

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager
CC: Diane Stoddard, Assistant City Manager
FROM: Roger Zalneraitis, Economic Development Coordinator/Planner
DATE: February 23, 2011
RE: 1040 Vermont Cost-Benefit Analysis

Treanor Architects has proposed relocating their Lawrence office from their current location near the USD497 administration building to Downtown. The proposed site of the project is 1040 Vermont Street, which is an abandoned grocery store adjacent to Capitol Federal Bank.

Treanor Architects has requested a Neighborhood Revitalization Act (NRA) be placed on the property. The NRA would allow Treanor to receive a portion of the increase in property taxes back in the form of a tax rebate. This Act would not reduce the amount of property taxes currently paid by the property. Treanor proposed a tax rebate schedule similar to that offered in Atchison, Kansas. The rebate schedule would be as follows: in the first 4 years, 95 percent of the incremental property taxes would be rebated; in the 5th and 6th year, 85% of the incremental property taxes would be rebated; in the 7th year, 70% of the taxes would be rebated; in the 8th year, 50%; in the 9th year, 30%; and in the 10th year, 20% of the incremental property taxes would be rebated. The tax rebate would then cease.

Treanor Architects has also requested 50 parking passes for 10 hour lots. They would pay the City \$195 per year for each parking pass for the next 10 years.

The 1040 Vermont Street property currently appraises at about \$800,000. Treanor estimates that it will cost between \$2.1 and \$2.2 million to rehabilitate the property. Thus the property value should be around 3 million dollars when complete. Of that, the \$800,000 would not be subject to property tax rebates. Only the incremental portion of the property value would be subject to rebates.

Treanor would relocate their 57 employees from their current location to Downtown. These 57 employees make, on average, about \$62,000 per year in salaries (this excludes benefits).

Staff conducted an analysis of the benefits and costs associated with Treanors' proposed relocation and redevelopment. The analysis assumed that the incremental benefit to the City, Douglas County, the School District and the State would primarily derive from the increase in property taxes on the building. There would also be some sales taxes resulting from the purchase of construction-related material for the rehabilitation of the property. Staff also estimated that there may be some additional incremental sales taxes resulting from employees being located closer to restaurants and stores

downtown. The model does not account for benefits from temporary construction jobs resulting from the redevelopment.

The cost-benefit model assumes that there is some capital costs for the City and the County whenever there is new construction in the community. Other than that, there were no additional costs associated with the relocation of Treanor's headquarters. This also means that the model assumes that the property that Treanor currently leases does not decline in value. If that property remains vacant for an extended period of time, it is likely that the property value and thus the assessed value of that property would fall. This is a cost that is not accounted for in the model.

As a final estimate of incentives, the model assumes that there is a modest increase in downtown parking rates each year for 10 years. The model assumes that these parking passes would have otherwise been sold for the market rate each year. This means that if Treanor pays \$195 per year for each of its 50 parking passes, there would be a modest subsidy from the City to cover the balance of the fee. This subsidy is accounted for as an incentive from the City.

The model does not take into account the property taxes being collected on the 1040 Vermont property as it currently stands. Those would be collected regardless of the redevelopment, and they are not subject to rebate. As a result, these property taxes are excluded from the analysis.

A copy of the results is attached. In total, over 15 years the model estimates that there will be \$660,000 in discounted (present value) dollars of additional revenue for the City, County, School District, and State. There will be about \$63,000 in additional costs for the City and the County. Incremental sales from new employees being located downtown only accounts for about 1 percent of that total revenue.

The tax rebate would reduce property taxes to all taxing jurisdictions by about \$367,000 in discounted dollars. In other words, over half the benefit would be rebated to Treanor Architects. Nevertheless, the resulting cost-benefit ratios are substantial. The City's cost-benefit ratio is 2.09. This means that for every dollar of additional costs and tax rebates, the City will receive \$2.09 of revenue. After taking into account the tax rebates and additional costs, the City will receive about \$40,000 in discounted dollars.

The County has a cost-benefit ratio of 3.71 after accounting for the tax rebate. The County will receive about \$60,000 in present value after accounting for costs and tax rebates. The School District and State do not have a cost-benefit ratio, as there are no costs associated with either jurisdiction for the project. However, the School District will receive about \$85,000 in discounted dollars as a result of this project after the tax rebates are provided. The State will likely get around \$105,000 in discounted dollars after the tax rebates.

