

# Memorandum

## City of Lawrence

### City Manager's Office

TO: David L. Corliss, City Manager  
CC: Diane Stoddard, Assistant City Manager  
FROM: Britt Crum-Cano, Economic Development Coordinator  
DATE: August 7, 2012  
RE: Summary of projected Transportation Development District (TDD) sales tax, retail sales tax, and property tax revenues for the Lawrence Sports Village and Gateway Project

#### Overview

The City of Lawrence, in conjunction with the University of Kansas and private developers, is considering the development of a recreational "sports village" at the northwest corner of Kansas Highway 10 and Highway 40 (6<sup>th</sup> Avenue). The sports village is part of a larger "Gateway" campus covering over 132 acres that will also accommodate commercial development directly south of the recreational facilities.

To assist in evaluating funding sources for project infrastructure, the City hired Springsted Inc., to prepare preliminary Transportation Development District (TDD) sales tax revenue projections for the proposed project. After receiving Springsted's [report](#), the City further adjusted preliminary TDD revenue projections to examine potential revenues in light of multiple tenant build-out and vacancy assumptions.

In addition to summarizing adjusted scenarios for TDD revenue projections, the below also presents projected retail sales tax and property tax revenues over a 22-year term for retail, hotel, and recreational assets. Additional commercial real estate assets (e.g. office space) are not examined within this report.

As the project is currently in the design and planning phases, it is important to note that all projections are based on assumptions of real estate assets that could be built, and do not reflect what will be built. Various projection scenarios are presented to provide a broader perspective on potential revenue performance.

**Primary Assumptions**

Baseline development and build-out assumptions were provided by the City, based on a review of the proposed zoning and land area available for commercial development on the site.

- *Assumptions—Retail Assets*

*Baseline Assumptions—Retail*

<b>Retail: Area Parameters</b>	
Maximum retail SF/store	65,000
Maximum retail SF/area	180,000
Total area in square feet (132.4 acres)	5,767,518
Retail percent of total area	3.12%

*Tenant and Occupancy Assumptions—Retail*

Tenant mix was selected, through consultation with the Lawrence Planning Department, to depict a likely combination of retail assets for the campus. First year occupancy assumptions were selected in consultation with the Lawrence Budget Department, based on community historical retail occupancies as estimated for first year collection of sales tax revenues. Sales per square foot are based on a combination of data received through independent surveys, national and regional data on similar retail uses (Springsted Inc.), and the City of Lawrence.<sup>1</sup>

Retail Assets	Size (SF)	Sales PSF	1st Year Occupancy Assumptions		
			Conservative ( Full Build-out in Y18)	Moderate (Full Build-out in Y14)	Aggressive (Full Build-out in Y9)
Bar or Lounge	3,000	\$375	12	8	3
Bar or Lounge	3,000	\$375	17	13	8
Brewpub	6,000	\$375	15	11	6
Fast Order Food	3,000	\$393	2	2	2
Fast Order Food	3,000	\$393	7	7	7
Fast Order Food w/Drive-In	3,000	\$530	2	2	2
Fast Order Food w/Drive-In	3,000	\$530	4	4	4
Quality Restaurant	5,000	\$540	10	6	4
Quality Restaurant	5,000	\$540	14	7	5
Quality Restaurant	5,000	\$540	18	12	7
Food & Beverage	5,000	\$300	18	14	9
Retail Sales, Gen	65,000	\$180	18	13	8
Retail Sales, Gen	65,000	\$180	16	11	6
Gas & Fuel Sales	3,000	\$200	4	3	2
Gas & Fuel Sales	3,000	\$200	13	8	5
<b>Total</b>	<b>180,000</b>				

*Vacancy Assumptions—Retail*

Baseline vacancy assumptions for retail assets were calculated at 5%, 10%, and 20%.

<sup>1</sup> Sales per square foot (PSF) assumptions were prepared using the Urban Land Institute's (ULI) *Dollars & Cents of Shopping Centers/The Score 2008* as a baseline for the projections. ULI assumptions are based on national average sales per square foot numbers for a variety of retail uses and are broken down by the type of retail establishment. To adjust for regional input, Springsted used ULI numbers as a baseline, adjusting the individual sales assumptions based on a number of independent market studies reviewed for comparable projects in the greater Kansas City metropolitan area. Final assumptions were derived from a mix of the ULI data, independent market studies, input based on professional market-related experience, and additional data provided by the City.

