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March 8, 2012

Ms. Diane Stoddard, Assistant City Manager
Ms. Britt Crum-Cano, Economic Development Coordinator
City of Lawrence
6 East Sixth Street
Lawrence, Kansas 66044

Re: **Work Plan for Downtown Mixed-Use Development Financial Study**

Dear Ms. Stoddard and Ms. Crum-Cano:

The City of Lawrence is considering a proposed mixed-use development in its downtown. The developer has requested economic development financial incentives in the form of tax increment financing (TIF) from the City. The City's considerations involve both the scope of the project and the need and level of financial incentives. To provide TIF incentives, state law requires certain analysis and findings be performed.

We have had an initial discussion with you as to the goals and informational needs of Lawrence. Our earlier work with the City on similar developer requests should aid us in meeting these objectives.

Springsted has developed this proposed work plan for your review. It is presented to provide the information for the City's consideration of the project.

Goals

The Goals are put forth in the form of our understanding of questions before the City:

- Would the project as proposed only be possible 'but for' the provision of TIF financial assistance at the level requested?
- Would a reduced project scope with the then available TIF assistance be financially feasible?

At the outset, we note that Springsted is not a market feasibility consultant, meaning possessing expertise to opine on the financial viability of a specific project at a specific location. For a proposed project, we have industry and regional information and experience to evaluate a developer's representations to the City.

Work Process

- Springsted will prepare the feasibility study for the defined project based upon the requested level of subsidy in order to determine if the project satisfies the statutory requirements of 12-1770(a).
- Financial Needs Analysis (But for)
 - Review developer information (described below) and comment on the reasonableness of assumptions
 - Complete an estimated profit/return calculation
 - Sensitize alternative assumptions
 - Recalculate the profit/return with alternative assumptions, as necessary
 - Define appropriate range of assistance based on estimated market profit/rates of return
 - Compare developer profit/return to the market for similar projects; comment on reasonableness of profit/return considering type of project, current market and developer at risk equity
 - Complete sensitivity analysis with respect to developer return and need for assistance (as appropriate)
- Presentation at public meetings
 - We will present at the public hearings and other public forums required for the City to complete its decision process.

Sampling of potential developer information required

- Detailed Project Sources and Uses
- Developer assumptions on redevelopment and operational costs
- Financing assumptions, including bank financing, equity, rates, terms, etc.
- Submissions to the developer's lender as to the project's viability and the developer's/project's estimated financial performance
- Financing assumptions for public assistance, to include bonds, pay-as-you-go financing structures, rates, terms, etc.
- Project details, such as mix of proposed tenants and anticipated lease structure for retail developments
- Timing considerations for each of the above including a build-out and lease-up schedule
- Independent verification of marketability of proposed project, such as relevant market studies and real estate appraisals
- Any additional information on other revenue generating uses

To ensure the potential proprietary nature of certain information as well as having the ability to access all information needed for the study, we are prepared to negotiate and execute a confidentiality agreement with the developer.

Outcomes

Springsted will deliver a report covering:

- Financial needs analysis (appropriate public subsidy with resulting "but for" test)
- The feasibility analysis to determine the validity of the necessary findings to comply with the TIF statutory requirements
- An analysis of alternative development scenarios to determine project feasibility
- Although we understand the developer is requesting 'pay-as-you-go' financing, if required advice on the financing alternatives available to fund the requested public/private improvements and an evaluation of the allowable methods.

Not included in the above but also available to the City, at its option, is assistance in outlining the business points salient to a development agreement, and the negotiating and financing processes.

Compensation

From our initial discussions with you, we have a preliminary understanding of the analytical and public process requirements of providing this service. We also have the experience from our recent work on the Oread Hotel review project as one indicator of our work requirements.

- From our initial discussions and the proposed work plan, we believe our consulting costs for this project will be \$17,500.
- These fee estimates assume two presentations at the City. Any additional presentations would be on an hourly rate basis.
- In addition to the above we would expect to be reimbursed for any out-of-pocket expenses.

Completion Date

Springsted understands the general calendar dynamics associated with development projects. The keys to meet an aggressive calendar are a high level of consensus on the scope of services and the timeliness, comprehensiveness and quality of information provided by the developer. In the Oread project, our time records show a six-week process. We don't know if that experience will occur here but will work immediately and diligently on this work plan. Our calendar generally starts with receipt of all requested initial information from the developer.

Please view this program as draft based on our single discussion. We are prepared to discuss any of its aspects.

We appreciate being of service once again to the City of Lawrence.

Respectfully,

A handwritten signature in blue ink, appearing to read "David N. MacGillivray". The signature is fluid and cursive, with a large initial "D" and "M".

David N. MacGillivray, Chairman
Client Representative

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