

Request for Economic Development Support:

**705 Massachusetts Street
(Eldridge Hotel Expansion)**

705 Massachusetts Street

Project:

- 705 Massachusetts Street: Proposed expansion of existing Eldridge Hotel
 - Request
 - Eligibility
 - Analysis
 - Recommendations
 - Project Considerations
 - Next Steps

705 Massachusetts Street

Request:

- **15-Year, 95% Neighborhood Revitalization Area (NRA)**
 - **NRA is a Property Tax Rebate Program:**
 - Rebate is on the incremental increase in property valuation due to project.
 - Base property value (value prior to improvements) is shielded from rebate.
 - Property owner continues to pay property taxes on the base value and the percentage not awarded a rebate

- **Industrial Revenue Bond (IRB) financing for a sales tax exemption on construction materials**
 - Considered a “conduit financing mechanism”
 - Repayable solely by the company receiving them and place no financial risk on the City.

705 Massachusetts Street

■ **Background:**

- Expansion of existing Eldridge Hotel
- Addition of estimated 54 new guest rooms, ~5,000 feet for additional meeting/banquet room space, hotel kitchen expansion, and restaurant and bar concept.
- Expansion on parcel located next to existing hotel. Parcel vacant for ~42 years.

705 Massachusetts Street

NRA Eligibility:

- **State Criteria:** NRA Area would address deterioration of the site or other improvements. The site previously had a structure on it, which staff believes was destroyed by fire in the early 1970s. The site has been vacant since that time.
- **City Criteria:**

City Policy: NRA Eligibility		
When considering the establishment of a NRA, the City shall consider not only the statutory criteria, but if the project meets a majority of the below criteria:		Eligible
1	The opportunity to promote redevelopment activities which enhance downtown	Y
2	Provides the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized.	Y
3	Provides the opportunity to attract unique retail and/or mixed use development which will enhance the economic climate of the City and diversify the economic base.	Y
4	Provides the opportunity to enhance neighborhood vitality as supported by the City's Comprehensive Plan or other sector planning document(s).	Y
5	Provides the opportunity to enhance community stability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.	y
Project must meet or exceed a 1:1.25 cost-benefit ratio.		Y

705 Massachusetts Street

IRB Eligibility:

- Staff believes the project as proposed will meet City IRB eligibility, meeting a majority of City policy criteria

Analysis Required:

- **Cost-Benefit**
- **“But For”/Pro Forma**

705 Massachusetts Street

■ Cost-Benefit Assumptions

- Capital Investment : \$12.5 million
- Job Creation :
 - 18 FT, Avg. Annual Salaries at \$32,469

705 Massachusetts Street: Projected Employment	
# FT Jobs	Average Annual Earnings
2	\$40,000
3	\$35,000
1	\$50,000
12	\$29,120
18	\$32,469

- Base Property Taxes: \$4,922 (shielded from rebate)
- 80% of total new sales tax revenues estimated to come from out-of-town customers

705 Massachusetts Street

Cost-Benefit Results: 20Y evaluation period

- No Sales Tax Revenues

20 Year Evaluation Period: 705 Mass					
Incentive Package	City	County	USD 497	State	Total Package Value
15Y-95% NRA + IRB Sales Tax Exemption <i>(20Y Evaluation Period)</i>	1.55	1.33	9.42	n/a	\$2,464,892
12Y-95% NRA + IRB Sales Tax Exemption <i>(20Y Evaluation Period)</i>	1.65	1.52	11.48	n/a	\$2,005,530
10Y-95% NRA + IRB Sales Tax Exemption <i>(20Y Evaluation Period)</i>	1.71	1.66	12.97	n/a	\$1,715,550

- With Sales Tax Revenues (includes breakout of countywide 1% sales tax)

20 Year Evaluation Period: 705 Mass					
Incentive Package	City	County	USD 497	State	Total Package Value
15Y-95% NRA + IRB Sales Tax Exemption <i>(20Y Evaluation Period)</i>	2.61	1.61	9.42	n/a	\$2,464,892

Neither scenario includes guest tax revenues.

