

Kirk McClure
707 Tennessee Street
Lawrence, Kansas 66044

November 20, 2007

City Commission
City Hall
6 East 6th Street
Lawrence, Kansas 66044

Re: **Oread Inn Proposals for Rezoning, Preliminary Plan Approval, and
Bond Counsel and Feasibility Studies**

Members of the City Commission,

This letter addresses the proposal for development of the Oread Inn at 12th and Indiana Streets to:

- Rezone land,
- Approve the preliminary development plan, and
- Approve bond counsel and feasibility studies.

Recommendation:

The City Commission should decide on the rezoning and the preliminary development plan only after the feasibility study.

Background

The developer of the Oread Inn seeks to capture incremental taxes from this development to finance various parts of the project, including the parking garage. The developer seeks to rezone the land and asks for approval of the preliminary development plan prior to the City completing its feasibility study.

The City should complete its feasibility study prior to any rezoning and prior to the approval of a preliminary plan. Rezoning runs with the land. Once the rezoning is in place, the City loses its capacity to negotiate with the developer over the terms of the zoning. Once the preliminary plan has been approved, the

City loses much of its capacity to negotiate with the developer over the design of this plan.

If the City is to partner with the developer in the financing of this project, it needs to determine to what extent the project is feasible with and without this subsidy. It needs to determine what type of development will maximize the benefits to the City, which may not be the same as a development that will maximize profits for the developer.

Only after completing its feasibility study, can the City determine its negotiating position with the developer. For this reason, the City should table the rezoning and preliminary development plans until it has completed its studies. Only then can it know what level of participation it should adopt and what terms, if any, should be imposed on these proposals.

The City's History of Involvement in the Financing of Private Development is Not Good

Evidence: The City financed and built the parking garage in the 900 block of New Hampshire in support of the Downtown 2000 development. This downtown development has not performed as projected by the developers. Tax increments from Downtown 2000 were projected to pay about 50 percent of the debt service on the structure (about \$350,000 to \$370,000 per year). Instead, the private development is paying about 5 percent of the debt or about \$40,000 per year, with the taxpayers picking up the shortfall.

Evidence: The City provided financing for the Riverfront Mall structure plus fully funded its parking garage. The mall did not perform as projected by the developer, and now has become a hotel. Ironically, this conversion to a hotel competes with the hotel development proposals for the Oread Inn and the expansion of the Eldridge Hotel. While the debt on the structure was fully paid, the taxpayers' investment in the parking garage has not produced the economic benefits promised.

Evidence: The City provided financing for a small convention center and hotel, the Holidome on McDonald Drive. This project has not performed as projected by the developer. While its bond financing was paid, it continues to under perform projections and serves as competition to the proposed Oread Inn and Eldridge Hotel.

How does the City know that it is not replicating the mistakes made in these prior public-private development partnerships? How does the City know that this development proposal will perform when others have not? Only a detailed feasibility analysis can guide the City toward answers to these questions and toward successful partnerships with private developers.

The Future of the City's Involvement in the Public Finance of Private Development is Crowded

Evidence: The developer of the Oread Inn has also announced plans to expand the Eldridge Hotel. It is likely that the developer will also seek significant subsidies for the Eldridge expansion, similar to those for the Oread Inn. This suggests that the City should examine its provision of subsidies and financing to the Oread Inn within the context of its interest in participating in the expansion of the Eldridge Hotel downtown.

Several questions need to be answered before the City approves either rezoning land or a preliminary development plan:

1. Can the market support the expansion of two hotels in Lawrence, both the Oread Inn and the expanded Eldridge?
2. Can either one or both of these hotels be developed without pledging away future tax revenues that are needed to fund city services?
3. If public subsidy is necessary, what design configuration will maximize the benefits to the City?
4. If the City enters into a partnership with the developers for either one of these hotels, how can it minimize the taxpayers' exposure to risk if the project does not perform as projected?
5. Are different configurations of the Oread Inn feasible, for example with removal of the condominium units on the top two floors?
6. If the City favors one or both of the new hotels, what—if anything—should the City do about the potential failure of other unsubsidized hotels due to the development of new, publicly subsidized hotel space?

In order to answer these questions appropriately, the City needs to prepare a detailed market study and feasibility analysis in order to guide its decisions. The City needs to determine whether, and to what extent, it should participate in the development of either one or both of the hotel proposals before it provides any approvals for rezoning or preliminary development plans.

Yours truly,

A handwritten signature in black ink, appearing to read "Kirk McClure", with a horizontal line extending to the right.

Kirk McClure