Technical Report

826 Pennsylvania Street NRA & IRB Request

City of Lawrence, Kansas
October 19, 2016

Technical Report

826 Pennsylvania Street NRA & IRB Request

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Executive Summary

Williams Management LLC (Applicant, Williams Management LLC is owned by Adam Williams.) is requesting a 10-year, 85% Neighborhood Revitalization Area (NRA) rebate and an Industrial Revenue Bonds (IRB) sales tax exemption on construction materials and remodeling labor to support the redevelopment of the existing historical building, located at approximately 826 Pennsylvania Street in the East Lawrence Historic Warehouse District, into a mixed-use, commercial and residential project.

The project is anticipated to add:

- Over 28,000 square feet of finished commercial and residential space (3 floors + basement)
- 14 residential rental units, two of which will be set aside for affordable housing over a 30-year period
- 33 new on-street angled parking spaces in front of the building
- 11 full-time, permanent positions at an annual average salary of just under $32,500 to support commercial and residential operations

Staff believes eligibility requirements have been met for both NRA and IRB sales tax exemption participation as per City and State requirements.

Cost-Benefit analysis shows the project is anticipated to meet or exceed the 1.25 ratio threshold for all taxing jurisdictions.

826 Pennsylvania Street					
Description	**City**	**County**	**USD**	**State**	**Total Value**
10 Year, 85% NRA Rebate	1.36	2.05	10.17	n/a	$467,406
Stand-alone IRB for Sales Tax Exemption					$184,448
Total					**$651,854**

*The *State does not have any costs associated with the project. The model shows benefits substantially outweighing costs to the School District; however, due to state school financing formulas, impacts of the project on the local school district are insubstantial.*

The table below shows estimated incentive values to each taxing jurisdiction for the requested assistance package, as estimated through the model.

Incentive Package Valuations (est.)				
	CBA Ratio	IRB Sales Tax	NRA	Total
City	1.36	$43,585	$132,412	$175,997
County	2.05	$7,412	$182,369	$189,781
State	n/a	$133,451	$0	$133,451
USD	10.17	$0	$152,626	$152,626
Totals		**$184,448**	**$467,406**	**$651,854**

As per the Gap analysis conducted by NDC: The documents, discussions and responses presented by the Applicant in support of their request for the NRA and IRB incentives demonstrate that the requested incentives are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed.

Examination of current and projected property tax revenues shows the taxing jurisdictions will realize approximately 88% more in property tax revenues with the requested NRA rebate provided over a 10 year period, as compared to if the property was left unimproved:

Property Tax Revenue During NRA (total over years 1-10)		
	Tax Revenue	% Change
Unimproved property	$111,384	88%
Improved property	$209,558	

After the NRA expires, the improved property will be fully on the tax rolls, providing a substantial increase in property tax revenues.[1]

Property Tax Revenue After NRA Period (total over years 11-15) [2]		
	Tax Revenue	% Change
Unimproved property	$55,692	726%
Improved property	$460,284	

The City Commission has asked the Public Incentives Review Committee (PIRC) to review and provide a recommendation on this request. In addition, the County and School District will also review the PIRC recommendation as they consider their participation in the NRA.

[1] Real property tax projections provided by NDC.
[2] Estimates shown for illustration purposes. The useful life of real estate is anticipated to be much longer than 15 years.

Introduction

Williams Management LLC (Adam Williams, Applicant and property owner) is proposing to rehabilitate and add a two story vertical addition to the structure located within the East Lawrence Industrial Historic District at approximately 826 Pennsylvania Street.[3] The redevelopment will create a mixed-use structure to accommodate a restaurant and brewery/manufacturing space on the first floor and apartments in the new, two floor addition (floors 2 & 3). The Applicant proposes to reserve two of the residential units for affordable housing over a 30 year period.

The Applicant is requesting economic development assistance for the project to proceed, including a 10-year, 85% Neighborhood Revitalization Area (NRA) rebate and Industrial Revenue Bonds (IRB) to obtain a sales tax exemption on construction materials. A property tax abatement is not being sought in conjunction with the IRB.

The City Commission received a preliminary request by the applicant for project gap analysis and review by the City's advisory boards on July 5, 2016. The Commission referred the request to staff for analysis, and requested review by the Public Incentives Review Committee (PIRC) and the Affordable Housing Advisory Board.

The City, County, and School District individually consider participation in an NRA and each has the discretion to determine the rebate percentage and duration of the NRA for their taxing jurisdiction.

[3] Parcel identified by the County and City GIS system as 820 Pennsylvania Street.

Project Overview

In addition to rehabilitating the existing ground floor into commercial space, plans include adding two additional floors to support residential rental units.

826 Pennsylvania Street			
Level	**Type**	**Total Size (Leasable SF)**	**# Units**
Basement	Storage	6,244	n/a
Floor 1 (ground)	Commercial: Restaurant	3,298	n/a
	Commercial: Brewery	2,613	n/a
	Commercial: Manufacturing	2,881	n/a
Floor 2	Residential: 1 bedroom	3,500	4
	Residential: 2 bedroom	4,801	4
Floor 3	Residential: 1 bedroom	4,220	5
	Residential: 2 bedroom	1,285	1
Parking	Angled, on-street	n/a	33
Total Project Size (S.F.)		**28,842**	

The Applicant will construct and pay for thirty-three (33) new, on-street, angled parking spaces in front of the building; sidewalks, and necessary utility extensions to the building. Total project costs are estimated at $3.85 million, of which approximately $650,000 is estimated land expense.

Of the total apartment units (14), the Applicant is proposing to set aside two, 1-bedroom residential units for affordable housing and to keep these units designated as affordable for a 30-year period. This represents approximately 14% of the total units and 13% of the total residential square footage as designated affordable housing. [4]

	Total	AH	% of total
Residential Units	14	2	14.3%
Residential SF	13,806	1,719	12.5%

[4] Assumes one unit at 844 s.f. and one unit at 875 s.f.

Request for Assistance

A Request Letter and Incentives Application **(See Addendum A.)** were received on October 10, 2016 from the Applicant requesting a 10-year Neighborhood Revitalization Area (NRA) with an 85% rebate provided annually. In addition, Industrial Revenue Bond (IRB) financing is being requested in order to receive a sales tax exemption on construction materials and remodeling labor expenses.

Neighborhood Revitalization Area (NRA)

NRA Description and Purpose

The NRA is one of several economic development tools utilized by municipalities to promote economic growth through neighborhood enhancement. Authorized by the state, NRAs are intended to encourage the reinvestment and revitalization of properties which in turn have a positive economic effect upon a neighborhood and the City in general. The use of an NRA is particularly applicable for use in areas where rehabilitation, conservation, or redevelopment is necessary to protect the public health, safety or welfare of the residents of the City.

Typically, a percentage of the incremental increased value in property taxes (due to improvements) is rebated back to the Applicant over a period of time to help offset redevelopment costs and make the project financially feasible.

NRA Project Eligibility

Project eligibility for NRA consideration is governed by both State (KSA 12-17,114 et seq.) and City policy.

NRA State Statute Requirements

State Requirements

Statutory Criteria	Governing Body determines that rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of residents and the proposed project meets at least one of the below criteria:		
	1	An area in which there is a predominance of buildings or improvements which by reason of dilapidation, deterioration, obsolescence, inadequate provision of ventilation , light, air or open spaces, high density of population and overcrowding, the existence of conditions which endanger life or property by fire and other causes or a combination of such factors, is conductive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare.	***Health & Safety Need***
	2	An area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land uses relationships, faulty lot layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions **deterioration of site or other improvements**, diversity of ownership, tax, or special assessment delinquency exceeding the actual value of the land, defective or unusual conditions of title, or the existence of conditions which endanger life or property by fire and other causes or a combination of such factions substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations, or constitutes an economic or social liability and is detrimental to the public health, safety or welfare in its present condition and use.	***Economic Need***
	3	An area in which there is a predominance of buildings or improvements that should be preserved or restored to productive use because of age, history, architecture or significance should be preserved or restored to productive use.	***Preservation of Community/Historical Asset***

- **Conclusion—State Eligibility:**
  Staff believes the project will meet State eligibility requirements. In its present state, the building is vacant and severely dilapidated, which is arguably a detriment and risk to public health and safety. In addition, the property is located in the East Lawrence Industrial Historic District, National Register of Historic Places. It is designated as a non-contributing structure to the district because of past alterations made to the structure. While the structure no longer maintains architectural integrity, it was a part of the industrial area in the historic period of significance and helps maintain the overall rhythm and patterns of the historic district. [5]

[5] City Planning Department HRC Packet Information 03-24-2016, Item No. 6: DR-15-00591

City Policy Eligibility

Resolution 6954 **(See Addendum B.)** outlines the City's policy for establishing an NRA. City Policy Guidelines include:

- ***Typical Rebate Amounts & Duration***

  As per NRA policy, the City typically follows the below standard practice:

  - Does not provide more than 50% rebate on incremental property taxes
  - Does not establish an NRA for a period of time longer than 10 years

  However, there is an exception provision within the policy which allows the City to *"consider a greater rebate and/or a longer duration if sufficiently justified in the "But For" analysis."*[6]

- ***Cost-Benefit Ratio***

  Resolution 6954, Section Two speaks to the cost-benefit ratio threshold. Specifically, the statement, *"It is the policy of the City to only consider the establishment of Neighborhood Revitalization areas which yield a benefit/cost ratio of at least 1.25."*, indicates that for every $1 of cost incurred as a result of the project, $1.25 is received as benefit) for economic development projects.

> **SECTION TWO: POLICY STATEMENT:** It is the policy of the City to consider the establishment of Neighborhood Revitalization areas in order to promote reinvestment and revitalization of properties which in turn have a positive economic effect upon a neighborhood and the City in general. An applicant may request the City consider the establishment of a Neighborhood Revitalization area under the NRA either for a specific property, group of properties or neighborhood area. In considering the establishment of an NRA, the Governing Body shall consider the criteria outlined in Section Three. In determining the amount of a rebate, the Governing Body may balance the desirability of the project versus the amount and duration of the rebate and the requirements set forth in Section Four. It is the policy of the City to only consider the establishment of Neighborhood Revitalization areas which yield a benefit/cost ratio of at least 1.25.

From Resolution 6954, dated October 25, 2011.

[6] Resolution 6954, Section 4: Amount of Rebate

- **City NRA Eligibility Criteria**
  For an NRA to be established, the project must not only meet statutory requirements, but also a majority of City policy criteria. The project meets City policy eligibility as detailed below:

City Policy: NRA Eligibility			
City Policy Criteria	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	n/a
	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.	n/a
	Project must meet or exceed a 1:1.25 cost-benefit ratio.		Y

- **Conclusion—City Eligibility:**
  Staff believes the project as proposed will meet City NRA eligibility, meeting a majority of City policy criteria.

Industrial Revenue Bonds (IRB)

IRB Description and Purpose

Industrial Revenue Bonds are an incentive established by the State of Kansas to enhance economic development and improve the quality of life. Considered a "conduit financing mechanism" whereby the City can assist companies in acquiring facilities, renovating structures, and purchasing machinery and equipment through bond issuance, IRBs can be useful to companies in obtaining favorable rate financing for their project, as well as providing a sales tax exemption on project construction materials.

IRBs are repayable solely by the company receiving them and place no financial risk on the City. When IRBs have been issued, the municipality owns the underlying asset and the debt is repaid through revenues earned on the property that has been financed by the bonds. If the company defaults, the bond owners cannot look to the city for payment.