*Property Valuation Assumptions—Retail*

<b>Retail—Estimated Property Valuation at Construction End</b>			
<b>Retail Assets</b>	<b>Size (SF)</b>	<b>Estimated Cost/SF<sup>2</sup></b>	<b>Estimated Value</b>
Bar or Lounge	3,000	\$149.84	\$449,520
Bar or Lounge	3,000	\$149.84	\$449,520
Brewpub	6,000	\$149.84	\$899,040
Fast Order Food	3,000	\$122.67	\$368,010
Fast Order Food	3,000	\$122.67	\$368,010
Fast Order Food w/Drive-In	3,000	\$122.67	\$368,010
Fast Order Food w/Drive-In	3,000	\$122.67	\$368,010
Quality Restaurant	5,000	\$149.84	\$749,200
Quality Restaurant	5,000	\$149.84	\$749,200
Quality Restaurant	5,000	\$149.84	\$749,200
Food & Beverage	5,000	\$122.67	\$613,350
Retail Sales, Gen	65,000	\$108.40	\$7,046,000
Retail Sales, Gen	65,000	\$108.40	\$7,046,000
Gas & Fuel Sales	3,000	\$108.40	\$325,200
Gas & Fuel Sales	3,000	\$108.40	\$325,200

<sup>2</sup> Source: City of Lawrence, Kansas, Planning and Development Services. Based on national average costs per square foot of common construction types (Type II-B and Type V-B construction types) for retail occupancy groups shown in above table.

- **Assumptions—Hotel Assets**

*Baseline Assumptions—Hotel*

<b>Hotel Assumptions</b>	
Chain Hotel—# Rooms (mid-quality)	250
Chain Hotel—Average Daily Rate <sup>3</sup>	\$88.22
Boutique Hotel—# Rooms (high-quality)	80
Boutique Hotel—Average Daily Rate <sup>4</sup>	\$163.00
Annual % Occupancy <sup>5</sup>	54%
<b>Total Hotel Rooms</b>	<b>330</b>

*Tenant and Occupancy Assumptions—Hotel*

<b>Hotel Assets (54% Occupancy)</b>	<b>Units</b>	<b>ADR</b>	<b>1st Year Occupancy Assumptions</b>		
			<b>Conservative</b> ( Full Build-out in Y18)	<b>Moderate</b> (Full Build-out in Y14)	<b>Aggressive</b> (Full Build-out in Y9)
Chain	250	\$88.22	14	10	2
Boutique	80	\$163.00	18	14	5

<sup>3</sup> Source: Lawrence Convention and Visitors Bureau, average 2007-2011 for all hotel types.

<sup>4</sup> Source: City of Lawrence, Kansas, Planning and Development Services. Based on average of weekend and weekday rates, July 2012, obtained through survey of regional, comparable hotels.

<sup>5</sup> Source: Lawrence Convention and Visitors Bureau, average 2011-May 2012 for all hotel types.

*Property Valuation Assumptions—Hotel*

<b>Hotel—Estimated Size of Properties</b>					
<b>Hotel Asset</b>	<b># Rooms</b>	<b>Average SF/Room<sup>6</sup></b>	<b>Total Room SF</b>	<b>Common Area<sup>7</sup></b>	<b>Total SF/Property</b>
Chain	250	300	75,000	5,000	80,000
Boutique	80	400	32,000	5,000	37,000

<b>Hotel—Estimated Property Valuation at Construction End</b>			
<b>Hotel Assets</b>	<b>Size (SF)</b>	<b>Estimated Cost/SF<sup>8</sup></b>	<b>Estimated Value</b>
Chain (250 rooms)	80,000	\$121.46	\$9,716,800
Boutique (80 rooms)	37,000	\$159.09	\$5,886,330

<sup>6</sup> Source: City of Lawrence, Kansas, Planning and Development Services

<sup>7</sup> Source: City of Lawrence, Kansas, Planning and Development Services

<sup>8</sup> Source: City of Lawrence, Kansas, Planning and Development Services Based on recently published data for national average costs per square foot for most common hotel construction types built in Lawrence within the past 10-15 years (Type II-A construction and Type V-A construction).

## Sales Tax Revenue Projections: TDD & Retail

Springsted Inc. was hired to provide baseline estimations of revenues generated through an additional 1% TDD imposed on taxable sales within the project campus. This data was utilized to further refine projections by occupancy and vacancy assumptions as shown below. Note retail sales tax revenues are based on a City net sales tax rate of 2.31% which includes the City rate of 1.55% plus the City's portion of the County-wide sales tax.

