DRAFT Minutes

City of Lawrence
Public Incentives Review Committee
September 14, 2017 minutes

MEMBERS PRESENT:	Mayor Leslie Soden, Vice Mayor Stuart Boley, Aron Cromwell, Bradley Burnside, County Commissioner Mike Gaughan, Micelle Fales, Ken Easthouse; Jill Fincher
MEMBERS ABSENT:	None
STAFF PRESENT:	Tom Markus, Britt Crum-Cano, Tom Jackson (National Development Council), Danielle Buschkoetter
PUBLIC PRESENT:	Bob Schumm, Stan Hernly, Chris Kollman, Dan Dannenberg, Qin He, Rochelle Valverde

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Mayor Soden called the meeting to order at approximately 12:59 pm. The Board introduced themselves to the audience members and the Vermont Place applicant.

The minutes were reviewed. County Commissioner Gaughan made a motion to approve the minutes from the 4-17-2017 meeting; Easthouse seconded the motion. The motion was unanimously approved.

Crum-Cano provided a brief history of the Vermont Place project and original request, which included a 10-year, 75% Neighborhood Revitalization Act (NRA) rebate and Industrial Revenue Bonds (IRB) for obtaining a sales tax exemption on construction materials. When the request was originally considered, the City's economic development policy was under review for substantial revisions. Consequently, it was unclear what policy requirements would apply to this request and consensus could not be reached on project feasibility. The Commission asked the Applicant to research changes that would allow the project to proceed. In response, the Applicant is now asking for reconsideration of the request, given proposed changes.

Crum-Cano described the changes from the initial proposal to the current proposal. The following characteristics are the same: affordable housing unit and NRA/IRB eligibility. The following characteristics have changed: any unit used by the Applicant for personal, residential use will be exempted from the NRA rebate. Additionally, all assumptions used in the analysis were updated to reflect current market trends.

Schumm introduced the updated project and discussed the new economic development policy and rationale for exempting personal residential property from the NRA request. He also outlined why he is seeking reconsideration and mentioned that the property has been vacant since 1990 due to a fire.

Schumm said the project has not changed substantially since the initial proposal. The project will still provide 22 underground parking spaces for residential use. Parking spaces will be owned by Vermont Place LLC and all residents will be given access via their sales agreement. Schumm noted that the rebate is generally being used to offset the cost of providing underground parking.

Crum-Cano outlined the two economic development tools being requested: an NRA and IRB. She noted the primary purpose of a NRA is to revitalize properties; it is not used to create primary jobs. NRAs assistance is based on property tax rebates. The percentage of rebate authorized via the NRA is applied to the incremental increase in property value due to project improvements. The base value, or what the property was originally generating before improvements, is shielded from rebates, so taxing jurisdictions continue to receive at least the same level of revenues after as they received before redevelopment. In addition, unless a 100% NRA rebate is authorized, taxing jurisdictions typically enjoy substantially more property tax revenues during the NRA rebate period than would have been realized if the property remained undeveloped. Significant returns are realized by the taxing jurisdictions after the NRA rebate period expires.

Crum-Cano also noted that the Vermont Place request includes an IRBs to obtain a sales tax exemption on project construction materials. This is a state program in which the City serves as a conduit for the program, but is not held liable.

Crum-Cano added that there was both a cost-benefit analysis and pro forma/gap analysis conducted. Burnside asked for the financial breakdown of the incentives between the City, County, State, and School District. Crum-Cano went through the breakdown for each jurisdiction and the estimated return on the public investment. Jackson added that the total project cost is slightly different ($2,000) between the cost-benefit analysis and the gap analysis since the cost-benefit model does not consider IRB sales tax savings attributed to other Douglas county municipalities.

Crum-Cano outlined the projected tax revenues over the 10-year NRA rebate period as well as the 5-years following NRA expiration. She noted the life-span for a project like Vermont Place is well beyond the 15-years included in the projections and would be anticipated to generate substantially more tax revenues over the life of the property. She then outlined the difference in property tax generated if the property was not developed compared to if the proposed project were to move forward.

Crum-Cano went into additional details of the cost-benefit analysis noting that the City likes a project to generate at least a 1.25 cost-benefit ratio, meaning that for every $1.00 of public investment there is a return of $1.25 or more.