IRB Project Eligibility

Project eligibility for IRB consideration is governed by both State (KSA 12-17,114 et seq.)[7] and City policy (Ordinance 8253, **See Addendum C)**. According to City policy, the City may from time to time grant IRBs when the project under consideration helps further economic and community development objectives. Additional eligibility criteria, as stipulated in the policy, are outlined below:

[7] K.S.A. 12-1740 permits cities and counties to issue revenue bonds for the purpose of paying the costs of purchasing, acquiring, constructing or equipping facilities for the following business categories: Agriculture, Hospital, Natural Resources, Manufacturing, Commercial, Industrial, Recreational Development

IRB City Policy Criteria: Section 1-2111			
Item #	**Policy Requirement**	**Project Delivers**	**Project Qualifies (Y/N)**
1	Only those projects which qualify under Kansas Law will be eligible for IRB financing.(1)	Project is mixed-use, commercial	Y
Proposed Project shall achieve one or more of the following public benefits:			
2	***2a:** Meets economic goals of the City as set forth in policy and the Comprehensive Plan of Lawrence and Douglas County:*		
	Place high priority on retention and expansion of existing businesses.	Project is a continued investment in Lawrence by the applicant. Applicant currently owns an interest and/or assets with the management of the following local properties: 1) Westside Plaza (4811 Bob Billings Parkway); 2) Oread West Office Park (1411 Wakarusa Dr); 3) Folks Office Building (4505 W 6th St). Applicant has previously owned an interest and/or assisted with the management of the following local properties: 1) 6th & Iowa Redevelopment (2222 W 6th St); 2) Congressional Retail (650 Congressional).	Y
	Encourage existing industry to expand.	(1) Project represents an expansion of Williams Management, LLC's investment in the City; and (2) Project will house a new locally owned restaurant/brewery business.	Y
	Assist new business start-ups	Commercial space will support a new brewery and its manufacturing operations.	Y
	Recruit new companies from out-of-state and internationally		n/a
	Encourage high technology and research based businesses.		n/a
	Encourage training and development of Lawrence area employees	Two to three employees at the in-house brewery will receive specialized brewing training.	Y
	Encourage location and retention of businesses which are good "corporate citizens" that will add to the quality of life in Lawrence through their leadership and support of local civic and philanthropic organizations.	Applicant plans in the future to sponsor or support local civic organizations and charities such as the Lawrence Arts Center, Just Food, Tenants to Homeowners, and Brew to Brew-Cystic Fibrosis Foundation.	Y
	2b: Promotes infill through the development of vacant lots, the rehabilitation of deteriorated properties or the adaptive reuse of historic properties.	Project will rehabilitate and restore a long vacant, deteriorated, and unproductive structure within the East Lawrence Industrial Historic District to productive use.	Y
	2c: Enhance Downtown		n/a
	2d: Incorporate environmentally sustainable elements into the design and operation of the facility	Project will be infill development using existing city infrastructure (e.g. streets, gutters, sidewalks, sewers, water lines, alleyway, electric, gas, phone and cable utilities).	Y
	2e: Provide other public benefits to the community, particularly as set forth in the Comprehensive Plan of Lawrence and Douglas County.	Project will support Horizon 2020's economic development goals, including tax base growth, by accommodating more property tax revenues with the conversion of a vacant structure to productive use. Project will support infill development and add permanent, affordable housing units to the community.	Y

Continued

3	Prospective tenant shall show the financial capacity to complete the proposed project and successfully market the bonds.	Applicant has acquired fee simple title to the property as of August 31, 2016. Applicant and its lender have entered into a construction loan agreement regarding the completion of improvements to the property, as evidenced by a recorded mortgage on the property.	Y

IRB: Other Considerations (Preferred), Section 1-2111

Item #	Policy Requirement	Project Delivers	Project Qualifies (Y/N)
1	*City looks more favorably upon projects that support the below targeted industries:*		
	Life Sciences/Research		n/a
	Information Technology		n/a
	Aviation and Aerospace		n/a
	Value-Added Agriculture		n/a
	Light Manufacturing and Distribution		n/a
2	*The City favors issuing Industrial Revenue Bonds to projects that bring in new revenues from outside the community or enhance the local quality of life over projects that will primarily compete against other local firms.*		
	Project anticipated to bring in new revenues from outside community:	Approximately 25% of revenues are anticipated to come from non-local sources.	Y
	Project enhances local quality of life:	Creation of permanent affordable housing units	Y
		Creation of new jobs	
		Elimination of blight and restoration and rehabilitation of historic structure. In-fill development, new on-street public parking will be provided.	

IRB: Special Consideration for Residential Projects, Section 1-2112

Item #	Policy Requirement	Project Delivers	Project Qualifies (Y/N)
1	Project is multi-family or senior living project	Project will support approximately 14 multi-family units, including 2 affordable housing units.	Y
2	Projects that contain no non-residential uses and are requesting IRBS must have at least 30% of all housing units set aside for households making 80% of the Area Median Income or less.	Project contains residential units.	n/a
Preferred Qualities for Residential Projects:			
	Infill or redevelopment:		Y
	Mixed -Use		Y
	Downtown Location	n/a	n/a

- **Conclusion—City Eligibility:**
  Staff believes the project as proposed will meet City IRB eligibility, meeting a majority of City policy criteria.

Analysis

Estimated fiscal impacts to taxing jurisdictions is examined through a cost-benefit analysis and project financial feasibility is examined through a "But For" analysis (pro forma), both of which are required by current NRA policy.

Cost-Benefit Analysis (CBA)

Based on information received through the incentives application and gap analysis (performed by the National Development Council), staff conducted analysis of the costs and benefits associated with the project utilizing the City's economic development cost-benefit model. This model measures estimated fiscal impacts to four taxing jurisdictions: City, County, School District, and State. Furthermore, the model outputs a ratio reflecting the comparison of estimated costs to estimated benefits returned to the jurisdictions as a result of the project.

Overview of assumptions utilized within the cost-benefit model:

Assumptions	
Land Value	$650,000
Building Value	$3,200,000
Net New Full-Time Jobs Created	11
Average Annual Salary Per Net New Full-Time Position	$32,485
Total Estimated Sales Tax Exemption Savings (City, County, State)	$184,448
Total Estimated NRA Rebate (10 years, 85%)	$467,406

- **Capital Investment & Job Creation**

  According to the incentives application received, approximately $3.2 million will be invested in redeveloping the property with an additional value of $650,000 value paid for the land/existing property. Once redeveloped, the project anticipates adding 11 full-time, permanent positions, ten to service restaurant/brewery operations and one to service the apartments. All positions are estimated to have an average annual salary of approximately $32,500.

  Although the model does not consider part-time or temporary positions, the applicant has indicated that the project will also support temporary construction jobs as well as approximately thirty-seven (37) part-time positions.

- **Estimated IRB Sales Tax Exemption**
  Based on the applicant's estimation of construction expenses ($3,158,600), an IRB used to obtain a sales tax exemption on construction materials and labor (for remodeling the first floor and basement) would be worth approximately $185,000 in total sales tax savings.

Assumptions	
Materials Cost	$1,579,300
Labor Remodeling Cost (basement, 1st floor)	$473,790
Total Taxable Costs	$2,053,090

Total estimated cost would be $43,585 to the City, $7,412 to the County, and $133,351 to the State ($184,448 total).[8] The below assumes all construction materials are delivered to the site and subject to local sales taxes.

Summary of Estimated Sales Tax Savings: 826 Pennsylvania Street IRB			
City	**Tax Rate**	**Estimated Sales Tax Amount**	**Total**
City Sales Tax	1.55%	$31,823	$43,585
City Portion of Countywide 1% Sales Tax	0.57%	$11,762	
County	**Tax Rate**	**Estimated Sales Tax Amount**	**Total**
County Portion of Countywide 1% Sales Tax	0.36%	$7,412	$7,412
State	**Tax Rate**	**Estimated Sales Tax Amount**	**Total**
State	6.50%	$133,451	$133,451
Other	**Tax Rate**	**Estimated Sales Tax Amount**	**Total**
Other County Municipalities Portion of Countywide 1% Sales Tax	0.07%	$1,357	$1,357
Total	**9.05%**	**$185,805**	**$185,805**

[8] The cost-benefit model does not consider fiscal impacts to Other County Municipalities. Consequently, the Countywide portion attributed to sales tax exemption savings forgone by other County municipalities ($1,357) was not included in the cost-benefit model. However, gap analysis would consider the total sales tax savings realized by the developer from all taxing jurisdictions.

Breakout of Sales Tax Savings Estimations

Total Construction Costs	Materials & Labor Expense %	Estimated Materials & Labor Cost
$3,158,600	65.00%	$2,053,090

826 Pennsylvania Street: Construction Sales Tax Exemption		
Taxing Jurisdiction	**Tax Rate** (July 2016)	**Est Sales Tax Amount**
City	1.55%	$31,823
County	1.00%	$20,531
City Portion of 1% Countywide Sales Tax		$11,762
County Portion of 1% Countywide Sales Tax		$7,412
Other County Municipalities Portion of 1% Countywide Sales Tax		$1,357
State	6.50%	$133,451
Total	**9.05%**	**$185,805**
City Total		**$43,585**
County Total		**$7,412**

- **Base Property Taxes**
  In its present condition, the property generates approximately $11,100 per year in real property taxes. Through the NRA program, these "base" property taxes are shielded from rebates and would continue to be paid by the property owner. Only a percentage of the incremental increase in property value resulting from project improvements is subject to NRA rebates and then only during the NRA period. After the NRA period, no reimbursements are made on property taxes and the property returns fully to the tax rolls.

2016 Property Tax Information							
Property Address	Appraised			Assessed			2016 Tax Mill Levy (est.)
	Land	Improvements	Total	Land	Improvements	Total	
820 Pennsylvania Street	$89,760	$241,440	$331,200	$22,440	$60,360	$82,800	0.134522
Total	**$89,760**	**$241,440**	**$331,200**	**$22,440**	**$60,360**	**$82,800**	**$11,138**

- **Projected Property Tax Revenues**
  The below table shows property tax projections for a 10-year period. Amounts are broken out by the base taxes (or what the property would have originally generated if the property had not been improved) and incremental taxes (the amounts attributed to improvements).

Projected Property Taxes	*Y1*	*Y2*	*Y3*	*Y4*	*Y5*	*Y6*	*Y7*	*Y8*	*Y9*	*Y10*	*Total Over Term*
Base Tax (shielded)	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$111,384
Incremental Tax	$57,190	$58,906	$60,665	$62,467	$64,315	$66,209	$68,151	$70,141	$72,180	$74,271	$654,495
Total Tax	**$68,328**	**$70,044**	**$71,803**	**$73,606**	**$75,454**	**$77,348**	**$79,289**	**$81,279**	**$83,319**	**$85,410**	**$765,879**

Assumes mill levy held steady (to account for future tax lid) and 2.5% annual inflation increase on property valuation.

Property tax revenues anticipated to be generated over a 10 year term on un-improved property are a little over $111,300. Known as the "Base Tax", this amount is shielded from NRA rebates and will continue to be paid by the property owner throughout the NRA period. The amount of property tax attributed to project improvements is approximately $654,500 and is known as the "Incremental Tax". The Incremental Tax is subject to NRA rebates.

With an 85% NRA rebate provided over a 10-year period, the total amount of property tax due from the property owner would be approximately $209,500, as compared to $111,300 if the property was left unimproved.

Projected Taxing Jurisdiction Revenues During NRA	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total Over Term
Base Tax Revenue	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	$11,138	**$111,384**
Net New Incremental Tax Revenue	$8,578	$8,836	$9,100	$9,370	$9,647	$9,931	$10,223	$10,521	$10,827	$11,141	**$98,174**
Total Tax Revenue Received	$19,717	$19,974	$20,238	$20,509	$20,786	$21,070	$21,361	$21,660	$21,965	$22,279	**$209,558**
NRA Rebate (85%) on Incremental Tax	$48,611	$50,070	$51,565	$53,097	$54,668	$56,278	$57,928	$59,620	$61,353	$63,130	$556,320
Total Unadjusted Tax	**$68,328**	**$70,044**	**$71,803**	**$73,606**	**$75,454**	**$77,348**	**$79,289**	**$81,279**	**$83,319**	**$85,410**	**$765,879**

Assumes mill levy held steady (to account for future tax lid) and 2.5% annual inflation increase on property valuation.