Model: New Treanor Architects Headquarters- NRA

Project Summary

Capital Investment in Plant:	\$2,150,000
Annual Local Expenditures by Firm:	\$0
Retained Jobs:	58
Average Wage per Retained Job:	\$62,000
Indirect Jobs Created:	1
Average Wage of Indirect Jobs:	\$35,282
Total New Households:	-
Average Value of Home Purchased:	\$0
Discount Rate:	7.25%
Cost and Revenue Escalation:	1.00%
Number of Years Evaluated:	15

Incentives

IRB Offered	No
Value of IRB Construction Sales Tax:	\$0
Tax Rebate:	95% declines over 10 years
Length of Tax Abatement/s:	10 Years
Value of Tax Abatements, Total:	\$494,809
Other Incentives	
Site Infrastructure:	\$0
Facility Construction:	\$0
Loans/Grants:	\$4,507 Impact of holding parking passes at \$195

Value of All Incentives Offered: \$499,316

Value of All Incentives per Job per Year:	\$574
Value of Incentives in Hourly Pay:	\$0.28
Value of Incentives per Dollar Invested:	\$0.23

Summary of Results

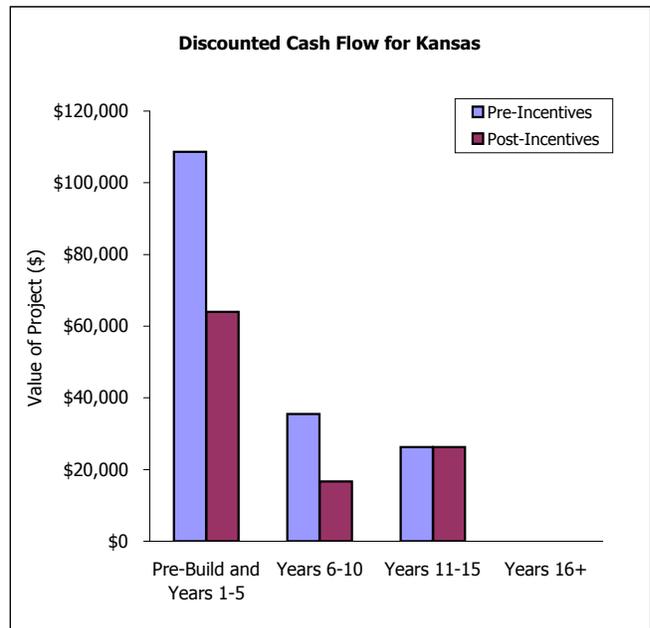