Jackson discussed the pro forma analysis, the updated assumptions and the changes made from the initial project. He also noted that the recent changes in Kansas law have been accounted for in the analysis.

Jackson explained that a financing gap equals the cost of the project less the bank loan, less equity in the project. Project costs are reviewed to ensure they are in line with industry standards. Bank loans are also reviewed to ensure the terms are reasonable and appropriate given the project and economy. Finally, equity is looked at to determine if the property is projected to generate a fair return. A fair return is determined by the market.

Jackson noted that the IRB and NRA are being used to finance that gap. The pro forma analysis concluded that the returns are reasonable given the market. Jackson also went through the pro forma analysis of the original project compared to the updated project.

Jackson concluded that returns for the Vermont Place project are slightly below the industry for similar projects, but reasonable. Schumm noted that he did not include a project development fee, typically included within the pro forma, which would have increased the gap and level of incentive needed.

Jackson noted that the project includes a white box build, meaning that the purchaser will decide on the final finishes which will determine the final cost per square foot. He added that the affordable unit does include all finishes.

Easthouse asked if the affordable unit also included a parking space. Schumm replied that the affordable unit would be finished and include a parking space. Schumm reminded the Committee that units would not be assigned a parking place, but would have access to the underground parking structure.

Fales asked if the condominiums would be presold or have letters of intent. Kollman noted that the bank will require a certain number of condominiums be presold with a letter of intent. Schumm added that the bank has changed since the start of the project. Fales asked if there was a preset percentage that would be required to be presold by the bank. Kollman noted that the bank would like 70% of the condominiums presold, but that percentage had not been solidified.

Crum-Cano wrapped up the presentation by presenting staff's position, which is generally favorable toward the project since it supports several community goals: downtown viability, infill development, environmentally friendly design (project be built to LEED certification standards), the addition of a permanent, "for sale" affordable housing unit, and projected increases in the tax base. Jackson added that many alternatives were reviewed in the past year but none of the options were feasible to move the project forward.

Mayor Soden asked about the 10% affordable housing as stated in the economic development policy and how the rounding would work given the Vermont Place project will have 11 units. Crum-Cano noted that the current policy does not give guidance on how to round the percentage of affordable units. However, the City Commission decided at their July 11, 2017 meeting to allow the project to proceed under the same affordable housing parameters that were originally proposed (i.e. one "for sale" unit set aside in perpetuity as affordable housing).

County Commissioner Gaughan asked about the costs used in the analysis for the return on investment ratio. Crum-Cano noted that the model takes into account the cost to each taxing jurisdictions as well as the capital costs and debt service costs. Those variables, among others, are built into the model that is used for the analysis.

County Commissioner Gaughan asked about the rebate amount associated with the personal residential unit. Jackson noted that the if the applicant purchases that unit, approximately $110,436 would be excluded from the NRA rebate.

Easthouse asked what the cost for the retail space would be. Schumm noted that approximately $24 per square foot would be charged for the retail space. Jackson added that there is currently a low vacancy rate. Schumm noted that there were some small spaces with a 1-year lease which can have higher rates per square foot.

Schumm highlighted that he has already been contacted by parties interested in the commercial space. Jackson noted that the shared environment is becoming more popular.

County Commissioner Gaughan asked if Jackson's time was included in the cost. Jackson replied that his analysis is paid for by the City and reimbursed by the applicant therefore that cost is included in the analysis.

Mayor Soden asked for public comment. No public comment was provided.

Easthouse moved to accept the Vermont Place project as proposed, the motion was seconded by Fales. The motion passed 7-1 with Mayor Soden in opposition.

Mayor Soden noted that changes to the Public Incentives Review Committee (PIRC) are being recommended by staff to the City Commission on September 19, 2017. The recommendation includes merging the Joint Economic Development Council (JEDC) and PIRC into one board. Crum-Cano noted the duplication of functions between the two boards.

Mayor Soden added that as part of that merger, it is recommended that the Mayor and Vice Mayor no longer serve on PIRC. Adding that if the recommendation passes as written, the Mayors and Vice Mayors seats would be filled with at-large members.

Motion was made to adjourn by Fales and seconded by Cromwell. The motion was unanimously approved. Meeting adjourned at 2:01 pm.