The below shows the estimated change in property tax revenues realized by the taxing jurisdictions during the 10 year NRA period and for the first five years after the NRA expires, when the property is fully on the tax rolls.[9]

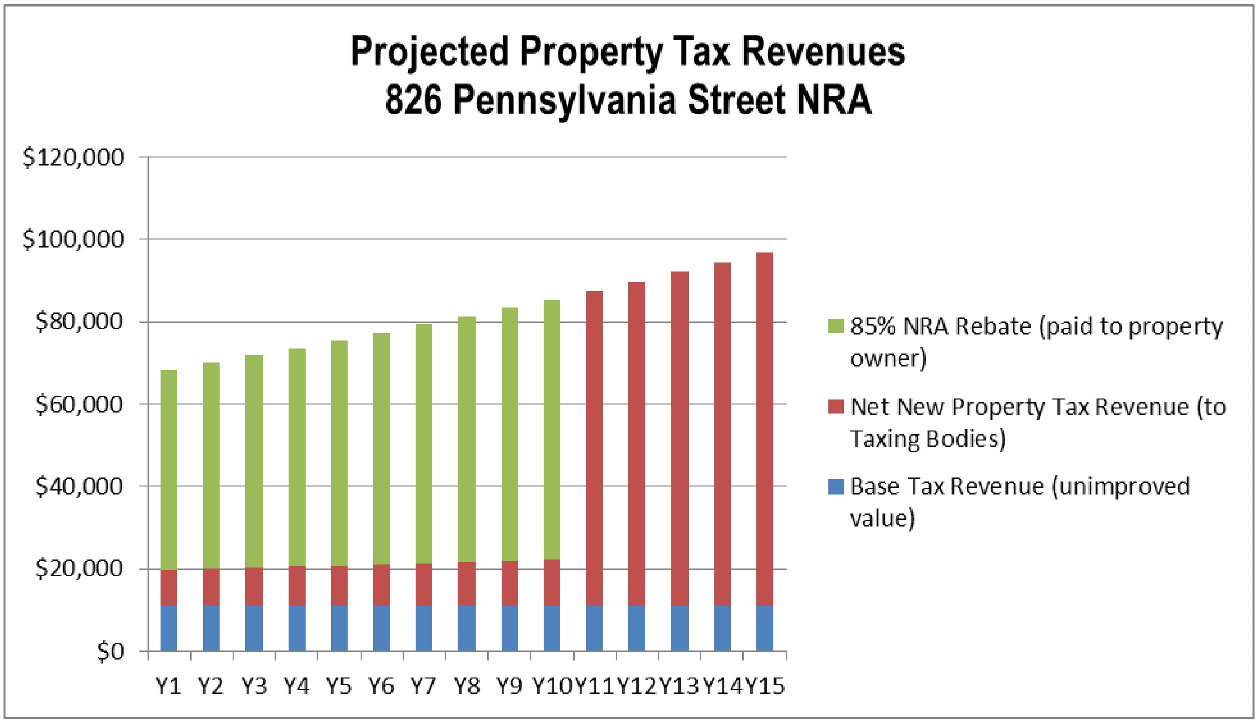
Property Tax Revenue During NRA (total over years 1-10)	Tax Revenue	% Change
Unimproved property	$111,384	88%
Improved property	$209,558	

Property Tax Revenue After NRA Period (total over years 11-15)	Tax Revenue	% Change
Unimproved property	$55,692	726%
Improved property	$460,284	

Assumes mill levy held steady (to account for future tax lid) and 2.5% annual inflation increase on property valuation.

[9] Real property tax projections provided by NDC.

The below chart provides a visual comparing the base value tax revenue and the incremental increase in property tax revenue due to improvements. Years 1-10 show the 85% NRA rebate going to the property owner and years 11-15 show that after the NRA expires, the improved property goes fully on the tax rolls.



- **Evaluation Period**

  The cost-benefit model utilizes a 15 year evaluation period for projects seeking assistance over 10 years. This not only allows for short term financial analysis over the incentive period, but long-term investment feedback once the project is fully on the tax rolls. Under this evaluation scenario, five years of longer-term returns can be examined.

  In actuality, real estate projects have a much longer usable life than fifteen years and would remain fully on the tax rolls for many more years after the incentive period has expired. In most cases, this would likely generate a much higher cost-benefit ratio than shown in the below analysis. A 15 year evaluation period thus produces a relatively conservative estimate of longer-term project benefits.

- **Cost-Benefit Model Results:**
  The following table shows cost-benefit model results for a 15 year evaluation period. As can be seen, the project exceeds the 1.25 cost-benefit ratio threshold for the City and County with a 10 year, 85% NRA rebate and a stand-alone IRB that captures sales tax exemption savings on construction materials and remodeling labor.

826 Pennsylvania Street					
Description	**City**	**County**	**USD**	**State**	**Total Value**
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*The *State does not have any costs associated with the project. The model shows benefits substantially outweighing costs to the School District; however, due to state school financing formulas, impacts of the project on the local school district are insubstantial.*

For model details, see **Addendum D**.

- **Conclusion—Model Results:**
  The cost-benefit ratio threshold can be met for the taxing jurisdictions. The below table shows estimated incentive values and corresponding CBA ratios for each taxing jurisdiction for the requested assistance package, as estimated through the model.

Incentive Package Valuations (est.)				
	CBA Ratio	**IRB Sales Tax**	**NRA**	**Total**
City	1.36	$43,585	$132,412	$175,997
County	2.05	$7,412	$182,369	$189,781
State	n/a	$133,451	$0	$133,451
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Totals		**$184,448**	**$467,406**	**$651,854**

Gap Analysis—"But For"

In order to provide a NRA rebate, the City must be convinced that without public assistance, the project will not be financially feasible. Whether or not the project would proceed if incentives are unavailable speaks to the "But For" test; But for the incentives, the project would not proceed.

Gap analysis addresses the "But For" question by looking at the financing gap the incentives would bridge to make the project feasible. Gap analysis was performed by National Development Council (NDC), which concluded:

> The documents, discussions and responses presented by the Developer in support of their request for the NRA and IRB incentives demonstrate that the requested incentives are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed.

The NDC report is included as an addendum to this report.

Additional Considerations

	Other Considerations: Section 1-2106	
	Overarching Policy, Section 1-2106	Description
1	The degree to which the business improves the diversification of the economy	Project will promote housing in the central part of town, and will expand the retail base beyond traditional areas to build upon the redevelopment of the 8th and Penn Neighborhood Redevelopment Zone.
2	The kinds of jobs created in relation to the types of skills available from the local labor market	Project will create approximately 11 full-time positions and 37 part-time positions, with additional positions possible as the business expands. Two to three employees at the in-house brewery will receive specialized brewing training. Project also supports jobs during the construction phase.
3	The degree to which the ultimate market for the business products and services is outside the community, recognizing that outside markets bring "new money" to the local economy	Estimated 25% of revenues to be generated from out of area sources.
4	The potential of the business for future expansion and additional job creation	Based on success of Project, full-time and part-time employees will be added as needed to operate in-house brewery (see 2).
5	The beneficial impacts the business may have by creating other new jobs and businesses, including the utilization of local products or other materials and substances in manufacturing and creation of niche businesses, such as those in the bioscience area	Brewery will manufacture and sell products out of the area. Restaurant will serve some out-of-town visitors.
6	The benefits and impacts the firm has on environmental quality both to the region or, through its products, nationally, as well as any efforts the firm makes to promote sustainability or mitigate environmental harm	Project will be infill development using existing city infrastructure (e.g. streets, gutters, sidewalks, sewers, water lines, alleyway, electric, gas, phone and cable utilities).
7	The beneficial economic impact the business will have on a particular area of the City, including designated enterprise zones and areas of needed revitalization or redevelopment	Project will preserve, restore and protect the historic and architectural value of the building within the East Lawrence Industrial Historic District. Project will also help eliminate blight within the district, create new jobs, and provide permanent affordable housing.
8	The compatibility of the location of the business with land use and development plans of the City and the availability of existing infrastructure facilities and essential public services	Project will support Horizon 2020's economic development goals, including infill development, and will restore the historic building in accordance with the Design Guidelines of 8th and Pennsylvania Redevelopment Zone, in a manner consistent with other rehabilitated commercial and industrial structures within the East Lawrence Industrial Historic District.[10]

[10] City Planning Department, August 2016

Other non-quantifiable project benefits and impacts should also be considered within the context of this request, including:

- Project provides an opportunity to redevelop an unproductive, dilapidated structure with productive space.

- Project provides an opportunity to promote density and vibrancy within the East Lawrence Historic Warehouse District.

- Project provides an opportunity to support infill development.

Performance Agreement

Per City policy, the Applicant would be required to enter into a performance agreement with the City in order to receive NRA rebates. The most significant reason for this is to make sure the Applicant coordinates with the City and County at the beginning of the establishment of the district and to ensure that there are no delinquent property taxes during any of the years of the NRA plan. In addition, performance provisions could be stipulated within the agreement (e.g. start and end of construction, compliance with land use requirements).

Should an incentive package be approved, Staff would recommend including the following provisions in a performance agreement:

- Condition any incentives authorized for the project on the complete compliance with all land use requirements for the property, including the City's historic and applicable design guidelines. Failure to comply with these requirements would nullify any incentives approved.

- Project construction to commence within three years of NRA Plan adoption.

- Annual reporting of compliance with affordable housing provisions.

Staff Summary

- Staff believes eligibility requirements have been met for both NRA and IRB sales tax exemption participation as per City and State requirements.

- Cost-Benefit analysis indicates the project is anticipated to meet or exceed the 1.25 ratio threshold for all taxing jurisdictions.

- As per the Gap analysis conducted by NDC: The documents, discussions and responses presented by the Developer in support of their request for the NRA and IRB incentives demonstrate that the requested incentives are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed.

- Short-term property tax revenues over the 10 year NRA period are estimated to increase 88% over property tax revenues generated if the property was not improved. Property tax revenues are anticipated to increase substantially once the NRA expires as compared to unimproved property.

PIRC Requested Action

Public Incentives Review Committee to provide recommendation to the City, County, and School District on participation in a NRA for the 826 Pennsylvania Street project and to the City for an IRB sales tax exemption on project construction materials and labor for remodeling.

Addendum A: Applicant Request Letter and Incentives Application

City of Lawrence, Kansas
Application for Economic Development Support/Incentives

The information on this form will be used by the City to consider your request for economic development support and may also be used to prepare a cost-benefit or other analysis of the project. Information provided on this form will be available for public viewing and will be part of compliance benchmarks, if approved for economic development support. Prior to submission, applicant may wish to seek technical assistance from City Staff, the Chamber of Commerce, the Small Business Development Center, or others to address questions and ensure the application is complete.

Please provide data in the cells below. Applicant is encouraged to attach additional pages as necessary to fully explain and support the answers to each question. Note anything additional you wish the City to take into consideration for your request and provide supporting documentation.

Applicant Contact Information	
Name:	Adam Williams
Title:	Member
Organization:	Williams Management, LLC
Address 1:	1760 E. 1100 Road, Lawrence, Kansas 66049
Address 2:	
Phone:	785-766-1666
Email:	Awill77@hotmail.com
Fax:	c/o Barber Emerson, L.C., 785-843-8405

Application Tips:

Enter contact information for the company representative completing this application.

City Incentives	Amount	Term (in years)
Tax Increment Financing District (TIF)		
Transportation Development District (TDD)		
Neighborhood Revitalization Area (NRA)	85%	10
Tax Abatement (TA)		
Industrial Revenue Bonds (IRBs)	$3,200,000*	1-2
Community Improvement District (CID)		

Economic Development Support Requested

Other (Please Describe):

*IRB: Applicant requests issuance of industrial revenue bonds for the purpose of obtaining a sales tax exemption certificate for taxable construction-related activities.

Application Tips:

Applicable Terms:
TIF: Up to 20 years
TDD: Up to 22 years
TA: Up to 10 years
CID: Up to 22 years

IRBs: If applying for IRBs, please enter the amount that will cover all construction costs for the project. Enter "n/a" for term.

Examples: City provided water main along ABC Street from 1st Street to 2nd Street, employee training grant for 5 years at $500/new employee, etc.

Addendum A: Applicant Request Letter and Incentives Application

Project Information		
Name of Company Seeking Incentive(s):	Williams Management, LLC	
Project Type *(check one)*:	Expansion:	X
	New Facility:	
Company Type *(check one)*:	Existing Local Company:	X
	Out-of-Area Company Locating Locally:	
Current Company Address:	1760 E. 1100 Rd., Lawrence, Kansas 66049	
Location of Proposed New Facility/Expansion Project:	826 Pennsylvania Street	

Describe the Company's Plans to Develop or Expand in the Community:

Conversion of existing vacant warehouse into mixed use development consisting of brewery and restaurant on main level, and construction of two additional stories and 15 multi-family apartment units.

Operations Start Date at the Expansion or New Facility:	09-01-17
Industry NAICS # for the New or Expanded Facility *(6-digit code)*:	531312

Describe the Primary Industry the New or Expanded Facility Will Support:

N/A

Application Tips:

Company's Plans: e.g. ABC manufacturing is the nation's largest processors of wind turbine components. The company plans to construct a new 250,000 sf manufacturing plant in Commerce Park, initially employing 150 with an average annual salary of $35,000 each. Another 50 employees will be hired in Year 5 and 40 in year 7. The firm expects to initially invest $5 million in land and buildings and anticipates a 50,000 sf, $2 million expansion in Year 5 and another 50,000 sf expansion in Year 7.

Link for NAICS code lookup: http://www.naics.com/search.htm

Capital Investment Information for New Facility or Expansion	
Estimated Size of New Facility *(square feet)*:	38,286.5
Estimated Size of Land for New Facility *(acres)*:	0.34 acres

For the new or expanded facility, enter the amount the company anticipates spending for initial and subsequent investments in land, buildings and improvements *(do not include machinery or equipment)*:

Year	Buildings & Other Real Property Improvements	Land	Total
1	$3,158,600	$650,000	$3,808,600
2			
3			
4			
5			
6			
7			
8			
9			
10			
Total			

Application Tips:

If expansion, only include information on size and values of the new facility, not existing facility.

