

Request for Economic Development Support:

**826 Pennsylvania Street**

# 826 Pennsylvania Street

- **Project Overview & Request (Applicant)**
- **Eligibility & Analysis**
- **Considerations & Conclusions**
- **Recommendations**
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  - **City Commission Final NRA Consideration (11-15-16)**

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## Project:

- **Mixed-Use, Commercial/Residential**

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	

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## Project: Affordable Housing

- Affordable Duration: 30 Years
- 2 Rental Units

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

## **Request:**

- **10-Year, 85% Neighborhood Revitalization Area (NRA)**
- **Industrial Revenue Bonds (IRB) for sales tax exemption on project construction materials (aka stand-alone IRB)**

## Request:

- **NRA is a Property Tax Rebate Program:**
  - Rebate on incremental increase in property valuation due to improvements.
  - Base property value (value prior to improvements) shielded from rebate.
  - Property owner continues to pay property taxes on the base value and the percentage not awarded a rebate
- **IRB for sales tax exemption on project construction materials (stand-alone IRB)**
  - Conduit financing mechanism
  - No liability on the part of the City
  - State administered sales tax exemption

## Eligibility:

### NRA:

- Staff believes project will meet State NRA eligibility criteria.
  - Building is currently vacant and severely dilapidated with potential risk to public health and safety.
  - Historic contributions to area
- Staff believes the project as proposed will meet City NRA eligibility, meeting a majority of City policy criteria.

## Eligibility:

### **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.



## **Eligibility:**

### **IRB:**

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

## **Analysis Required for NRA:**

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

## Cost-Benefit Assumptions

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

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## Cost-Benefit Assumptions:

<i>Summary of Estimated Sales Tax Savings: 826 Pennsylvania Street IRB</i>			
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
<b>Total</b>	<b>9.05%</b>	<b>\$185,805</b>	<b>\$185,805</b>

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## Cost-Benefit Assumptions:

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

## Cost-Benefit Assumptions

- Property tax projections from NDC gap analysis

	Property Tax Revenue Comparisons														
	NRA Term										After NRA Expires				
	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15
Tax Revenues: Unimproved	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138	\$11,138
Tax Revenues: Improved	\$19,717	\$19,974	\$20,238	\$20,509	\$20,786	\$21,070	\$21,361	\$21,660	\$21,965	\$22,279	\$87,552	\$89,749	\$92,000	\$94,308	\$96,674

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## Cost-Benefit Results:

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

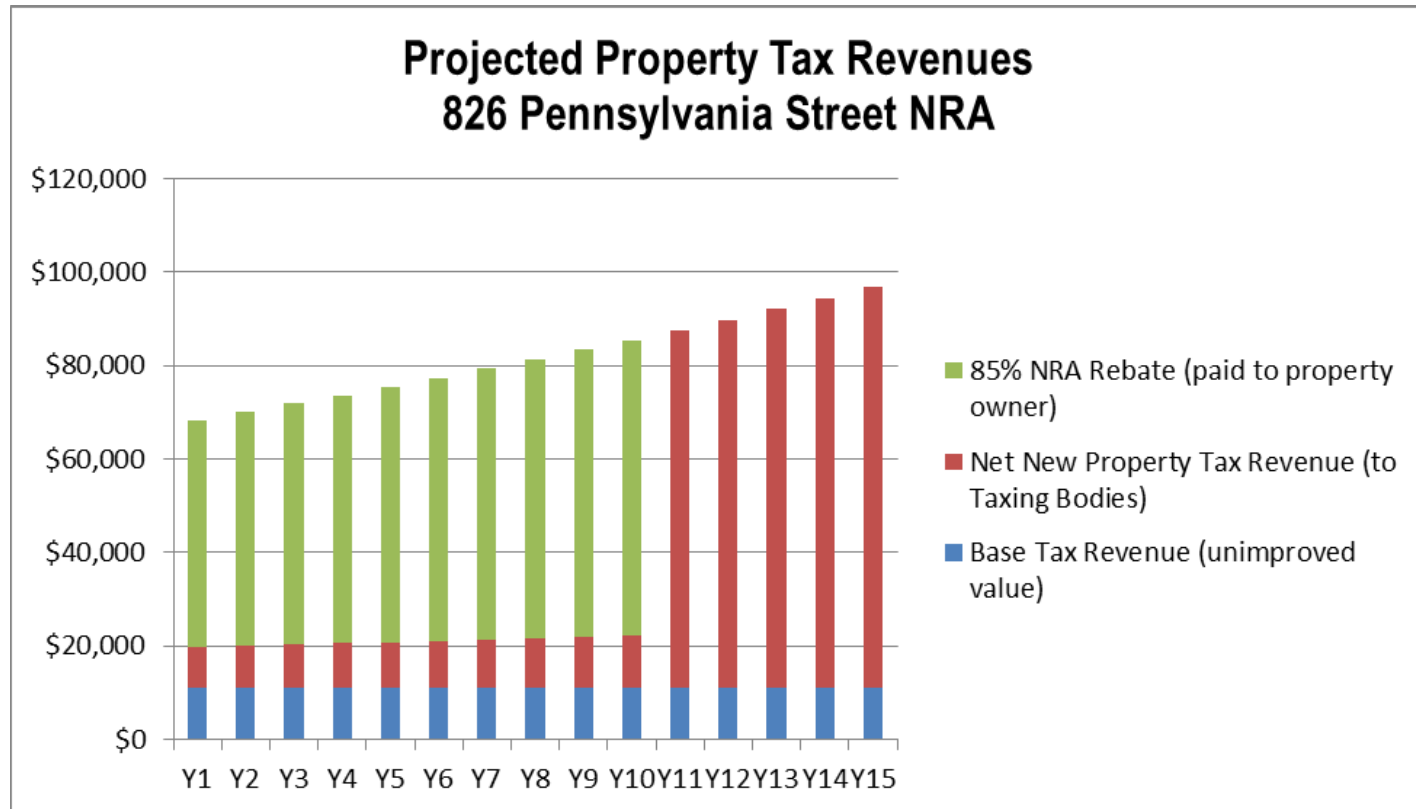
## Cost-Benefit Results:

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



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## Tax Revenue Comparisons



## Tax Revenue Comparisons

- Over the 10 Year NRA rebate period, the improved property will generate 1.88 times the property tax revenues compared to the undeveloped property.
- Returns are even more substantial after the NRA expires, with taxing revenues 8.26 times the undeveloped property (e.g. first 5 years after NRA expiration, years 11-15).
- Useful life of property expected to exceed 15 years.

# **“But For”/Pro Forma Gap Analysis:**

- **NDC Conclusion:**

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.

## **Additional Considerations:**

- 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.

## Staff Conclusions:

- **City/State Eligibility Requirements:** Met for both NRA and IRB requirements.
- **Cost-Benefit Analysis:** Project exceeds the 1.25 ratio threshold for all taxing jurisdictions.
- **NDC Gap Analysis (“but for” test):** Requested incentives are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed.
- **Property Tax Revenue Generation:** Over the 10 Year NRA rebate period, the improved property will generate 1.88 times the property tax revenues compared to the undeveloped property.
- Returns are even more substantial after the NRA expires, with taxing revenues 8.26 times the undeveloped property (e.g. first 5 years after NRA expiration, years 11-15).

## Staff Recommendations:

- **If approved, include performance provisions in plan:**
  - Condition any incentives on the complete compliance with all land use requirements for the property, including the City's historic and downtown design guidelines. Failure to comply with these requirements would nullify any incentives approved.
  - Project construction to commence within three years of NRA Plan adoption.
  - Annual evidence of compliance with affordable housing provisions

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## **AHAB Recommendations**

At their October 10, 2016 meeting, AHAB reviewed the project's affordable housing component and voted to recommend the project to the City Commission. Motion passed unanimously, 7 to 0.

## **PIRC Recommendations**

At their November 1, 2016 meeting, PIRC reviewed the request and voted to recommend the project, as requested (85% NRA rebate, 10 year period) to the City Commission. Motion passed 4 to 2.

## **City Commission Public Hearing (11-1-16)**

The City Commission received recommendations and voted to authorize a 50%, 10 year NRA for the project.

## **County Commission Consideration (11-2-16)**

The County Commission received recommendations and voted to authorize an 85%, 10 year NRA for the project.

## Next Steps

- USD 497 consideration (11-14-16)
- City Commission final action (11-15-16):
  - 2<sup>nd</sup> Reading of NRA ordinance
  - Authorization to execute agreements, as appropriate.



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**Thank You**