

DRAFT City of Lawrence Public Incentives Review Committee September 13, 2011 meeting minutes

MEMBERS PRESENT: Mayor Aron Cromwell, Vice Mayor Bob Schumm, Dennis Highberger, Brad Burnside, Shannon Kimball, Cindy Yulich, and County Commissioner Mike Gaughan

MEMBERS ABSENT: Rob Chestnut

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

PUBLIC PRESENT: Marilyn Bittenbender, Doug Compton, Beth Johnson, Paul Werner, Chris Piper, Bill Fleming, Bob Sarna, and Leticia Cole.

Mayor Cromwell called the meeting to order at 4:02 p.m.

Mayor Cromwell stated the applicant would be giving a presentation and then PIRC would take public comment.

Corliss said the first item of business was to approve the minutes from June 30, 2011. Highberger asked for a correction to his statement on the last page, first sentence, where it states: "Mr. Highberger expressed concern about opening chain restaurants" it was meant as he expressed concern about using public subsidies to open chain restaurants. Highberger made a motion to approve the June 30, 2011 minutes as amended, seconded by Gaughan. Approved 6-0.

Corliss introduced Britt Crum-Cano, the new Economic Development Coordinator.

Corliss stated the first item for the committee to hear is the Masonic Temple NRA. Paul Werner gave a presentation and stated that they have been working on a use for this building for the past eight years and this was the best use for the building they could find. They have looked at other possible uses, such as offices or a bank, and the number one request for the building was to make it into a bar, however the food requirement for downtown bars prevented them doing this, otherwise it would have already been a bar. The building is very unique; the entire section on the north side is under the sidewalk and is the City's property. There are bathrooms in the basement and an elevator is needed to get to basement. There is not air conditioning in the building right now. When you enter off Massachusetts Street, into the Mezzanine, you go either up or

down. It complicates things by having to get in the elevator, and it will need to be a double-sided elevator. The goal is to leave as much intact as they can, but almost every component of the building needs upgraded. We think we have a great plan because we are using all areas of the building. The elevator can not go up to the balcony. They have unique plans to use the balcony. State laws dictate what they can do for the balcony. There is all new mechanical, electrical, and plumbing and they have to install a sprinkler system. There is stained glass in the skylight and they want to fix it and are receiving state tax credits. Werner stated they would like to request 15 years rather than a 10 year program and they like the idea of something similar to the 8th and Pennsylvania project that put a cap on the project. Starting at 95% gives them the best shot of making everything work.

Mayor Cromwell asked for questions.

Highberger asked for a rough estimate for ADA compliance. Werner said he could get the number.

Vice-Mayor Schumm asked if the bricked in openings on the north were original to the structure. Werner stated yes and they were designed that way to be punched out in case the business failed. Compton stated he was given a letter when he purchased the building in 2004 from Mr. Watkins or Watkins Bank where he states that he wants it designed so that if the Masons didn't make it, it could then be converted to a bank and the brick could be punched out for windows and that is why there are vaults on each floor. Kimball asked if the state clarified that the windows couldn't be punched out and Werner stated yes. If they punched out the windows they would lose the state historic tax credits.

Werner said to Highberger's point, that roughly \$82,000 is needed to make the building ADA compliant.

Mayor Cromwell asked for public comment. There was no public comment.

Crum-Cano went over the analysis with the committee.

Stoddard very briefly wanted to make sure that everyone is familiar with the NRA tool. The NRA is an incentive whereby a portion of the new taxes generated by newly renovated properties gets rebated back to the property owner. Past taxes aren't affected, just future taxes. The City does have its own policy that was adopted earlier this year.

Crum-Cano recapped the applicant request. She stated that Scenario 1 is the same as the model depicting the Applicant's request, except for 10 years rather than 15. Scenario 2 is starting at 75% then varying percentages declining.

Two additional scenarios were done.

Crum-Cano stated that \$48,000 in incentives for ADA sidewalk compliance and sprinkler system retrofitting were included in all the scenarios. Gaughan asked if each scenario was \$48,000 more due to the inclusion of these items, and it was stated yes.

Highberger asked what the current staff recommendation is. Crum-Cano stated that staff recommendation is to approve the request based on a 10 year rebate period. PIRC and City Commission to decide on the percentage of the schedule.

Vice-Mayor Schumm stated that the City Commission is in discussion right now of the appropriate amount of tax relief to give the regular project with the idea of rebating upwards for special circumstances. It has not been decided yet.