If land is currently owned, enter current land value from Douglas County property tax records. Otherwise, enter the market value amount the company will pay for land.

Application for ED Support (1-27-16) Page 2

Addendum A: Applicant Request Letter and Incentives Application

Will land be leased from the City or County *(Y/N)*:	Yes, during IRB
If yes, Monthly Lease Rate for Land:	TBD

Local Utility Expenses		
Utility	Current Local Monthly Expenses	Projected Local Monthly Expenses *at New Facility*
Gas		$600.00
Electricity		$2,440.00
Phone		$37.50
Cable		$1,100.00
Water		$1,640.00
Operating Expenditures		
For Expansion Projects, Current Annual Operating Expenses at Existing Facility:		None
Annual Operating Expenses after Expansion/Relocation:		$191,915.00 (excludes items paid directly by tenants)
% of Additional Operating Expenses Anticipated to be Spent Locally:		75%
Revenues		
% of Revenues at the new Lawrence Facility Anticipated to Come from Non-Local Sources.		25%
Anticipated Annual Gross Profits:		$30,420 (10-yr average, net of debt service)

Application Tips:

Current Local Monthly Expenses: Enter 0 for an out-of-area relocation or if project involves a separate, new facility.

Projected Local Monthly Expenses: Enter expense amounts anticipated at the new facility.

Existing Facility Annual Operating Expenses: Enter 0 if project is being relocated from out-of-area or if project involves a separate, new facility.

% Additional Operating Expenses Spent Locally: Enter % of operating expenses anticipated to be spent in Lawrence/Douglas County as a result of the project.

Exports: Enter % of revenues (from the sale of goods or services) anticipated to be generated from sources outside of Lawrence/Douglas County.

Anticipated Annual Gross Profits: Please provide an estimate of anticipated Annual Gross Profits ($). Note: For expansions, please enter anticipated gross annual profits from expansion.

IRB and Tax Abatement Request Information	
If you are seeking an IRB, please list the firm that will be receiving the IRB: Williams Management, LLC	
Will your firm be leasing the building or the land in your expansion or newly constructed facility? *(Y/N)*	Yes
If you are leasing the building or land, and you are seeking tax abatement without an IRB, please list the tenant and owner and the financial relationship between tenant and owner. N/A	
Total Cost of Initial Construction for the Project:	$3,808,600
Estimated Cost of Construction Materials for Initial Construction, plus estimate of taxable labor:	$2,053,090

Addendum A: Applicant Request Letter and Incentives Application

Note: Applicant may be required to provide additional financial information for the project and company.

Environmental Information		
Will the new facility meet Energy STAR criteria? (Y/N)		No
Will the project seek or be designed to LEED certification standards? (Y/N)		No
If yes, please indicate level:	Certification	
	Silver	
	Gold	
	Platinum	
Please describe environmentally friendly features of the project:		
Please describe anticipated positive environmental impacts resulting from the project:		
Please describe anticipated negative environmental impacts and planned remediation efforts:		

Application Tips:

Environmentally Friendly Features: e.g. Low-energy, led lighting used throughout, pedestrian friendly elements including green space, bike paths, water saving native plantings used in landscapes, etc.

Addendum A: Applicant Request Letter and Incentives Application

Additional Community Benefits
Describe Other Local Economic Benefits Resulting From Project: ✓ Creation of affordable housing units by setting aside 15% of residential units ✓ Restoration and rehabilitation of historic structure ✓ Elimination of blight ✓ Job creation ✓ New on-street public parking ✓ In-fill development project All as more particularly set forth in applicant's letter dated October 10, 2016.
Describe Other Quality of Life Benefits Resulting From Project: Project will promote the welfare of low income communities by creating units for affordable housing. Project encourages and furthers the rehabilitation of the 8th and Pennsylvania Redevelopment Zone. Project will encourage the creation of jobs within the City.

Application Tips:

Local Economic Benefits: Include additional benefits not directly related to project capital investment and direct employment (e.g. Project attracting overnight visitors that will spend on lodging, entertainment, food and beverages, shopping, etc.)

Quality of Life Benefits: Include tangible and intangible benefits; such as how company is/will be a good corporate citizen, community involvement, local philanthropy efforts, and how project /company will contribute to local well being of citizens.

Addendum A: Applicant Request Letter and Incentives Application

Employment Information	
Construction Employment for New Facility or Expansion	
# Full-Time, Construction Jobs:	TBD
Average Annual Salary for Full-Time, Construction Workers *(during construction period)*:	
Construction Period (months):	
For Expansion, # of Full-Time Employees Currently Working in Lawrence:	

New Employment Resulting from Project

		Restaurant		Multi-Family					
	Year	# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary
Net New Jobs (full-time, permanent)	1	6	$32,485	1	$32,485				
	2								
	3	1	$32,485						
	4								
	5	1	$32,485						
	6								
	7	1	$32,485						
	8								
	9	1	$32,485						
	10								
	Total	10	$32,485	1	$32,485				

Anticipated # of Employees to Be Relocated Locally as a Result of the Project	
# of Net New Full-Time Employees Anticipated to be Relocated From Outside of Kansas:	0
# of Net New Full-Time Employees Anticipated to be Relocated from Outside of Lawrence/Douglas County:	2
# of Local, Full-Time Jobs Anticipated At End of Incentives Period:	

Part Time Employment: Approx. 37 part time positions

Application Tips:

Enter 0 if project is new or relocation.

Enter information by major job category (e.g. administrative, support, professional, executive, production, etc.)

For a local expansion, Net New Jobs = number of additional employees to be hired each year, excluding employees that are already employed in Lawrence.)

Average Annual Salary: Only provide wage information. Do not include the value of non-wage benefits such as insurance and time off.

 # Jobs at End of Incentives Period: Enter total number of full-time employees (existing & new) anticipated to be employed at the new facility over the term of incentives (e.g. if applying for a 10-year tax abatement, this would be the total number of local Existing (if expanding) + Net New full-time jobs anticipated at the end of that 10-year period.)

Employee Benefits

Description	After Expansion or Relocation
% of Employees with Company Provided Health Care Insurance	42.85%
% of Health Care Premium Covered by Company	50%
% of Employees with Company Provided Retirement Program	0
Will You Provide Job Training for Employees? *(Y/N)*	Yes
If Yes, Please Describe: Two to three employees at the in-house brewery will receive specialized brewing training.	
What is the Lowest Hourly Wage Offered to New Employees?	$12.61 per hour
What Percentage of Your New Employees Will Receive this Wage?	50%
Will You Provide Additional Benefits to Employees? *(Y/N)*	N

Application for ED Support (1-27-16) Page 6

Addendum A: Applicant Request Letter and Incentives Application

If Yes, Please Describe:

Addendum A: Applicant Request Letter and Incentives Application

NRA Eligibility Statement
If applying for an NRA, please describe how your project meets one of the following state statute requirements for eligibility:
(1) Project is in an area in which there is a predominance of buildings or improvements which by reason of dilapidation, deterioration, obsolescence, inadequate provision for ventilation, light, air, sanitation, or open spaces, high density of population and overcrowding, the existence of conditions which endanger life or property by fire and other causes or a combination of such factors, is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare:
(2) Project is in an area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land use relationships, faulty lot layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions, deterioration of site or other improvements, diversity of ownership, tax or special assessment delinquency exceeding the actual value of the land, defective or unusual conditions of title, or the existence of conditions which endanger life or property by fire and other causes, or a combination of such factors, substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations or constitutes an economic or social liability and is detrimental to the public health, safety or welfare in its present condition and use:
(3) Project is in an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to productive use: Since the 1880's, East Lawrence has served as one of the City's most diverse neighborhoods. East Lawrence spurred much of the City's early development through its strategic location along major transportation routes, and remains today as a unique mix of residential, commercial and industrial structures. Following implementation of the *East Lawrence Neighborhood Revitalization Plan* in the early 2000's, the City, local developers and neighborhood residents have attempted to unify their efforts to maintain the unique cultural identity within the 8th and Pennsylvania neighborhood. *The 8th and Pennsylvania Urban Conservation Overlay District* and *Design Guidelines of the 8th and Penn Neighborhood Redevelopment Zone* further encourage development and redevelopment within this area to foster economic viability, while also preserving and protecting the historic character and architectural integrity unique to this area. Recent efforts for redevelopment in East Lawrence have focused primarily within the historic 8th and Pennsylvania Redevelopment Zone. At the heart of the 8th and Pennsylvania neighborhood is the *East Lawrence Industrial Historic District*, which consists of several buildings and structures listed on the National Register of Historic Places. As an area predominantly consisting of historical buildings and structures, the 8th and Pennsylvania Redevelopment Zone is a prime location for the establishment of an NRA district due to the age, history, architecture or significance of such buildings and structures that should be preserved or restored to productive use. The City has regularly been supportive of redevelopment efforts in the area, including the redevelopment of the Poehler Building, located at 619 E. 8th Street, and the Cider Building, located at 810/812 Pennsylvania Street. In order to build upon the momentum created by this project and others, and to fulfill additional City goals of affordable housing, historic preservation, adaptive reuse, infill development, and parking, efforts must continue to strengthen, preserve and enhance the unique elements of this neighborhood that

Addendum A: Applicant Request Letter and Incentives Application

contribute to the economic and cultural diversity of all Lawrence residents and consumers.

The building located at 820-826 Pennsylvania Street (the "**Building**") lies within the 8th and Pennsylvania Redevelopment Zone and is part of the East Lawrence Industrial Historic District. The Barteldes Seed Company originally erected the Building approximately in 1905, and the Building has served in numerous capacities through the 1950's. Several modifications have been made to the Building, reflecting its changing use from seed shelling and processing to housing warehouse distribution functions. Although the original footprint, massing and masonry walls remain intact, the majority of the original exterior openings have been modified or filled with masonry, and the original second story and a three-story elevator/machine structures were removed prior to 1950. As it stands today, the Building serves as an economic and social liability, and in its present condition is detrimental to the public health, safety and welfare. The historic character of the Building should be preserved and restored to productive use to benefit both the 8th and Pennsylvania neighborhood and the surrounding community redevelopment efforts.

Disclosures	
Company Form of Organization: LLC	
Please list the name(s) of each partner (or member) who owns (or will own) 5% or more capital of the company. In the case of businesses owning another business (such as an umbrella LLC that is the owner of several other LLC's), the actual partners' names need to be listed, not just the registrant's name with the Secretary of State. Adam Williams	
List all subsidiaries or affiliates and details of ownership:	
Subsidiary :	
Principals:	
Has Company or any of its Directors/Officers been involved in or is the Company presently involved in any type of litigation?	No
Has the Company, developer or any affiliated party declared bankruptcy?	No
Has the Company, developer or any affiliated party defaulted on a real estate obligation?	No
Has the Company, developer or any affiliated party been the defendant in any legal suit or action?	No
Has the Company, developer or any affiliated party had judgments recorded against them?	No

Addendum A: Applicant Request Letter and Incentives Application

If the answer to any of the above question is yes, please explain:

Note: Applicant may be required to provide additional financial information for the project and company.

Addendum A: Applicant Request Letter and Incentives Application

When you have completed this form to your satisfaction, please sign and send, along with applicable application fee(s) to:

City of Lawrence
Attn: Economic Development Coordinator
6 East 6th Street
Lawrence, KS 66044
Fax: 785-832-3405
Email: bcano@lawrenceks.org

Application Fees	
Tax Abatement	$500
Industrial Revenue Bonds (IRB)	$1,000
Community Improvement District (CID)	$2,500
Neighborhood Revitalization Area (NRA)	n/a
Transportation Development District (TDD)	n/a
Tax Increment Financing (TIF)	n/a
Other	n/a

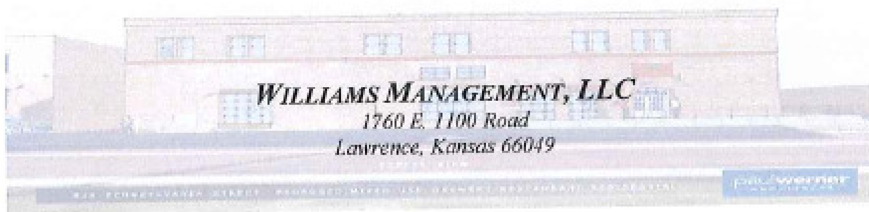
I hereby certify that the foregoing and attached information contained is true and correct, to the best of my knowledge:

Applicant/Representative: Adam Williams
(Please Print)

Signature: [signature] Date: 10-10-16

Application for ED Support (1-27-16) Page 11

Addendum A: Applicant Request Letter and Incentives Application



October 10, 2016

VIA HAND DELIVERY
City of Lawrence, Kansas
Attn: Mr. Mike Amyx, Mayor
6 East 6th Street
Lawrence, Kansas 66044

*Re: 820-826 Pennsylvania Street (the "**Building**")*
*Neighborhood Revitalization Act ("**NRA**")*

Dear Mayor Amyx:

Williams Management, LLC (the "**Company**") requests the City to establish an NRA district and to issue industrial revenue bonds ("**IRBs**") to redevelop the Building as a mixed-use project (the "**Project**"). The Project will rehabilitate the Building into a vibrant addition to the area. The main floor of the Building will serve as an in-house brewery and restaurant. The restaurant will contribute to the economic viability of the 8th and Pennsylvania Redevelopment Zone, and will encourage the creation of jobs within the City of Lawrence. The Project includes restoring the second and third stories of the Building. The top two floors of the Building will be developed as residential housing units. The Company proposes to reserve two 1-bedroom residential units for long-term affordable housing. In order for the Project to proceed as proposed, the Company requests an NRA rebate on property taxes in an amount of 85% for a period of 10 years. The purpose of the IRBs is to obtain a sales tax exemption on taxable construction-related materials and taxable labor.

