cost-Benefit Analysis | Fiscal impact to taxing jurisdictions | Ratio of costs to benefits | Staff time | Performed by staff using proprietary model | City Staff |
| "But For"/Pro forma | Financial feasibility | Return rates, cash flow | Staff time | Performed by staff using financial data provided by applicant. | City Staff |
| Price WaterHouse Cooper (PwC) Real Estate Investor Survey | Return rates by property type and area | Return rates for various equity investments | \$500/yr. | Does not cover mixed-use projects. Data is for regions and nation, not specific to Lawrence or KC area. | City Staff |
| Economic Impact Analysis (EIA) | Economic impacts of project on local community | Local community impacts via direct, indirect, and induced economic effects | \$3,000-\$38,000 for software + staff time. Varies for outside studies ¹ | For performing in-house, see model comparisons in Addendum A. | Consultant or City Staff (with additional resources) |
| Market Analysis | Trade Area(s) | Impact to existing, local businesses on competitive service or retail related operations | See Note ² | Studies vary by area/region, industry, project type. | Outside Resources |
| | Market Share & Competitive Standing | | | | |
| Business Plan | Business viability | Soundness of business operations | See Note ³ | May be able to utilize KUSBDC or BTBC to assist in plan evaluation | Outside Resources |
| Marketing Plan | Business viability | | | | Outside Resources |

¹ As an example, the CSL Sports Village EIA study was \$27,800.

² Ranges from \$5000-\$8500, depending on scope of study

³ Varies depending on scope of study.

Staff Conclusions & Recommendation

The type of analytical tool(s) employed depends upon multiple factors, including City policy requirements, Kansas state statutes, project type, incentives requested, available data and resources, and other specifics as determined by the particular project under consideration.

The decision to employ additional analytical models and tools can provide more information to help broaden the perspective of the economic and financial impact the project will have on the community. Each model has limitations and requires additional time and monetary resources.

The timing of projects usually won't accommodate the staff time needed to perform additional analytics. For example, the arrival of incentive requests is uncontrollable, with multiple requests often arriving within the same general timeframe. In addition, due to project scheduling, financing, or other limitations, the applicant typically requires the request to be processed under very tight deadlines.

Governing bodies should weigh the investment costs of employing additional analytical tools and models with the benefits of providing additional data on the financial and economic impacts of proposed projects. If additional analysis is required, it should also be decided who should bear the cost of additional studies (e.g. City, applicant/owner, both).

It is also important to note that there will always be intangible benefits and costs that can't be measured through quantitative methods. Decision makers should consider the context of the project within the framework of community needs and enhancements that contribute to non-quantifiable, quality of life factors. If needed, surveys can be employed, but will involve additional resources to cover cost and time requirements.

Due to timing considerations for processing requests, combined with the high costs of purchasing additional software and additional staff time required to become familiar with new models and perform additional analysis, Staff recommends:

- Utilizing outside consultants to help expand analysis, as needed
- If expanded analysis is required, City to choose the consultant company, determine the level of analysis to be performed, and deliverables required
- Applicant to cover costs of additional analysis unless there are extenuating circumstances as to why the applicant can't cover those costs.

Action Requested

Provide direction to Staff on the expansion of analytical tools for economic and community investment analysis, if those tools are mandatory or optional when considering certain project and incentive types, and guidelines for utilizing outside resources and who pays for those services.