Stoddard spoke more on the process. PIRC would discuss this project and make a recommendation to the City Commission. The City Commission will have a public hearing on September 20. At that point, the City Commission would adopt the NRA Plan, and it would be updated in concert with the PIRC recommendation. An ordinance would be required and sent to the County and School District for their participation. Then, there would be a cooperative agreement between the three jurisdictions. Staff recommendation is for a ten year scenario, with PIRC recommending the appropriate rebate schedule.

Gaughan stated that with the different scenarios, what if the other jurisdictions don't want the same scenario as the City? Are they bound by the agreement to go with the first jurisdiction's recommendation? Stoddard stated that while each jurisdiction decides if they want to participate, it would really be difficult to have three different rebate schedules and terms and the primary burden would be on the County Appraiser. Corliss stated you could have a plan that would have different rates.

Kimball asked what is the reason for recommending 10 years versus 15 years. Stoddard responded that the one most recently approved at 1040 Vermont was for 10 years and we thought it was a more appropriate time frame. 8th and Penn was a 20 year term, but only went to the extent of when cap is met. She also mentioned that the City Commission had been discussing the issue of terms and caps as they were discussing possible changes to the NRA policy.

Corliss indicated that staff thinks this is a great project and it's downtown and this is the best use of this building.

Vice-Mayor Schumm asked if the applicant was going to apply for Federal Tax Credits also. Werner, stated yes they are, but that the State Tax Credits are easier to use. Federal is harder to use because of income levels. The likelihood of being able to use them is limited. State is 25% and federal is 20%

Bob Sarna with First Management stated that when Compton bought the building, the taxes were doubled, because the Masons were assessed on a 12% non-profit rate and Compton was assessed on the commercial rate of 25%.

Burnside asked if the proposed tenant, Maceli's, was going to continue to use it current building, or would they move to this location. Werner stated they would keep the main business at the location on New Hampshire, and they would use this building as needed and have a warming kitchen in it.

Vice-Mayor Schumm asked if PIRC could approve request and refer the detail to the City Commission, or does this group have to recommend a specific slice of years and percents? Corliss stated it's staff's preference to make as detailed recommendation as possible.

Vice-Mayor Schumm stated that he would prefer the 10 year option at 50%. One of our problems is that we just went through the budget exercise and we need more money to do things. He stated that he was looking at how to get it done and then how is the City going to come up with extra money. He also indicated that he was going to press that as a general policy. Mayor Cromwell agrees with Vice-Mayor Schumm about the limit of 10 years.

Highberger asked if there is preference of a flat 50% over the term. He stated he was not seeing any criteria about scenarios and he is in support of the project.

Corliss indicated that we don't know the break-even point on the project. Mayor Cromwell asked what the cap was and Kimball responded \$390,000. Highberger asked if it was present value or discounted. Stoddard indicated that they were discounted. Gaughan asked if Scenario 1 is identical to the 1040 Vermont request. Stoddard stated that it was the same where it was 95% at first four years. Werner indicated it's not on the same schedule.

Vice-Mayor Schumm stated that the 50% that we've talked about at City Commission meetings are what we normally see in tax abatements of industrial property. That has precedent. This whole system does not seem to have precedent. The former item was based off a model in Atchison and was approved by the former City Commission.

Gaughan said he tends to side with Mayor Cromwell, but has a new consideration. What is the likelihood of us looking at these in piecemeal for downtown? He stated that we need a uniform policy for downtown and set up parameters for a district. He indicated that he preferred 50% over 15 years.

Gaughan made a motion to approve Scenario 1. Highberger asked if a cap would be included in his motion. Gaughan said it doesn't approach the cap, but can cap and asked what the cap was on the 8th and Pennsylvania project. Stoddard said cap was related to specific capital project amounts and related to those. Yulich seconded the motion. Highberger asked about staff recommending that the continuation be tied to the use. Corliss said it would be tied to the catering/dining use in the plan, unless the jurisdictions amended the plan in the future.

The motion to recommend approval of the project under Scenario 1 for ten years was amended to include the proposed use. The motion passed on a vote of 6-1, with Vice-Mayor Schumm in opposition.