East Lawrence spurred much of the City's early development through its strategic location along major transportation routes, and remains today a diverse mix of residential, commercial and industrial structures. Following implementation of the *East Lawrence Neighborhood Revitalization Plan* in the early 2000's, the City, local developers and neighborhood residents have attempted to unify efforts to maintain the unique cultural identity within the 8th and Pennsylvania neighborhood. *The 8th and Pennsylvania Urban Conservation Overlay District* and *Design Guidelines of the 8th and Penn Neighborhood Redevelopment Zone* encourage development and redevelopment within this area to foster economic viability, and also promote preservation and protection of the area's unique historic character and architectural integrity.

Addendum A: Applicant Request Letter and Incentives Application

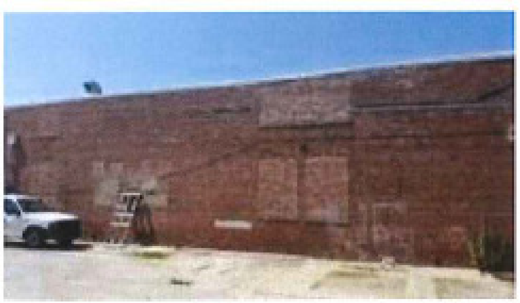
Recent efforts for redevelopment in East Lawrence have focused primarily within the historic 8th and Pennsylvania Redevelopment Zone. Particularly, efforts have focused on the *East Lawrence Industrial Historic District* that consists of several buildings and structures listed on the National Register of Historic Places. The 8th and Pennsylvania Redevelopment Zone is a prime location for the establishment of an NRA district due to the age, history, architecture or significance of such buildings and structures that should be preserved or restored to productive use.

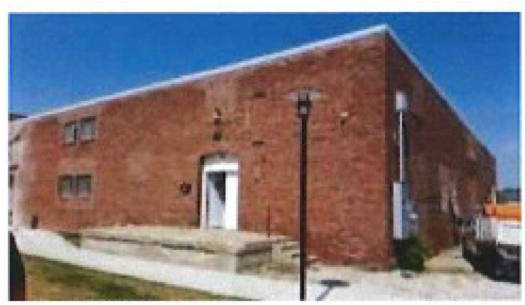
The City is a regular supporter of redevelopment efforts in the area. For example, the City established an NRA district in 2012 to assist with the redevelopment of the nearby Cider Building, located at 810/812 Pennsylvania Street. The City contributed approximately $1.3 million to provide infrastructure and help redevelop the Poehler Building, located at 619 E. 8th Street. That building, which originally housed the Theo. Poehler Mercantile Company Wholesale Grocery, was revived from its dilapidated, deteriorating state into multi-level apartments with commercial and retail space. Additional City support is needed to further complement the creative nature of the 8th and Pennsylvania neighborhood, and to enable the redevelopment of the Property in a manner that helps fulfill additional City goals of affordable housing, historic preservation, adaptive reuse, infill development, and parking.

Project Overview

820-826 Pennsylvania Street. The Barteldes Seed Company originally erected the Building approximately in 1905. The Building became a popcorn operation in approximately 1930. Several modifications have been made to the Building over time, reflecting its changing use from seed shelling and processing to warehouse distribution functions. Although the original footprint, massing and masonry walls remain intact, the majority of the original exterior openings have been modified or filled with masonry, and the original second story and a three-story elevator/machine structure were removed prior to 1950. Without redevelopment and adaptive reuse, the Building may continue to be underutilized economically, and may serve as a detriment to the overall health, safety and welfare of the 8th and Pennsylvania neighborhood. The Company desires to preserve the Building's historic character and to restore the Building to productive use.

BARTELDES SEED COMPANY, LAWRENCE KANSAS, 1950





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Addendum A: Applicant Request Letter and Incentives Application

Public Benefits

Affordable Housing. If approved, the Project will set aside two 1-bedroom units to promote long-term affordable housing. The Company examined several types of affordable housing programs, and ultimately concluded that the benchmarks established as part of the Low Income Housing Tax Credit ("LIHTC") Program are most suited to this Project and the need to accommodate affordable housing. The Company proposes the following, based on the LIHTC Program:

Eligibility	Maximum Rent	Utilities	Duration
60% or less median income	$840.00	Included	30 years

The Company proposes to make the affordable units available to residents falling at or below sixty percent (60%) of the Lawrence, KS MSA median income. The above-referenced maximum rent is the year 2016 LIHTC Rent Limit, and the LIHTC Rent Limit would apply to subsequent years as well. These affordability covenants would remain in place for 30 years – triple the length of the NRA rebate period. By providing affordable housing units within the 8th and Pennsylvania Redevelopment Zone, the Project will attract residents with unique social, economic, political and cultural backgrounds to continue the diverse heritage of the East Lawrence neighborhood. The Project will also help address the City's general policy directive to create affordable housing.

Historic Preservation and Restoration. The Project will preserve, restore and protect the historic and architectural value of the Building within the East Lawrence Industrial Historic District. According to the *Design Guidelines of 8th and Pennsylvania Redevelopment Zone*, the buildings located within the Historic District "are ideal candidates for rehabilitation into mixed adaptive uses that will allow them to retain the necessary level of historic architectural integrity to continue to contribute to an understanding of the historic district's associations with commerce and architecture in Lawrence." Design Guidelines, at 8. The Project is eligible for consideration under the NRA because, among other reasons, it is located in an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to public use. K.S.A. 12-17,115(c)(3).

Elimination of Blight. There is a predominance of buildings and structures in the 8th and Pennsylvania neighborhood that should be preserved or restored to productive use because of age, history, architecture or significance. The Building remains today as a vacant, underutilized and obsolete warehouse that does not contribute to the economic viability of the 8th and Pennsylvania Redevelopment Zone. By retaining the Building's simple utilitarian design as part of its rehabilitation, the Project will continue to communicate the Building's history of seed shelling and warehouse functions, while generating increased traffic and economic development to the 8th and Pennsylvania Redevelopment Zone.

Addendum A: Applicant Request Letter and Incentives Application

Job Creation. The Project will encourage job creation within the City of Lawrence by establishing approximately seven (7) full-time positions initially, with potential for additional job creation in subsequent years. All full-time positions will be paid an annual salary above the living wage standards. The Project will also create dozens of part-time positions. The Project will also create and support jobs during the construction phase.

Parking, Sidewalks and Utilities. The Project will construct and provide additional parking and sidewalks, and will extend necessary utilities to the Building. The Company will provide and pay for a total of thirty-three (33) additional parking spaces in the form of new, on-street angled parking in front of the Building. The residents of the Building will be provided sufficient parking separate from the parking required for consumer traffic. The Company will also provide and pay for the necessary infrastructure to extend utilities to the Building, which shall include water, storm water, sprinkler line and sewer service. The total cost to the Company to provide and extend City infrastructure to the Building is estimated at $190,000.00.

Infill Development. The Project is an in-fill development project that adds residential units close to the downtown area, but far enough from Massachusetts Street to avoid contributing to downtown's peak time parking demands. Currently, the mixed use structures range from residential to commercial and industrial, together with undeveloped lots. This Project may promote additional infill development in the area.

Community Support. The Company has met with representatives of the East Lawrence Neighborhood Association to discuss the progress, goals and objectives of the Project, and the Association has expressed support for the Project to this point.

Please find enclosed with this letter an *Application for Economic Development Support/Incentives*, together with applicable filing fees. I look forward to working with the City in the evaluation of these requests, which I believe merit the City Commission's consideration.

Very truly yours,

Adam Williams,
Member

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Addendum B: City NRA Policy, Resolution 6954

RESOLUTION NO. 6954

A RESOLUTION ESTABLISHING A POLICY OF THE CITY OF LAWRENCE, KANSAS RELATING TO NEIGHBORHOOD REVITALIZATION AREAS.

WHEREAS, the City of Lawrence, Kansas (the "City") is committed to the high quality and balanced growth and development of the community while preserving the City's unique character and broadening and diversifying the tax base; and

WHEREAS, the economic development goals of the City include the expansion of existing businesses, development of new businesses, economic development activities which are environmentally sound, diversification of the economy, quality in-fill development, historic preservation, and the creation of quality jobs; and

WHEREAS, neighborhood revitalization areas are an economic development tool established by K.S.A. 12-17,114 et seq. (the "Neighborhood Revitalization Act") which can assist with spurring reinvestment and revitalization of properties which can benefit a neighborhood and the general public; and

WHEREAS, the City finds it in the best interest of the public to establish certain policies and guidelines for the consideration of requests to utilize the Neighborhood Revitalization Act ("NRA") within the City of Lawrence.

NOW, THEREFORE, THE GOVERNING BODY OF THE CITY OF LAWRENCE, KANSAS DOES HEREBY RESOLVE;

SECTION ONE: This policy shall be entitled the Neighborhood Revitalization Act Policy of the City of Lawrence.

SECTION TWO: POLICY STATEMENT: It is the policy of the City to consider the establishment of Neighborhood Revitalization areas in order to promote reinvestment and revitalization of properties which in turn have a positive economic effect upon a neighborhood and the City in general. An applicant may request the City consider the establishment of a Neighborhood Revitalization area under the NRA either for a specific property, group of properties or neighborhood area. In considering the establishment of an NRA, the Governing Body shall consider the criteria outlined in Section Three. In determining the amount of a rebate, the Governing Body may balance the desirability of the project versus the amount and duration of the rebate and the requirements set forth in Section Four. It is the policy of the City to only consider the establishment of Neighborhood Revitalization areas which yield a benefit/cost ratio of at least 1.25.

SECTION THREE: CRITERIA:

1. **ELIGIBLE AREAS:** Eligible areas may include a defined geographic area which encompasses more than one property, or it may be a single property/lot.

2. **STATUTORY FINDINGS AND OTHER CRITERIA:**

A. STATUTORY CRITERIA. It shall be the policy of the City to create a Neighborhood Revitalization area, if, in the opinion of the Governing Body, the rehabilitation, conservation or redevelopment of the area is necessary to protect the public health, safety or welfare of the residents of the City of Lawrence, it is in the best interest of the City to do so, and if, in the opinion of the Governing Body, one of the following findings, set forth in K.S.A. 12-17,115 can be made:

1. An area in which there is a predominance of buildings or improvements which by reason of dilapidation, deterioration, obsolescence, inadequate provision of ventilation, light, air or open spaces, high density of population and overcrowding, the existence of conditions which endanger life or property by fire and other causes or a combination of such factors, is conductive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime and which is detrimental to the public health, safety or welfare;
2. an area which by reason of the presence of a substantial number of deteriorated or deteriorating structures, defective or inadequate streets, incompatible land use relationships, faulty lot layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions, deterioration of site or other improvements, diversity of ownership, tax or special assessment delinquency exceeding the actual value of the land, defective or unusual conditions of title, or the existence of conditions which endanger life or property by fire and other causes, or a combination of such factors, substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations or constitutes an economic or social liability and is detrimental to the public health, safety or welfare in its present condition and use; or
3. an area in which there is a predominance of buildings or improvements which by reason of age, history, architecture or significance should be preserved or restored to productive use.

B. OTHER CRITERIA. Additionally, the Governing Body will consider whether a project meets the Policy Statement outlined in Section Two, and the project meets a majority of the following criteria when considering the establishment of a Neighborhood Revitalization area:

1. the opportunity to promote redevelopment activities which enhance Downtown Lawrence;
2. the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized;
3. 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;
4. the opportunity to enhance the vitality of a neighborhood within the City as supported by the City's Comprehensive Plan and/or other sector planning documents;
5. the opportunity to enhance the community's sustainability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.