<b>TDD &amp; Sales Tax Revenue Summary (5% Retail Vacancy)</b>						
<b>Retail at 5% vacancy, Hotel at 46% vacancy</b>	<b>Conservative</b> (Build-out in Y18)		<b>Moderate</b> (Build-out in Y14)		<b>Aggressive</b> (Build-out in Y9)	
	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>
TDD—Sales Tax (1%)	\$4,133,676	\$4,216,087	\$6,216,325	\$6,340,388	\$8,413,335	\$8,580,853
Retail—City Net Sales Tax (2.31%)	\$8,804,731	\$8,980,265	\$13,240,772	\$13,505,027	\$17,920,403	\$18,277,216
<b>Total Sales Tax Revenues</b>	<b>\$12,938,407</b>	<b>\$13,196,352</b>	<b>\$19,457,097</b>	<b>\$19,845,416</b>	<b>\$26,333,738</b>	<b>\$26,858,069</b>

<b>TDD &amp; Sales Tax Revenue Summary (10% Retail Vacancy)</b>						
<b>Retail at 10% vacancy, Hotel at 46% vacancy</b>	<b>Conservative</b> (Build-out in Y18)		<b>Moderate</b> (Build-out in Y14)		<b>Aggressive</b> (Build-out in Y9)	
	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>
TDD—Sales Tax (1%)	\$3,943,095	\$4,021,707	\$5,930,493	\$6,048,854	\$8,040,803	\$8,200,887
Retail—City Net Sales Tax (2.31%)	\$8,398,791	\$8,566,236	\$12,631,951	\$12,884,059	\$17,126,910	\$17,467,890
<b>Total Sales Tax Revenues</b>	<b>\$12,341,886</b>	<b>\$12,587,944</b>	<b>\$18,562,444</b>	<b>\$18,932,913</b>	<b>\$25,167,714</b>	<b>\$25,668,777</b>

<b>TDD &amp; Sales Tax Revenue Summary (20% Retail Vacancy)</b>						
<b>Retail at 20% vacancy, Hotel at 46% vacancy</b>	<b>Conservative</b> (Build-out in Y18)		<b>Moderate</b> (Build-out in Y14)		<b>Aggressive</b> (Build-out in Y9)	
	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>	<b>0% Inflation</b>	<b>2% Inflation</b>
TDD—Sales Tax (1%)	\$3,561,931	\$3,632,948	\$5,358,830	\$5,465,785	\$7,295,740	\$7,440,956
Retail—City Net Sales Tax (2.31%)	\$7,586,913	\$7,738,180	\$11,414,307	\$11,642,122	\$15,539,925	\$15,849,236
<b>Total Sales Tax Revenues</b>	<b>\$11,148,844</b>	<b>\$11,371,128</b>	<b>\$16,773,137</b>	<b>\$17,107,907</b>	<b>\$22,835,665</b>	<b>\$23,290,192</b>

## Property Tax Projections

Below are property tax revenue projections based on assumed project retail and hotel assets. Note recreational facilities are assumed to be exempt from property taxes.

<b>Sports Village and Gateway Campus: Property Tax Revenue Summary</b>			
<b>Retail &amp; Hotel Property Taxes</b>	<b>Conservative</b> <i>(Build-out in Y18)</i>	<b>Moderate</b> <i>(Build-out in Y14)</i>	<b>Aggressive</b> <i>(Build-out in Y9)</i>
Total Property Tax Revenue <i>(Over 22 Year Term)</i> <sup>9</sup>	\$11,216,285	\$17,221,775	\$24,835,609

## Conclusion

Based on assumptions detailed earlier in the report and assuming a 20% retail vacancy rate, the project is projected to bring in estimated tax revenues of between \$22.3 million to \$47.7 million over a 22 year period, depending on when real estate assets start generating taxable sales and are on the property tax rolls.

The below presents a summary of projected tax revenues based on a 20% retail vacancy rate, no inflation, and conservative, moderate, and aggressive build-out scenarios:

<b>Tax Revenues Summary (20% retail vacancy rate)</b>			
<b>Tax Revenue Source</b> <i>(total over 22 year term)</i>	<b>Conservative</b> <i>(full build-out in Y18)</i>	<b>Moderate</b> <i>(full build-out in Y14)</i>	<b>Aggressive</b> <i>(full build-out in Y9)</i>
TDD (City 1%)	\$3,561,931	\$5,358,830	\$7,295,740
Retail Sales Tax (City 2.31%)	\$7,586,913	\$11,414,307	\$15,539,925
Property Tax (all jurisdictions)	\$11,216,285	\$17,221,775	\$24,835,609
<b>Total Revenues</b>	<b>\$22,365,129</b>	<b>\$33,994,912</b>	<b>\$47,671,274</b>

<sup>9</sup> Assessed value based on 25% for commercial properties. Annual mill levy increase of 1.9296 (based on average annual change for years 2006-2010)