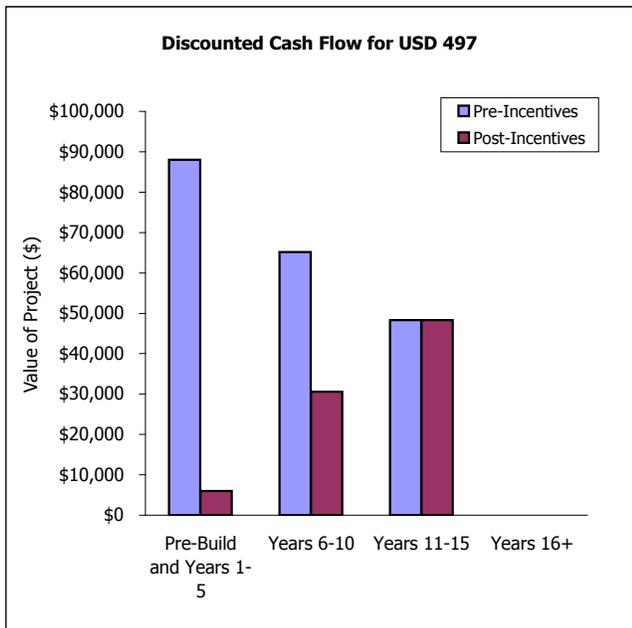
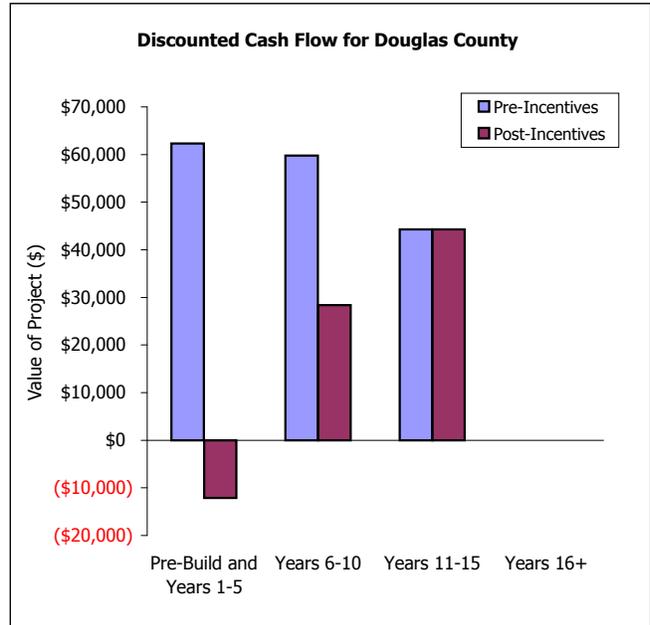
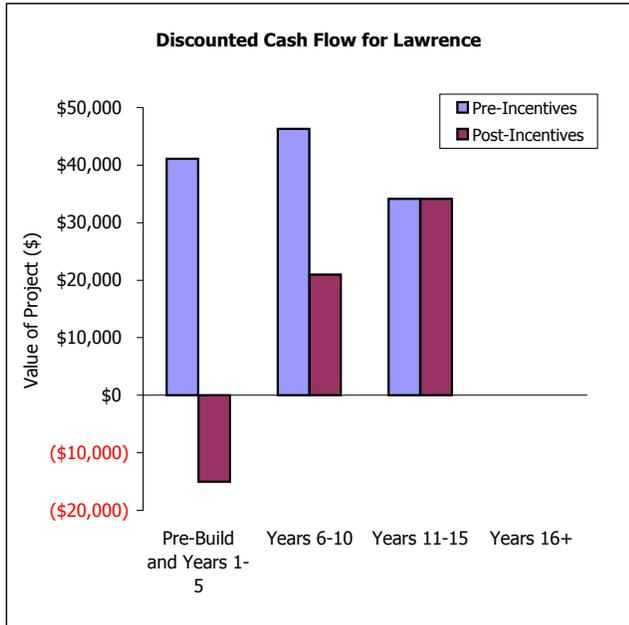
Returns for Jurisdictions	Lawrence	Douglas County	USD 497	State of Kansas
Revenues	\$258,671	\$317,388	\$341,541	\$251,173
Costs	\$39,355	\$23,953	\$0	\$0
<i>Revenue Stream, Pre-Incentives</i>	<i>\$219,316</i>	<i>\$293,435</i>	<i>\$341,541</i>	<i>\$251,173</i>
Value of Incentives Offered	\$111,325	\$143,562	\$158,242	\$86,186
Revenue Stream with Incentives	\$107,990	\$149,873	\$183,299	\$164,987

Returns for Jurisdictions, Discounted	Lawrence	Douglas County	USD 497	State of Kansas
Discount Rate	7.25%			
Discounted Cash Flow, Without Incentives	\$121,554	\$166,364	\$201,495	\$170,474
<i>Benefit/Cost Ratio, Without Incentives</i>	<i>4.31</i>	<i>8.45</i>	<i>N/A</i>	<i>N/A</i>
Discounted Cash Flow, With Incentives	\$40,084	\$60,532	\$84,842	\$106,940
Benefit/Cost Ratio, With Incentives	2.09	3.71	N/A	N/A

Model:

New Treanor Architects Headquarters- NRA

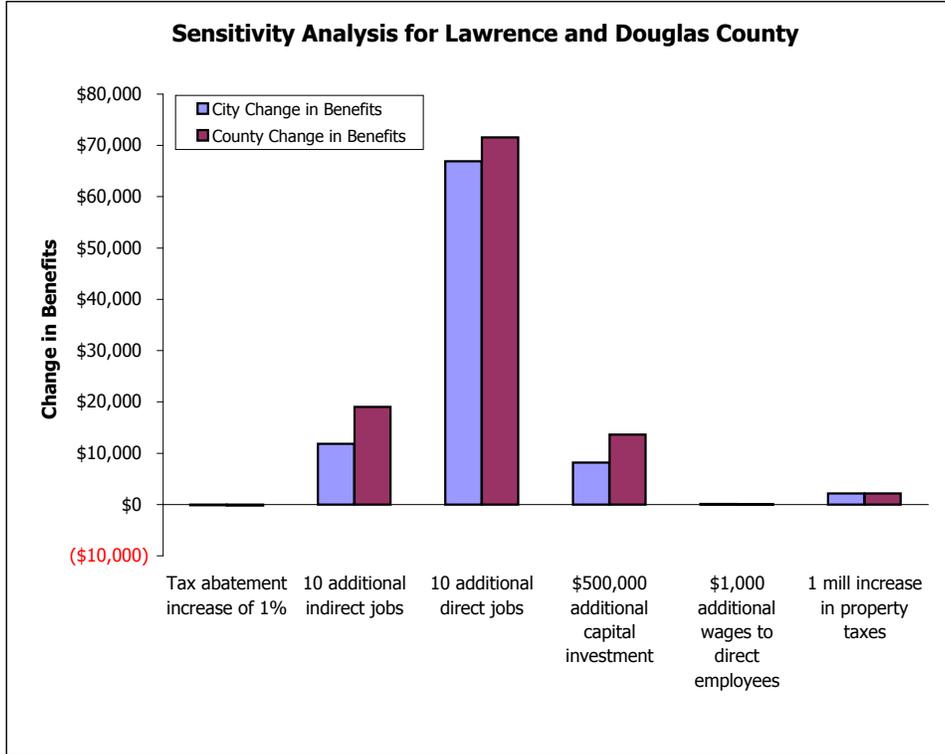
Graphs of Benefits and Costs by Time Period, with and Without Abatement



Model:

New Treanor Architects Headquarters- NRA

Sensitivity Analysis



Model: New Treanor Architects Headquarters- NRA

APPENDIX 1: Annual Results (not Discounted)

<i>Lawrence</i>					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$30,883	(\$39,355)	(\$13,607)	(\$22,078)	(\$22,078)
2	\$15,391	\$0	(\$13,840)	\$1,551	(\$20,527)
3	\$15,545	\$0	(\$14,076)	\$1,469	(\$19,058)
4	\$15,701	\$0	(\$14,314)	\$1,386	(\$17,672)
5	\$15,858	\$0	(\$13,065)	\$2,793	(\$14,879)
6	\$16,016	\$0	(\$13,293)	\$2,724	(\$12,155)
7	\$15,989	\$0	(\$11,243)	\$4,747	(\$7,408)
8	\$16,086	\$0	(\$8,381)	\$7,705	\$297
9	\$16,247	\$0	(\$5,461)	\$10,787	\$11,084
10	\$16,410	\$0	(\$4,046)	\$12,363	\$23,447
11	\$16,574	\$0	\$0	\$16,574	\$40,021
12	\$16,740	\$0	\$0	\$16,740	\$56,761
13	\$16,907	\$0	\$0	\$16,907	\$73,668
14	\$17,076	\$0	\$0	\$17,076	\$90,744
15	\$17,247	\$0	\$0	\$17,247	\$107,990

<i>Douglas County</i>					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$23,691	(\$23,953)	(\$18,287)	(\$18,549)	(\$18,549)
2	\$19,649	\$0	(\$18,470)	\$1,179	(\$17,370)
3	\$19,845	\$0	(\$18,655)	\$1,191	(\$16,179)
4	\$20,044	\$0	(\$18,841)	\$1,202	(\$14,977)
5	\$20,244	\$0	(\$17,026)	\$3,218	(\$11,759)
6	\$20,446	\$0	(\$17,197)	\$3,250	(\$8,510)
7	\$20,651	\$0	(\$14,304)	\$6,347	(\$2,162)
8	\$20,857	\$0	(\$10,319)	\$10,538	\$8,376
9	\$21,066	\$0	(\$6,253)	\$14,813	\$23,189
10	\$21,277	\$0	(\$4,211)	\$17,066	\$40,255
11	\$21,489	\$0	\$0	\$21,489	\$61,744
12	\$21,704	\$0	\$0	\$21,704	\$83,449
13	\$21,921	\$0	\$0	\$21,921	\$105,370
14	\$22,141	\$0	\$0	\$22,141	\$127,511
15	\$22,362	\$0	\$0	\$22,362	\$149,873