SECTION FOUR: AMOUNT OF REBATE:

As a standard practice, the City will not provide a rebate amount in excess of 50% of the incremental property taxes and will not establish an NRA for a period of time longer than 10 years. The City may consider a greater rebate and/or a longer duration if sufficiently justified in the "but for" analysis required by Section Five. The determination of the rebate amount and duration of the NRA is the sole discretion of the Governing Body.

SECTION FIVE: PROCESS:

1. An applicant wishing to request that the City to create a Neighborhood Revitalization Area in the City of Lawrence shall submit a request to the City. The request shall include information that would be required for a revitalization plan. Such requirements are set forth in K.S.A. 12-17,117. The applicant shall also submit a "but for" analysis to the City demonstrating the need for the NRA and the purpose for which the NRA revenue will be used. The analysis should support that "but for" the NRA, the project will be unable to proceed. The applicant shall provide City Staff with pro forma cash flow analysis and sources and uses of funds in sufficient detail to demonstrate that reasonably available conventional debt and equity financing sources will not fund the entire cost of the project and still provide the applicant a reasonable market rate of return on investment.

The applicant shall furnish such additional information as requested by the City in order to clarify the request or to assist staff or the Governing Body with the evaluation of the request.

2. The Governing Body shall receive the request and determine whether to consider the request or deny the request. If the Governing Body wishes to consider the request, the request shall be referred to the City's Public Incentive Review Committee for review and a recommendation. Staff will perform a benefit/cost analysis on the project. The Governing Body may also set a date for a public hearing to consider the establishment of a revitalization area and a revitalization plan.

3. Douglas County and USD 497 are also important parties related to a NRA request. When an NRA is considered, the City and the applicant will work with Douglas County and USD 497 to seek concurrence from these entities regarding the establishment of an NRA.

4. The Governing Body will determine whether one of the findings set forth in Section Three can be made regarding the request. Additionally, the Governing Body shall consider the other criteria outlined in Section Three.

5. The Governing Body shall hold a public hearing, after the required statutory notice is provided, and consider adoption of the revitalization plan to establish the revitalization area.

6. The City will require a performance agreement with the property owner to require adherence to the adopted Neighborhood Revitalization Plan.

7. The merits of the proposal under this policy shall guide the decision on the application without regard to the applicant.

SECTION SIX: PUBLIC INCENTIVES REVIEW COMMITTEE AND GOVERNING BODY ANNUAL REVIEW OF THIS POLICY: Annually, the Public Incentives Review Committee and the Governing Body shall review this policy.

SECTION SEVEN: AUTHORITY OF GOVERNING BODY: The Governing Body reserves the right to deviate from any policy, but not any procedure set forth in state law, when it considers such action to be of exceptional benefit to the City or extraordinary circumstances prevail that are in the best interests of the City. Additionally, the Governing Body, by its inherent authority, reserves the right to reject any proposal or petition for creation of a NRA at any time in the review process when it considers such action to be in the best interests of the City.

SECTION EIGHT: REPEAL OF RESOLUTION 6921. Resolution 6921 is hereby repealed.

SECTION NINE: EFFECTIVE DATE: This Resolution shall take effect immediately.

ADOPTED by the Governing Body this 25th day of October, 2011.

Aron E. Cromwell, Mayor

ATTEST:

Jonathan M. Douglass, City Clerk

Addendum C: City IRB Policy, Ordinance 8253

ORDINANCE NO. 8523

AN ORDINANCE ESTABLISHING A POLICY OF THE CITY OF LAWRENCE, KANSAS RELATING TO INDUSTRIAL REVENUE BONDS, AND REPEALING RESOLUTION 5239.

BE IT ORDAINED BY THE GOVERNING BODY OF THE CITY OF LAWRENCE, KANSAS:

SECTION ONE: The Policy of the City of Lawrence, Kansas relating to the issuance of Industrial Revenue Bonds, shall be as follows:

INDUSTRIAL REVENUE BONDS: PURPOSE.
Industrial Revenue Bonds (IRBs) are an incentive established by the State of Kansas to enhance economic development and improve the quality of life. The City may from time to time grant IRBs when the project under consideration helps further the economic and community development objectives as set forth in this Ordinance and Horizon 2020.

SECTION TWO: CRITERIA.
The City favors issuing Industrial Revenue Bonds to projects that bring in new revenues from outside the community or enhance the local quality of life over projects that will primarily compete against other local firms. Additionally, a project must meet the following criteria in order to qualify for IRBs:

1) Only those projects which qualify under Kansas law will be eligible for IRB financing. The City shall look more favorably upon projects that support the targeted industries listed in Section 1-2103 of the Code of the City of Lawrence.

2) The proposed project shall achieve one or more of the following public benefits:
   a. Meet the economic development goals of the City as set forth in this policy and the Comprehensive Plan of Lawrence and Douglas County;
   b. Enhance Downtown Lawrence;
   c. Promote infill through the development of vacant lots, the rehabilitation of deteriorated properties or the adaptive reuse of historic properties;
   d. Incorporate environmentally sustainable elements into the design and operation of the facility; or
   e. Provide other public benefits to the community, particularly as set forth in the Comprehensive Plan of Lawrence and Douglas County.

3) The prospective tenant shall show the financial capacity to complete the proposed project and successfully market the bonds.

SECTION THREE: SPECIAL CONSIDERATION FOR HOUSING AND RETAIL PROJECTS.
Except as indicated below, Industrial Revenue Bonds shall not be granted for projects that are principally for retail or residential use.

1) Projects requesting IRBs that are primarily retail in nature shall only be considered if the applicant demonstrates that the project is exceptional and unique, and is likely to add to the retail base by attracting new retail sales or capturing sales that are leaking to other markets.

2) Projects requesting IRBs that are primarily residential in nature shall only be considered if the project is a multi-family or senior living project and fits the criteria herein described. Infill development or redevelopment is preferred. Mixed-use projects are more desirable, as are projects in the Downtown area. Multi-family or senior living projects that contain no non-residential uses and are requesting IRBs must have at least 35% of all housing units set aside for households making 80% of the Area Median Income or less. Infill housing projects shall be looked upon more favorably if they are mixed use, located in Downtown, or both.

SECTION FOUR: PROCEDURES.

1) **Formal Application.** An applicant may pick up a formal application either at City Hall in the City Manager's Office, or online. The applicant shall complete the application and file it with the City Manager. A fee of $1,000 is due upon filing in order to help defray the City's cost in processing the application. Such fee shall be collected regardless of the City Commission's action on the application or if the bond issue closes.

2) **Preliminary Review.** City staff will provide an initial review of the application to ensure that it meets the requirements in City policy.

3) **Coordination with Bond Counsel:** City staff will coordinate with the applicant and bond counsel a schedule for the issuance of the bonds which meets the needs of all parties involved. During the process, bond counsel will assist with the preparation of other documents needed for filing through the State of Kansas.

   Applicants are encouraged to utilize the City's bond counsel. In the event that the applicant selects other bond counsel, the City may require its bond counsel to be involved in the transaction in a review capacity, depending upon the amount of the transaction and the project involved.

4) **Public Notification:** At least seven (7) days prior to consideration, the City shall prepare a Notice of Public Hearing to be published in the official City newspaper, giving notice of hearing on the IRB request, and indicating the purpose, time and place thereof.

5) **Resolution of Intent and Ordinance Provisions:** The City Commission shall conduct a public hearing and consider a Resolution of Intent followed by two readings of an ordinance authorizing the issuance of the bonds.

6) **Documents:** All documents related to Industrial Revenue Bonds will be kept on file with the City Clerk.

SECTION FIVE: SALES TAX EXEMPTIONS
Labor and materials used in construction as well as equipment purchased with IRB proceeds are generally exempted from State and local sales tax. Payments-in-lieu of sales tax may be made as negotiated between the City and the Applicant.

SECTION SIX: INDUSTRIAL REVENUE BONDS AND TAX ABATEMENTS.
Applicants that request tax abatements in conjunction with IRBs must follow the policies and procedures set forth in the City's Tax Abatement Policy in addition to the procedures for IRBs as provided above.

SECTION SEVEN: ADDITIONAL FEES.
Each applicant who receives an issuance of Industrial Revenue Bonds shall pay all fees associated with the issuance of the Industrial Revenue Bonds.

SECTION EIGHT: AUTHORITY TO ISSUE INDUSTRIAL REVENUE BONDS.
The authority to approve the issuances of IRBs shall be the responsibility of the City Commission. The Commission's decision for approval or disapproval will be based on the analysis made by the City staff and the recommendations the staff provides to the City Commission from its review of all pertinent data relating to a particular request for bonds.

SECTION NINE:
Resolution 5239, approved May 4th, 1989 to govern the issuance and use of Industrial Revenue Bonds by the City, is hereby repealed.

SECTION TEN. If any section clause, sentence, or phrase of this ordinance is found to be unconstitutional or is otherwise held invalid by any court of competent jurisdiction, it shall not affect the validity of any remaining parts of this ordinance.

SECTION ELEVEN. This Ordinance shall take effect and be in force from and after its adoption and publication as provided by law.

Adopted this 18th day of May, 2010.

APPROVED:

Mike Amyx, Mayor

ATTEST:

Jonathan M. Douglass
City Clerk

APPROVED AS TO FORM AND LEGALITY:

Toni Ramirez Wheeler, Director of Legal Services

Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street

Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

Project Summary	
Capital Investment in Plant:	$3,200,000
Annual Local Expenditures by Firm:	$143,936
Retained Jobs:	11
Average Wage per Retained Job:	$32,485
Indirect Jobs Created:	3
Economic Value per Indirect Job:	$93,383
Total New Households:	3
Discount Rate:	5.64%
Cost and Revenue Escalation:	1.00%
Number of Years Evaluated:	15

Incentives		
IRB Offered	Yes	
Value of IRB Construction Sales Tax:	$184,448	*Does not include amount of "other" taxing jurisdictions ($1357)*
Tax Rebate:	0%	
Length of Tax Abatement/s:	0 Years	
Value of Tax Abatements, Total:	$0	
Other Incentives		
Site Infrastructure:	$0	
Facility Construction:	$0	
Other: NRA	$467,406	
Value of All Incentives Offered:	**$651,854**	
Value of All Incentives per Job per Year:	$3,951	
Value of Incentives in Hourly Pay:	$1.90	
Value of Incentives per Dollar Invested:	$0.20	

Summary of Results

Returns for Jurisdictions	Lawrence	Douglas County	USD 497	State of Kansas
Revenues	$593,211	$497,892	$429,271	$484,845
Costs	$244,284	$113,629	$24,598	$0
Revenue Stream, Pre-Incentives	*$348,927*	*$384,263*	*$404,672*	*$484,845*
Value of Incentives Offered	$175,997	$189,781	$152,626	$133,451
Revenue Stream with Incentives	**$172,930**	**$194,482**	**$252,046**	**$351,394**

Returns for Jurisdictions, Discounted	Lawrence	Douglas County	USD 497	State of Kansas
Discount Rate	5.64%			
Discounted Cash Flow, Without Incentives	$206,127	$234,639	$260,305	$344,840
Benefit/Cost Ratio, Without Incentives	*2.11*	*3.66*	*n/a*	*n/a*
Discounted Cash Flow, With Incentives	$67,003	$92,834	$147,500	$218,510
Benefit/Cost Ratio, With Incentives	**1.36**	**2.05**	**10.17**	**n/a**