705 Massachusetts Street

Cost-Benefit Results: 15Y evaluation period

- No Sales Tax Revenues

15 Year Evaluation Period: 705 Mass					
Incentive Package	City	County	USD 497	State	Total Package Value
15Y-95% NRA + IRB Sales Tax Exemption <i>(15Y Evaluation Period)</i>	1.32	0.96	6.43	n/a	\$2,464,892
12Y-95% NRA + IRB Sales Tax Exemption <i>(15Y Evaluation Period)</i>	1.42	1.17	8.86	n/a	\$2,005,530
10Y-95% NRA + IRB Sales Tax Exemption <i>(15Y Evaluation Period)</i>	1.49	1.32	10.63	n/a	\$1,715,550

- With Sales Tax Revenues (includes breakout of countywide 1% sales tax)

15 Year Evaluation Period: 705 Mass					
Incentive Package	City	County	USD 497	State	Total Package Value
15Y-95% NRA + IRB Sales Tax Exemption <i>(15Y Evaluation Period)</i>	2.26	1.21	6.43	n/a	\$2,464,892

Neither scenario includes guest tax revenues.

705 Massachusetts Street

Cost-Benefit Results:

- Ratio met for the City (with or without sales taxes included) for both a 10- or 15-year, 95% NRA rebate and an IRB sales tax exemption on construction materials.
- Ratio met for County (with or without sales taxes included) for a 10- or 15-year, 95% NRA rebate and an IRB sales tax exemption on construction materials under a 20 year evaluation period.
- Under a 15 year evaluation scenario, the ratio is met for the County, given a 10-year, 95% NRA and an IRB sales tax exemption on construction materials, if sales tax revenues are not considered. With the addition of projected sales tax revenues, the ratio falls just under the 1.25 threshold at 1.21 for a 15-year, 95% NRA. (Sales tax revenues estimated under the breakout of the 1% countywide sales tax.)

705 Massachusetts Street

“But For”/Pro Forma

- Analysis utilized estimated project program information, annualized cash flow and pro forma data.
- Taxes were estimated using property information from Douglas County Appraiser’s Office.
- Cash Flow examined
- IRR not applicable since it relies on hypothetical sale of entire business/property at some point in future.

705 Massachusetts Street

“But For”/Pro Forma: Cash Flow Results

Analysis averaged expenses under a best-case (efficiencies of scale utilized with existing hotel) and worst-case (no efficiencies of scale utilized) scenario.

15-Year, 95% NRA, No Incentives

- Annual cash flow is negative years 1-7
- Profit/Loss after 10 years of operations: -\$953,000
- Profit after 15 years of operations: +\$31,000.

15-Year, 95% NRA, With Incentives

- Annual cash flow is negative years 1-4
- Profit/Loss after 10 years of operations: + \$322,000
- Profit after 15 years of operations: +\$2 million

Cash Flow Over Term (15-Y, 95% NRA)			
Avearged Cash Flow	10 Years (2017-2026)	15 Years (2017-2031)	20 Years (2017-2026)
Average Cash Flow: No Incentives	(\$952,706)	\$30,774	\$2,043,742
Average Cash Flow: With Incentives	\$321,954	\$2,054,776	\$4,067,743

705 Massachusetts Street

“But For”/Pro Forma: Cash Flow Results

- Given profit levels shown on cash flow analysis, it is reasonable to conclude that the project would not proceed without public assistance. Specifically, analysis supports a 95% NRA rebate for a minimum 10 year period in conjunction with requested IRB sales tax savings on construction materials.
- Less apparent if the project would proceed without the requested 15-year NRA duration given a 95% NRA rebate level:
 - Average annual profit for a 10-year NRA: \$32,200 (\$321,954 total during 10 NRA duration period)
 - Average annual profit for a 15-year NRA: \$136,700 (\$2,04,776 total during 15 NRA duration period)

Difference in Cash Flow by NRA Term (95% Rebate Level)		
Average Cash Flow with Incentives	10 Years (2017-2026)	15 Years (2017-2031)
10Y NRA: Average Cash Flow: With Incentives	\$321,954	\$1,305,434
15Y NRA: Average Cash Flow: With Incentives	\$321,954	\$2,054,776
Difference	\$0	\$749,341

705 Massachusetts Street

Additional considerations should be discussed in light of the NRA duration period.

Additional Considerations:

- Replaces an unproductive vacant lot with productive space. Records indicate the lot at 705 Massachusetts has been vacant since 1973 (42 years).
- Opportunity to promote increased visitor traffic in support of Downtown Lawrence.
- Opportunity to support downtown, infill development along the historic downtown corridor.
- Past public support for the existing Eldridge Hotel: included a 10-year tax abatement (3% real property, 97% personal property) and Industrial Revenue Bond Financing authorized in 1986.