Model: New Treanor Architects Headquarters- NRA

APPENDIX 1: Annual Results (not Discounted) (Continued)

USD 497

Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$21,218	\$0	(\$20,157)	\$1,061	\$1,061
2	\$21,430	\$0	(\$20,358)	\$1,071	\$2,132
3	\$21,644	\$0	(\$20,562)	\$1,082	\$3,215
4	\$21,861	\$0	(\$20,768)	\$1,093	\$4,308
5	\$22,079	\$0	(\$18,767)	\$3,312	\$7,620
6	\$22,300	\$0	(\$18,955)	\$3,345	\$10,965
7	\$22,523	\$0	(\$15,766)	\$6,757	\$17,722
8	\$22,748	\$0	(\$11,374)	\$11,374	\$29,096
9	\$22,976	\$0	(\$6,893)	\$16,083	\$45,179
10	\$23,206	\$0	(\$4,641)	\$18,564	\$63,743
11	\$23,438	\$0	\$0	\$23,438	\$87,181
12	\$23,672	\$0	\$0	\$23,672	\$110,853
13	\$23,909	\$0	\$0	\$23,909	\$134,762
14	\$24,148	\$0	\$0	\$24,148	\$158,910
15	\$24,389	\$0	\$0	\$24,389	\$183,299

State of Kansas

Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$76,664	\$0	(\$10,978)	\$65,686	\$65,686
2	\$11,675	\$0	(\$11,088)	\$587	\$66,273
3	\$11,792	\$0	(\$11,199)	\$593	\$66,865
4	\$11,910	\$0	(\$11,311)	\$598	\$67,463
5	\$12,029	\$0	(\$10,222)	\$1,807	\$69,270
6	\$12,149	\$0	(\$10,324)	\$1,825	\$71,095
7	\$12,270	\$0	(\$8,587)	\$3,683	\$74,779
8	\$12,393	\$0	(\$6,195)	\$6,198	\$80,977
9	\$12,517	\$0	(\$3,754)	\$8,763	\$89,740
10	\$12,642	\$0	(\$2,528)	\$10,114	\$99,854
11	\$12,769	\$0	\$0	\$12,769	\$112,623
12	\$12,896	\$0	\$0	\$12,896	\$125,519
13	\$13,025	\$0	\$0	\$13,025	\$138,545
14	\$13,156	\$0	\$0	\$13,156	\$151,700
15	\$13,287	\$0	\$0	\$13,287	\$164,987

Model: New Treanor Architects Headquarters- NRA

APPENDIX 2: Annual Results (Discounted)

<i>Lawrence</i>					
Year	Discounted Revenues	Discounted Costs	Discounted Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$28,794	(\$36,693)	(\$12,686)	(\$20,585)	(\$20,585)
2	\$13,380	\$0	(\$12,031)	\$1,348	(\$19,237)
3	\$12,600	\$0	(\$11,409)	\$1,191	(\$18,046)
4	\$11,865	\$0	(\$10,817)	\$1,048	(\$16,998)
5	\$11,173	\$0	(\$9,205)	\$1,968	(\$15,030)
6	\$10,522	\$0	(\$8,732)	\$1,789	(\$13,241)
7	\$9,793	\$0	(\$6,886)	\$2,907	(\$10,334)
8	\$9,186	\$0	(\$4,786)	\$4,400	(\$5,933)
9	\$8,651	\$0	(\$2,908)	\$5,743	(\$190)
10	\$8,146	\$0	(\$2,009)	\$6,138	\$5,948
11	\$7,671	\$0	\$0	\$7,671	\$13,619
12	\$7,224	\$0	\$0	\$7,224	\$20,843
13	\$6,803	\$0	\$0	\$6,803	\$27,646
14	\$6,406	\$0	\$0	\$6,406	\$34,052
15	\$6,033	\$0	\$0	\$6,033	\$40,084