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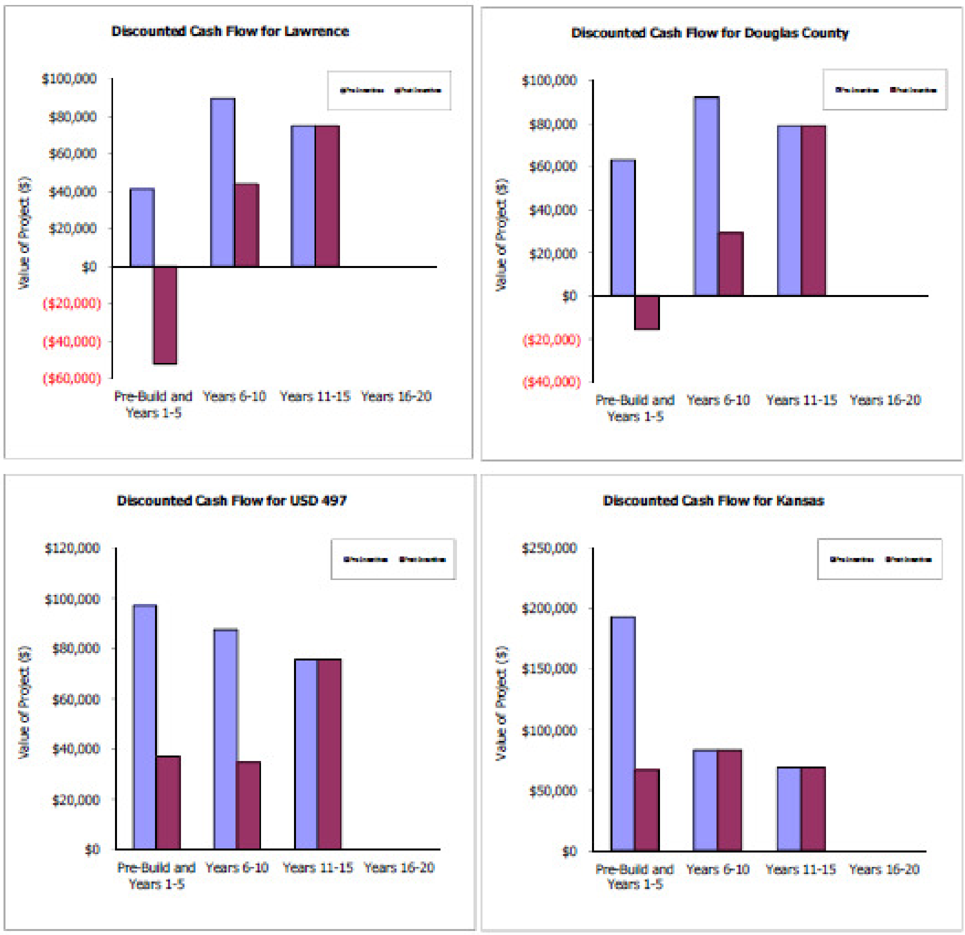
Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street

Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

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



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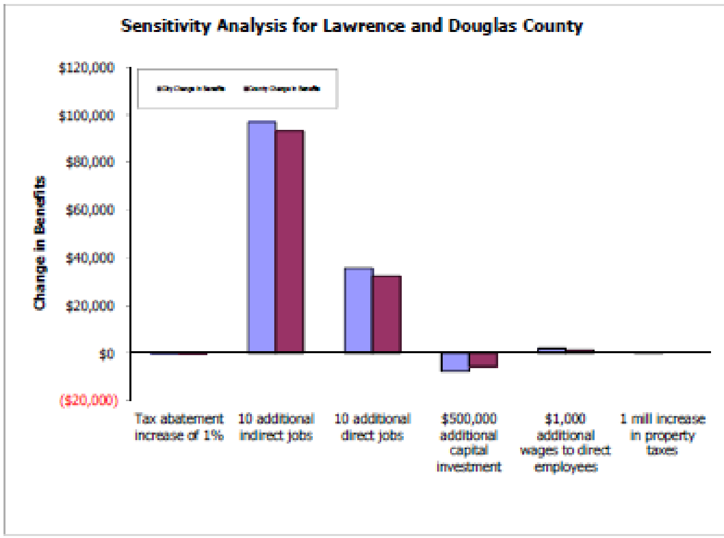
Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street
Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

Sensitivity Analysis



Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street

Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

APPENDIX 1: Annual Results Not Discounted

Lawrence: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$53,654	($101,281)	($55,155)	($102,783)	($102,783)
2	$31,970	($6,554)	($11,917)	$13,499	($89,284)
3	$33,845	($8,624)	($12,273)	$12,947	($76,336)
4	$34,848	($7,640)	($12,638)	$14,569	($61,767)
5	$36,380	($9,762)	($13,012)	$13,606	($48,161)
6	$37,429	($8,768)	($13,395)	$15,266	($32,895)
7	$37,325	($10,942)	($13,788)	$12,594	($20,301)
8	$37,796	($9,938)	($14,190)	$13,667	($6,633)
9	$39,274	($12,166)	($14,603)	$12,505	$5,871
10	$39,966	($11,152)	($15,026)	$13,788	$19,660
11	$40,672	($11,263)	$0	$29,409	$49,068
12	$41,393	($11,376)	$0	$30,017	$79,086
13	$42,130	($11,490)	$0	$30,640	$109,726
14	$42,881	($11,605)	$0	$31,277	$141,002
15	$43,649	($11,721)	$0	$31,928	$172,930
16	$0	$0	$0	$0	$172,930
17	$0	$0	$0	$0	$172,930
18	$0	$0	$0	$0	$172,930
19	$0	$0	$0	$0	$172,930
20	$0	$0	$0	$0	$172,930

Douglas County: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$32,943	($54,985)	($23,347)	($45,389)	($45,389)
2	$27,182	($2,772)	($16,414)	$7,996	($37,393)
3	$28,309	($3,200)	($16,904)	$8,206	($29,187)
4	$29,091	($3,232)	($17,406)	$8,453	($20,735)
5	$30,121	($3,672)	($17,921)	$8,527	($12,207)
6	$30,941	($3,709)	($18,449)	$8,783	($3,424)
7	$32,015	($4,162)	($18,990)	$8,863	$5,439
8	$32,876	($4,204)	($19,544)	$9,128	$14,567
9	$33,997	($4,671)	($20,112)	$9,214	$23,781
10	$34,749	($4,717)	($20,695)	$9,337	$33,118
11	$35,519	($4,765)	$0	$30,755	$63,873
12	$36,308	($4,812)	$0	$31,495	$95,368
13	$37,114	($4,860)	$0	$32,254	$127,622
14	$37,941	($4,909)	$0	$33,032	$160,654
15	$38,786	($4,958)	$0	$33,828	$194,482
16	$0	$0	$0	$0	$194,482
17	$0	$0	$0	$0	$194,482
18	$0	$0	$0	$0	$194,482
19	$0	$0	$0	$0	$194,482
20	$0	$0	$0	$0	$194,482

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Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street
Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

APPENDIX 1: Annual Results Not Discounted (Continued)

USD 497: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$22,898	($2,358)	($13,336)	$7,204	$7,204
2	$23,411	($1,013)	($13,737)	$8,661	$15,865
3	$24,540	($1,367)	($14,147)	$9,027	$24,892
4	$25,083	($1,181)	($14,567)	$9,335	$34,227
5	$26,256	($1,543)	($14,998)	$9,715	$43,942
6	$26,832	($1,355)	($15,440)	$10,037	$53,979
7	$28,050	($1,726)	($15,893)	$10,431	$64,410
8	$28,659	($1,536)	($16,357)	$10,766	$75,177
9	$29,925	($1,916)	($16,832)	$11,176	$86,353
10	$30,569	($1,724)	($17,320)	$11,526	$97,879
11	$31,228	($1,741)	$0	$29,487	$127,366
12	$31,903	($1,758)	$0	$30,145	$157,511
13	$32,593	($1,776)	$0	$30,818	$188,328
14	$33,300	($1,794)	$0	$31,506	$219,835
15	$34,023	($1,811)	$0	$32,212	$252,046
16	$0	$0	$0	$0	$252,046
17	$0	$0	$0	$0	$252,046
18	$0	$0	$0	$0	$252,046
19	$0	$0	$0	$0	$252,046
20	$0	$0	$0	$0	$252,046

State of Kansas: Annual Results (not discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$120,928	$0	($133,451)	($12,523)	($12,523)
2	$23,161	$0	$0	$23,161	$10,638
3	$23,562	$0	$0	$23,562	$34,200
4	$23,971	$0	$0	$23,971	$58,171
5	$24,388	$0	$0	$24,388	$82,560
6	$24,814	$0	$0	$24,814	$107,374
7	$25,249	$0	$0	$25,249	$132,623
8	$25,693	$0	$0	$25,693	$158,316
9	$26,146	$0	$0	$26,146	$184,462
10	$26,608	$0	$0	$26,608	$211,070
11	$27,081	$0	$0	$27,081	$238,151
12	$27,562	$0	$0	$27,562	$265,713
13	$28,054	$0	$0	$28,054	$293,768
14	$28,557	$0	$0	$28,557	$322,325
15	$29,070	$0	$0	$29,070	$351,394
16	$0	$0	$0	$0	$351,394
17	$0	$0	$0	$0	$351,394
18	$0	$0	$0	$0	$351,394
19	$0	$0	$0	$0	$351,394
20	$0	$0	$0	$0	$351,394

Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street

Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

APPENDIX 2: Discounted Annual Results

Lawrence: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$50,791	($95,877)	($52,212)	($97,299)	($97,299)
2	$28,649	($5,873)	($10,679)	$12,097	($85,202)
3	$28,711	($7,316)	($10,411)	$10,983	($74,218)
4	$27,984	($6,136)	($10,149)	$11,700	($62,518)
5	$27,656	($7,421)	($9,891)	$10,343	($52,175)
6	$26,935	($6,310)	($9,639)	$10,986	($41,189)
7	$25,427	($7,454)	($9,393)	$8,580	($32,609)
8	$24,374	($6,409)	($9,151)	$8,814	($23,796)
9	$23,976	($7,427)	($8,915)	$7,634	($16,162)
10	$23,096	($6,445)	($8,683)	$7,968	($8,193)
11	$22,250	($6,162)	$0	$16,089	$7,895
12	$21,437	($5,891)	$0	$15,545	$23,440
13	$20,654	($5,633)	$0	$15,021	$38,461
14	$19,900	($5,386)	$0	$14,515	$52,976
15	$19,176	($5,149)	$0	$14,027	$67,003
16	$0	$0	$0	$0	$67,003
17	$0	$0	$0	$0	$67,003
18	$0	$0	$0	$0	$67,003
19	$0	$0	$0	$0	$67,003
20	$0	$0	$0	$0	$67,003

Douglas County: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$31,185	($52,051)	($22,102)	($42,967)	($42,967)
2	$24,359	($2,484)	($14,709)	$7,166	($35,801)
3	$24,015	($2,715)	($14,340)	$6,961	($28,840)
4	$23,361	($2,595)	($13,978)	$6,788	($22,053)
5	$22,898	($2,792)	($13,623)	$6,482	($15,570)
6	$22,266	($2,669)	($13,276)	$6,321	($9,250)
7	$21,810	($2,836)	($12,936)	$6,038	($3,212)
8	$21,201	($2,711)	($12,604)	$5,887	$2,675
9	$20,754	($2,851)	($12,278)	$5,625	$8,300
10	$20,082	($2,726)	($11,960)	$5,396	$13,696
11	$19,431	($2,607)	$0	$16,825	$30,521
12	$18,803	($2,492)	$0	$16,311	$46,831
13	$18,195	($2,383)	$0	$15,812	$62,643
14	$17,608	($2,278)	$0	$15,329	$77,973
15	$17,040	($2,178)	$0	$14,861	$92,834
16	$0	$0	$0	$0	$92,834
17	$0	$0	$0	$0	$92,834
18	$0	$0	$0	$0	$92,834
19	$0	$0	$0	$0	$92,834
20	$0	$0	$0	$0	$92,834

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Addendum D: Detailed CBA Model Results

Cost-Benefit Model Results: 826 Pennsylvania Street

Scenario: 10 Year, 85% NRA, IRB Sales Tax Exemption

APPENDIX 2: Discounted Annual Results (Continued)

USD 497: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$21,677	($2,232)	($12,625)	$6,820	$6,820
2	$20,979	($908)	($12,310)	$7,762	$14,581
3	$20,818	($1,159)	($12,001)	$7,658	$22,239
4	$20,143	($948)	($11,698)	$7,497	$29,735
5	$19,960	($1,173)	($11,402)	$7,385	$37,121
6	$19,309	($975)	($11,111)	$7,223	$44,343
7	$19,109	($1,176)	($10,827)	$7,106	$51,450
8	$18,482	($991)	($10,548)	$6,943	$58,393
9	$18,268	($1,170)	($10,276)	$6,823	$65,216
10	$17,666	($996)	($10,009)	$6,661	$71,876
11	$17,084	($952)	$0	$16,131	$88,008
12	$16,522	($911)	$0	$15,611	$103,619
13	$15,979	($871)	$0	$15,108	$118,727
14	$15,454	($832)	$0	$14,622	$133,348
15	$14,947	($796)	$0	$14,151	$147,500
16	$0	$0	$0	$0	$147,500
17	$0	$0	$0	$0	$147,500
18	$0	$0	$0	$0	$147,500
19	$0	$0	$0	$0	$147,500
20	$0	$0	$0	$0	$147,500