705 Massachusetts Street

- Parking Impacts: The expansion project will not provide on-site parking to accommodate additional guests. However, the downtown zoning district where the project will be located does not require redevelopment to provide off-street parking. Regardless of parking requirements, demand for parking will likely be impacted and the parking impact of the project, both during and after construction, should be considered.

705 Massachusetts Street

- Property Tax Revenues: Collections even with an NRA more than double existing tax revenues.

Estimated Tax Paid from Owner: 15-Year, 95% NRA Rebate				
	During first Year of Operations (2017)	During first 10 Years of Operations (2017-2026)	During 15-Year NRA Period (2017-2031)	During 20 Year Evaluation Period (2017-2036)
Base Taxes	\$4,942	\$49,864	\$75,169	\$100,727
Incremental Taxes (5% of improved value)	\$6,070	\$67,087	\$106,526	\$986,080
Total Taxes Due	\$11,012	\$116,952	\$181,696	\$1,086,806

Estimated Tax Paid from Owner: 10-Year, 95% NRA Rebate				
	During first Year of Operations (2017)	During first 10 Years of Operations (2017-2026)	During 15-Year NRA Period (2017-2031)	During 20 Year Evaluation Period (2017-2036)
Base Taxes	\$4,942	\$49,864	\$75,169	\$100,727
Incremental Taxes (5% of improved value)	\$6,070	\$67,087	\$855,867.74	\$1,735,421
Total Taxes Due	\$11,012	\$116,952	\$931,037	\$1,836,148

705 Massachusetts Street

- Cumulative Tax Revenues: Property tax collections shown with addition of anticipated net new sales taxes:

Projected Property & Sales Tax Revenues (with 15-Y, 95% NRA)			
	Pre + 10 Years (2015-2026)	Pre + 15 Years (2015-2031)	Pre + 20 Years (2015-2036)
Property Tax Revenues	\$186,202	\$250,946	\$1,156,057
Sales Tax Revenues	\$1,907,417	\$3,012,509	\$4,232,621
Guest Tax Revenues (City, 6%)	\$1,644,325	\$2,596,991	\$3,648,811
Total Tax Projected	\$3,737,943	\$5,860,447	\$9,037,489

705 Massachusetts Street

Staff Conclusions & Recommendation:

- **Eligibility:** Staff believes the project as proposed will meet State and City NRA and IRB eligibility criteria.
- **But-For Test:** Examination of estimated cash flows and return rates, with and without public assistance, indicates the "but for" test has been met for the project.
- **Cost-Benefit Threshold:**
 - Ratio met for City
 - Ratio met for County under a 10 year NRA without including estimated sales tax collections. With the addition of projected sales tax revenues, the ratio falls just under the 1.25 threshold at 1.21 for a 15-year, 95% NRA.
 - Ratio met for USD and State

705 Massachusetts Street

Staff Conclusions & Recommendation:

- NRA duration period should be a topic of discussion for PIRC and the governing bodies.
- If incentive package approved, recommend including provisions in a performance agreement:
 - Condition incentives on the complete compliance with all land use requirements for the property, including the City's historic and downtown design guidelines. Failure to comply with these requirements would nullify any incentives approved.
 - Project construction to commence within one year and end within two years of incentives approval.

705 Massachusetts Street

PIRC Recommendation

- A motion was made to recommend authorizing Industrial Revenue Bond Financing (IRB) for the project to access a sales tax exemption on construction materials. *Motion passed 5-0.*
- A motion was made to recommend a 15-year, 95% NRA with conditions outlined by staff. *Motion passed 4-1.*

705 Massachusetts Street

Next Steps

- City Commission to hold a public hearing on request:
 - Consider the first reading of ordinance establishing the revitalization area and approving the NRA plan for 705 Massachusetts Street.
 - Consider IRB financing request and vote on IRB resolution of intent (to allow owner to apply for sales tax exemption on construction materials)
- County & School Board to consider NRA request. (February 23 & 25, 2015)
- Final City Commission meeting to consider request (March 3, 2015)
 - City Commission to consider second reading of ordinance establishing the revitalization area and approving the NRA plan, cooperative agreement, and performance agreement.
 - Performance agreement would condition incentives on compliance with all land use requirements for the property and include provisions for project to commence within one year and end within two years of incentives approval.

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Thank You