<i>Douglas County</i>					
Year	Discounted Revenues	Discounted Costs	Discounted Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$22,089	(\$22,333)	(\$17,050)	(\$17,294)	(\$17,294)
2	\$17,081	\$0	(\$16,056)	\$1,025	(\$16,270)
3	\$16,085	\$0	(\$15,120)	\$965	(\$15,305)
4	\$15,147	\$0	(\$14,238)	\$909	(\$14,396)
5	\$14,264	\$0	(\$11,997)	\$2,267	(\$12,129)
6	\$13,432	\$0	(\$11,297)	\$2,135	(\$9,994)
7	\$12,649	\$0	(\$8,761)	\$3,888	(\$6,106)
8	\$11,911	\$0	(\$5,893)	\$6,018	(\$88)
9	\$11,217	\$0	(\$3,330)	\$7,887	\$7,799
10	\$10,562	\$0	(\$2,090)	\$8,472	\$16,271
11	\$9,947	\$0	\$0	\$9,947	\$26,218
12	\$9,367	\$0	\$0	\$9,367	\$35,584
13	\$8,820	\$0	\$0	\$8,820	\$44,405
14	\$8,306	\$0	\$0	\$8,306	\$52,711
15	\$7,822	\$0	\$0	\$7,822	\$60,532

Model: New Treanor Architects Headquarters- NRA

APPENDIX 2: Annual Results (Discounted) (Continued)

USD 497

Year	Discounted Revenues	Discounted Costs	Discounted Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$19,783	\$0	(\$18,794)	\$989	\$989
2	\$18,629	\$0	(\$17,698)	\$931	\$1,921
3	\$17,543	\$0	(\$16,666)	\$877	\$2,798
4	\$16,520	\$0	(\$15,694)	\$826	\$3,624
5	\$15,557	\$0	(\$13,223)	\$2,334	\$5,957
6	\$14,650	\$0	(\$12,452)	\$2,197	\$8,155
7	\$13,795	\$0	(\$9,657)	\$4,139	\$12,293
8	\$12,991	\$0	(\$6,495)	\$6,495	\$18,789
9	\$12,233	\$0	(\$3,670)	\$8,563	\$27,352
10	\$11,520	\$0	(\$2,304)	\$9,216	\$36,568
11	\$10,848	\$0	\$0	\$10,848	\$47,417
12	\$10,216	\$0	\$0	\$10,216	\$57,632
13	\$9,620	\$0	\$0	\$9,620	\$67,252
14	\$9,059	\$0	\$0	\$9,059	\$76,311
15	\$8,531	\$0	\$0	\$8,531	\$84,842

State of Kansas

Year	Discounted Revenues	Discounted Costs	Discounted Incentives	Net	Cumulative
Pre-Operation	\$0	\$0	\$0	\$0	\$0
1	\$71,479	\$0	(\$10,236)	\$61,243	\$61,243
2	\$10,149	\$0	(\$9,639)	\$510	\$61,753
3	\$9,557	\$0	(\$9,077)	\$480	\$62,233
4	\$9,000	\$0	(\$8,548)	\$452	\$62,686
5	\$8,475	\$0	(\$7,202)	\$1,273	\$63,959
6	\$7,981	\$0	(\$6,782)	\$1,199	\$65,158
7	\$7,516	\$0	(\$5,260)	\$2,256	\$67,414
8	\$7,077	\$0	(\$3,538)	\$3,540	\$70,953
9	\$6,665	\$0	(\$1,999)	\$4,666	\$75,619
10	\$6,276	\$0	(\$1,255)	\$5,021	\$80,640
11	\$5,910	\$0	\$0	\$5,910	\$86,550
12	\$5,565	\$0	\$0	\$5,565	\$92,116
13	\$5,241	\$0	\$0	\$5,241	\$97,357
14	\$4,935	\$0	\$0	\$4,935	\$102,292
15	\$4,648	\$0	\$0	\$4,648	\$106,940