State of Kansas: Annual Results (discounted)					
Year	Revenues	Costs	Incentives	Net	Cumulative
Pre-Operation	$0	$0	$0	$0	$0
1	$114,476	$0	($126,330)	($11,855)	($11,855)
2	$20,755	$0	$0	$20,755	$8,901
3	$19,988	$0	$0	$19,988	$28,889
4	$19,250	$0	$0	$19,250	$48,139
5	$18,540	$0	$0	$18,540	$66,678
6	$17,857	$0	$0	$17,857	$84,536
7	$17,201	$0	$0	$17,201	$101,736
8	$16,569	$0	$0	$16,569	$118,305
9	$15,961	$0	$0	$15,961	$134,267
10	$15,377	$0	$0	$15,377	$149,644
11	$14,815	$0	$0	$14,815	$164,459
12	$14,274	$0	$0	$14,274	$178,733
13	$13,753	$0	$0	$13,753	$192,486
14	$13,253	$0	$0	$13,253	$205,739
15	$12,771	$0	$0	$12,771	$218,510
16	$0	$0	$0	$0	$218,510
17	$0	$0	$0	$0	$218,510
18	$0	$0	$0	$0	$218,510
19	$0	$0	$0	$0	$218,510
20	$0	$0	$0	$0	$218,510

Addendum E: Gap Analysis (NDC)

NDC Headquarters
One Battery Park Place
21 Whitehall Street, Suite 710
New York, NY 10004
(212) 682-1106

MEMORANDUM

Date: October 3, 2016

To: Britt Crum-Cano, Economic Development Coordinator, City of Lawrence

From: Tom Jackson, Director, National Development Council

RE: Proposed Mixed-Use Development at 820-826 Pennsylvania Street

At your request, NDC has reviewed materials submitted by Williams Management, LLC (hereinafter, "the Developer") in support of a request for a Neighborhood Revitalization Area (NRA) property tax abatement and approval of Industrial Revenue Bond (IRB) financing during construction to provide a sales tax exemption for the development of a mixed-use project at 820-826 Pennsylvania Street (the "Project"). The Project will include:

- Two new floors of residential rental space divided into 14 apartments as follows:
    - 5 two-bedroom units ranging in size from 946 to 1,285 square feet
    - 9 one-bedroom units ranging in size from 680 to 930 square feet.
    - Two of the one-bedroom units will be affordable to households at or below 60% of the Area Median Income (AMI) for Lawrence.
- Rehabilitation of the existing first floor and basement as follows:
    - 8,792 in leasable square feet on the first floor for a proposed restaurant/brewery.
    - 6,244 square feet of leasable storage and/or production space in the basement.
- 33 new, on-street angled parking spaces in front of the building.

NDC has met and interacted as necessary with the Developer and its team on multiple occasions over the past two months in person, by phone and by email. The Developer has supported its assumptions and projections on the Project's development costs and operating

Addendum E: Gap Analysis (NDC) *continued*

820-26 Pennsylvania
October 3, 2016
Page 2

revenues and expenses with increasing detail as additional information has become available and in response to requests by the City and NDC. The developer has provided the following documentation to support their request for NRA and IRB incentive financing and NDC's analysis of the request:

- A Development Budget based on:
    - Architectural designs by Paul Werner Architects, Lawrence (latest revision dated August 4, 2016). The designs are characterized by the Developer as being substantially complete and ready for building permit review.
    - Structural engineering by Apex Structural Engineers, Inc., Lawrence;
    - Mechanical, electrical and plumbing design by GPW & Associates, Lawrence;
    - Construction estimates provided by the Developer, who will also serve as the General Contractor for the project.
- Proforma statements of annual operating revenues and expenses (the Proforma) that were revised during the course of the review given design changes and additional information on commercial and residential rents in the project's submarket.
- A Term Sheet for commercial financing from Peoples Bank of Lawrence, dated July 29, 2016;
- An Appraisal Report, dated April 12, 2016, ordered by Peoples Bank and prepared by Keller, Craig & Associates of Overland Park, Lawrence and Topeka;
- Property tax estimates prepared by the Developer as advised by the County Appraiser and the Appraisal Report.
- Preliminary and revised project descriptions.

NDC's analysis of the Project's proposed financing sources and uses, projected net operating revenue, property appreciation and associated returns on invested equity suggests that the Developer's request for a NRA rebate of 85% of available property tax increment over 10 years and an IRB sales tax exemption on eligible project costs is reasonable. The reasonableness of the requests has been evaluated given the following:

Addendum E: Gap Analysis (NDC) *continued*

1) The Project's financing sources and uses are summarized as follows:

	Amount	% of Total
Total Project Costs	**$3,622,795**	**100.00%**
Project Sources		
Projected Bank Loan	$3,013,000	83.17%
Required from Developer	$609,795	16.83%
Total Sources	**$3,622,795**	**100.00%**

a. The IRB Sales Tax exemption is estimated at $185,805. The Total Project Costs (TPC) reflect reimbursement in this amount.

b. The amount of bank financing projected by the Developer has been maximized given the Appraisal Report's projected operating proforma and the terms and underwriting criteria (1.20 debt coverage ratio, 80% loan to value) that are very favorable to the Project. The projected loan amount is also influenced by a strong 7% capitalization ("cap") rate, which was identified by the appraiser and matches rates observed in the more established Massachusetts Street market approximately 0.4 miles to the west.

c. Despite the favorability of the Appraisal Report for financing purposes, the Developer believes that actual revenues will be significantly lower for the first floor restaurant/brewery and basement storage space given prevailing rents outside the Massachusetts/Vermont/New Hampshire streets commercial district and new self-storage competition close to the Project site.

    i. The Developer supported lower commercial revenue and substantially lower expense reimbursement projections with evidence of existing lease rates and terms from what the Developer believes to be comparably-located restaurants in Lawrence. NDC also confirmed lower rates on another restaurant scheduled to open in the Project's submarket.

    ii. The Developer also projected the postponement of storage revenues until Year 6 of operations given the current oversupply of space in the area and expectations that the brewery/restaurant will not need expansion space for the first five years of operations.

Addendum E: Gap Analysis (NDC) *continued*

d. The Developer adopted the Appraisal Report's estimate of market rents for the Project's residential units despite the documentation of lower current market rates in the immediate Project area. The residential revenue was lowered below the appraiser's estimate for the two one-bedroom units that the Developer has proposed to designate as affordable for 30 years.
    i. The Developer has chosen the 60% of AMI rents and income verification levels associated with the Low Income Housing Tax Credit program administered in Kansas by the Kansas Housing Resources Corporation. These rents, currently $840/month for a one-bedroom unit, include utilities and the Developer has increased its operating expenses for these units accordingly.
    ii. The designation of the two units of affordable housing lowers the Project's stabilized net operating income – exclusive of NRA incentives – by $4,678 and, by extension, reduces the fair market value of the property by approximately $69,000.

2) The differences between the Developer's current projection of revenues and expenses and the bank's Appraisal Report contribute to a finding that the estimate of bank financing is very optimistic. NDC's analysis of the Project's maximum borrowing capacity, given the provisions of the bank's offered term sheet, at:
    a. $643,050 less than the projected loan if the 85% NRA rebate is included
    b. $1,187,096 less if the NRA rebate is not factored into the Project's stabilized net operating income (NOI).
    c. Despite these substantial differences, the Developer is confident that the projected financing will be secured.

3) The Developer's commitment of an equity contribution of $609,795 was sized based on the difference between projected Project costs and available bank financing.
    a. Given a 10-year rebate of 85% of the available increment in the completed Project's property taxes, an IRB exemption for eligible sales taxes on construction costs, the current projection of revenues and expenses and estimated net sales proceeds at the end of the 20th year of operations, the Developer's Internal Rate of Return (IRR) on the invested equity is estimated at 9.85%.

Addendum E: Gap Analysis (NDC) *continued*

i. The general strength of the Lawrence market – as evidenced by observed capitalization rates, low vacancy rates and strong square foot rents – would suggest that a 10% IRR would be at the upper end of the range for the Massachusetts Street district. The transitional nature of the properties closer to the Project site would suggest that 10-12% returns are reasonable.

ii. If the NRA incentives were reduced to 50% for ten years, the estimated IRR would decline to 9.03%. Without any level of NRA incentives, the estimated IRR would fall to 7.99%.

iii. The discounted value of the 85% NRA incentive over 10 years, given a target IRR of 10%, is approximately $334,190.

b. The estimated IRB incentive, as indicated above, reduces the need for $185,805 in additional Developer equity. Without the IRB incentive, but with the requested 85% NRA rebate for 10 years, the Developer's estimated IRR would decrease to 8.51%.

c. Absent both the NRA and IRB incentives, the estimated IRR would decrease to 6.98%.

4) Without the requested NRA and IRB incentives, the Project's financing gap can be estimated by subtracting the calculated debt and equity capacity from total Project costs as follows:

a. Maximum debt capacity is calculated given lender underwriting criteria (Debt Coverage Ratio and Loan to Value), prevailing interest rates, amortization terms and projected revenues and expenses; and,

b. If the equity attracted to the project, given projected cash flows after tax and appreciation over twenty years, is calculated based on a target Internal Rate of Return of 10%; then

c. Without the NRA incentives outlined above, the project would face an estimated financing gap of $1,495,193.

d. If the IRB incentive is also withdrawn, the financing gap would increase to $1,679,641.

onclusion: The documents, discussions and responses presented by the Developer in support their request for the NRA and IRB incentives as outlined above, demonstrate that the quested incentives are reasonable and help to avoid financing gaps that could make the

Addendum E: Gap Analysis (NDC) *continued*

Project economically unfeasible and unlikely to proceed. If, prior to approval of any City incentives, Project costs or market conditions vary substantially from what the Developer has projected and NDC has reviewed, NDC will reexamine this evaluation as requested by the City.

Addendum F: About the Cost-Benefit Model

The City of Lawrence uses a proprietary Cost-Benefit model when examining projects. The Cost-Benefit model is one tool that government decision makers can incorporate in their decision-making process. The City's cost-benefit model provides a framework for estimating the fiscal impacts of a project, assuming it were in existence and in use today, through the examination of costs and benefits to various taxing jurisdictions (City, County, School District, State). As with all economic models, there are limitations, which are generalized below:

- **Does not consider intangible effects**
  The model does not speak to the effects of intangible costs or benefits resulting from a project, since intangible effects are difficult, if not impossible to assign a dollar value.

- **Does not consider private or market effects**
  The model only seeks to quantify the cumulative effect on public revenues and expenses and not the effect on private interests that may be affected by a project. Thus, the model only considers public, or governmental, costs and revenues.

  Logic would dictate that any development may also have a financial impact on the private sector. For example, if one were analyzing a proposal to build a new baseball stadium, the new tax revenue from the building and property – as well as the costs for providing additional public security and emergency services (police, fire, ambulance, etc.) – would factor into the analysis. However, the effect of the stadium on neighboring property values or the impact on business at local restaurants would not be accounted for within the model.

  The cost-benefit model does not consider market impacts of a project, including the amount of market share a project captures from existing businesses or the amount of new revenues brought into the community as a direct result of a project. A market study can be employed to study these effects.

- **The model considers direct effect economic impacts**
  Multipliers used within the model are applied to direct effects such as the number of jobs created by the project and associated wages. The model does not attempt to measure all indirect effects such as capturing visitor spending associated with a project, nor the economic effects of that spending as outside dollars circulate through the community over time.

- **Model assumes current effects**
  The model is run on assumptions and estimations provided at the time of analysis. The current effects aspect of the model means that the analysis provides a means of estimating the financial impact of a development as if the project under consideration were in existence and in use today, given estimated costs and assumptions that are usually defined prior to the project being constructed or operational. Given that it may be difficult to predict future costs and benefits accurately, there is an implicit assumption that future changes affect both revenues and costs.

  In addition, the model does not reflect any changes in economic adjustments over time due to macroeconomic conditions, regional industrial structure, public policies, and technological advances.

- **Does not consider fiscal impacts of temporary or part-time employment**
  Employment analyzed is for full-time, permanent positions related to a project and does not consider temporary jobs created due to project construction or part-time positions created during project operation.

Other considerations for decision making:
There could be several important considerations that fall outside of the realm of municipal budgets and cost-benefit analysis. For example, fiscal impacts of development on abutters, local businesses and natural resources are not accounted for in cost-benefit analysis.

Cost-benefit analysis also does not consider issues of equity and social responsibility. For instance, while it may be easy to identify the fiscal downsides of low-income housing on municipal and school budgets, municipalities may also bear some level of responsibility for ensuring access to affordable housing. Finally, communities maintain certain values that cannot be assigned a price tag, such as the intrinsic value of nature, cultural heritage, and aesthetics.

Depending on the project, it may be prudent to employ other analytical models or studies (e.g. economic impact analysis; pro forma/but-for analysis; trade area analysis; tourism impact, market demand and other studies; etc.) in conjunction with cost-benefit analysis, as well as give consideration to other, non-quantifiable elements to gain insight into a project's overall value to the community.