Mayor Cromwell asked for the Grandstand presentation. Chris Piper made the presentation for Grandstand Sportswear and Glassware. They do prints on sportswear and glassware. The business model is to sell glass. They have a niche in selling glassware to the craft brewing industry. They have 51 employees, 16 have been added this year alone, and running multiple shifts. They are currently behind in production related to the orders and need to add six people in the next month and don't have room for them at their current facility. Purchasing the former Sauer Danfoss facility would accommodate their needs for space, but it needs the roof replaced and all of the rooftop HVAC units need work. Additionally, concrete needs repair, there are lighting needs and then build out costs for his project. The total project value is over \$5 million. They are doing \$1 million in sales this month. They have asked for this tax abatement because they need it. Being in Kansas is great, but freight is 15-33% of the cost because of weight/bulk of glassware. They have a lot of sales on the east coast. To remain in Kansas, and keep costs competitive, they need to be in a single facility where they can keep costs down. Additional expenses for this building will cut into cash flow and they are trying to minimize costs. He knows the biggest concern for something like this is if company will fulfill their bargain. They aren't going anywhere. He said that he has roots in Lawrence and plans to keep his business here. The majority of the property tax abatement is going to fund new employment for the company. They have had significant growth in the past five years.

Mayor Cromwell asked if there were questions.

Crum-Cano made presentation, giving an overview of Applicant's request. They have estimated the initial investment of over \$5 million. This project is calling for expansion of 83 new jobs, on top of 51 they have now. Ninety-five percent of goods they produce are sold outside community, which nets new dollars. Forty-five percent of their expenditures are spent in the community. This is a repurchase of property and the property was under a previous tax abatement. For comparison, a 65% abatement on the property right now at the value of \$186,900, would be \$65,400. This amount is higher than the tax amount paid in some prior years where the abatement was higher. The policy has several guidelines that can be used by City Commission to decide on eligibility of this requirement. There are five included in the City's policy and this project meets all of those. She reported that employees start at \$10 and go through a formalized training program for 90 days, and then are promoted to a \$12/hour wage level. She reported that the benefit-cost ratios for the taxing jurisdictions were 1.43 for the City, 1.87 for the County, and 4.33 for the School District. For every \$1 of taxes abated, the City receives \$1.43 in benefits. There are also guidelines on how much tax abatement to give. They could get up to 50% if they have been on the Douglas County tax roll for at least three years, and have an investment threshold of \$5 million and are hiring a minimum of 20 new jobs. An additional 10% could be granted for being an existing business with three years on the tax rolls and another additional 5% could be granted for locating in a targeted business park already served with infrastructure.

The revenues with the incentives, discounted, are \$3.2 million. Kimball asked what is the reason for the school district ratio being higher. Crum-Cano said there are certain incentive amounts are exempt from impacting the school district. The model also takes into account the impact of state funding provided per student, taking into account future students associated with new job creation. Kimball asked if these 83 families would all be new to Lawrence. Crum-Cano said the model takes into consideration the households and students resulting from the 83 new jobs. The model assumes new families and new children to the district. Stoddard states the model assumes a portion of the new jobs would come from outside the community, but not all of them. Gaughan stated that the model takes into account virtually everything.

Gaughan asked if the incentive includes just the abatement, or does it include specific amount of improvements. Crum-Cano said just the abatement amount of 65% every year for 10 years.

Stoddard said she wanted to the PIRC aware that this will likely will come with a request for Industrial Revenue Bonds as well because there will be sub-leasing involved with the project. She noted that this is the first tax abatement request under the recently updated policy related to actual compliance figures related to performance. Staff recommendation is to approve this request. PIRC would

need to make a recommendation to the City Commission and this item would not go separately for approval to the County or School District.

Gaughan asked about with the performance requirements; if the company exceeded performance in a particular area, was their compliance in that area capped at 100%? Stoddard stated it depends on how it is written in the performance agreement and would be a consideration the City Commission would have. Staff would provide the City Commission a draft outline of these criteria. Gaughan asked if the 130% poverty threshold was recalculated every year. Stoddard said that the amount is recalculated every year, and it comes out in January, and sometimes has no changes. Vice-Mayor Schumm stated he was in a meeting with Chris a while back and it looks like a solid deal. He stated that the company wasn't going anywhere outside of Lawrence.

Vice-Mayor Schumm made a motion to recommend approval of the request for a 65% property tax abatement for a 10 year period. Burnside seconded the motion. The motion passed unanimously, 7-0.

The meeting was adjourned.