# Benefit-Cost Analysis Summary

**Vermont Place NRA & IRB Request**

City of Lawrence, Kansas
July 2017 revision

## Introduction

Vermont LLC is requesting reconsideration of a 10-year, 75% Neighborhood Revitalization Area (NRA) rebate and an Industrial Revenue Bonds (IRB) sales tax exemption on construction materials to support the development of two vacant parcels, located at approximately 800-815 Vermont Street in the Downtown Lawrence business district, into a mixed-use, commercial and residential project.

This request was originally considered in December 2016 by the City Commission, but did not proceed. The Applicant is requesting reconsideration given the City did not have of an economic development policy in place at the time that addressed affordable housing requirements. (The new policy, adopted January 2017, specifies affordable housing requirements.) and the removal of any personal residence within the project participating in receiving NRA rebates.

**Actions to Date**

Originally a Request Letter and Incentives Application were received May 18, 2016 from the Applicant requesting a 10-year Neighborhood Revitalization Area (NRA) with an 85% rebate provided annually for years 1 through 5 and a 50% rebate provided annually for years 6 through 10. Industrial Revenue Bond (IRB) financing was also requested to receive a sales tax exemption on construction materials.

As a result of gap analysis findings, the Applicant submitted a revised Request Letter and Incentives Application on October 10, 2016 requesting a 10-year Neighborhood Revitalization Area (NRA) with a 75% rebate provided annually. Industrial Revenue Bond (IRB) financing was also requested to receive a sales tax exemption on construction materials expenses.

The request was considered by the Affordable Housing Advisory Board (AHAB) at their October 10, 2016 meeting. AHAB voted 6 to 0, with one abstention, to recommend the affordable housing aspects of the project to the City Commission.

The request was considered by PIRC at their November 1, 2016 meeting. PIRC reviewed the request and voted 4 to 2 to recommend the project, as requested (75% NRA rebate, 10-year period) to the City Commission.

The City Commission received AHAB's and PIRC's recommendation at their December 6, 2016 meeting. However, the project was not approved at the 10-year, 75% NRA rebate level and did not proceed to the County or School Board for NRA consideration.

At the July 11, 2017 meeting, the Commission received the reconsideration request and referred it to PIRC for review and recommendation. The Commission also authorized the project to be considered under the original fee schedule for NRAs and IRBs that was in place at the time the project was originally considered and allow the original dedication of one affordable housing unit for this project, since current policy does not address rounding when the required set-aside percentage equates to a partial unit. A public hearing date of September 19, 2017 was set.

## Project Overview

The Applicant is proposing the construction of a multi-level, mixed use commercial and residential development that will be located on two adjacent City lots (Vermont Street Lot 51 and N 45, lot 53) at approximately 800-815 Vermont Street. The applicant currently owns both lots, which have been vacant since 1990. Plans call for the project to have five levels as well as an underground parking facility. ***Note project parameters have not changed since originally proposed.***

| Vermont Place Project (with Underground Parking) | | | |
|---|---|---|---|
| **Level** | **Type** | **Size (SF)** | **# Units** |
| Basement | Underground Parking | 10,695 | 22 |
| Floor 1: | Commercial | 7,788 | Tenant Dependent |
| Floor 2: | Office | 6,504 | 30 |
| Floor 3: | Residential Condominiums | 7,957 | 11 |
| Floor 4: | Residential Condominiums | 6,474 | |
| Floor 5: | Private Condominium | 2,845 | 1 |
| | ***Total Rentable SF:*** | ***14,292*** | |
| | ***Total Saleable SF:*** | ***17,276*** | |

The first floor is anticipated to support retail and/or commercial tenants. The second floor is anticipated to be divided into 30 individual offices (approximately 150-300 square feet), each taking advantage of common area shared space and amenities (e.g. restrooms, reception area, high-speed fiber, office support equipment).

Twelve residential units are planned to be included on floors 3-5. Floors three (3) and four (4) are anticipated to support eleven (11) “for sale” residential condominiums. For technical analysis, floor five (5) is assumed to be the owner’s private residence.

Unchanged from the original request, the Applicant will also provide one, fully finished condo and underground parking space to be held in perpetuity as affordable housing.

| **AH Assumptions** | | | |
|---|---|---|---|
| ***SF*** | ***# Units*** | ***# BD*** | ***# Parking*** |
| ***600*** | ***1*** | ***1*** | ***1*** |
| **Applicant's Affordable Housing Subsidy** | | | |
| | **AH Unit** | **Market Unit** | **Subsidy** |
| Sales Proceeds | $91,086 | $129,438 | $38,352 |
| Finishing Costs ($102/SF)* | $61,200 | $0 | $61,200 |
| Parking Space (Basement) | $54,340 | $0 | $54,340 |
| **Total** | **$206,627** | **$129,438** | **$153,892** |

*Fully Finished Unit

The affordable housing condo will be fully finished and its sale restricted to income-qualified households. This unit represents approximately 8% of the total residential units and 3.5% of the total residential square footage as designated affordable housing.

| **Affordable Housing Unit** | | | |
|---|---|---|---|
| | **Total** | **AH** | **% of total** |
| Residential Units | 12 | 1 | 8.3% |
| Residential SF | 17,276 | 600 | 3.5% |

The remaining condos will vary in size from 739 to 2,845 square feet and will be sold unfinished (aka warm shell). Final finishes of these condos will be the responsibility of the buyer.

## Analysis

The Applicant is requesting the City Commission reconsider the request for the same project and incentives package, with the exception that the Owner's personal residence would be shielded from NRA rebates. In addition, current data and recent cost and revenue estimates are to be incorporated to bring analysis up-to-date. Estimated fiscal impacts to taxing jurisdictions are examined through a benefit-cost analysis and project financial feasibility is examined through a "But For" analysis (gap analysis).

***The following presents analytical results based on economic development policy in place when the project was first considered. Data and estimates have been updated for current analysis. Adjustments have been incorporated within analytical models to reflect recent legislative changes now requiring exclusion of the school district's capital outlay mill levy from NRAs.***

***Benefit-Cost Analysis (BCA)***

Based on information received through an updated incentives application (received June 28, 2017) and gap analysis performed June 2017 the National Development Council, staff conducted analysis of the benefits and costs associated with the project utilizing the City's economic development benefit-cost 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 benefit-cost model:

| Assumptions | |
|---|---|
| Total Capital Investment | $9,675,629 |
| Property Valuation for Property Tax Revenues | $7,690,854 |
| Net New Full-Time Jobs Created | n/a (part-time only) |
| Average Annual Salary Per Net New Full-Time Position | n/a (part-time only) |
| Total Estimated Sales Tax Exemption Savings (City, County, State) | $283,621 |
| Total Estimated NRA Rebate (10 years, 75%) | $1,019,888 |
| 2016 Mill Levy | 130.970 |

- **Capital Investment & Job Creation**
  According to the incentives application received, the project is valued at approximately $9.7 million ($8,973,522 in building capital investment + $700,000 land value)

  Although the model does not consider part-time or temporary positions, the applicant has indicated the project will support one part-time position paying approximately $17,000 annually and 100 temporary construction jobs paying an average annual salary of $45,500.

- **Estimated IRB Sales Tax Exemption**
  Based on the applicant's estimation of construction expenses ($9,275,979), an IRB used to obtain a sales tax exemption on construction materials would be worth approximately $274,013 in total sales tax savings.

  Total estimated cost would be $66,845 to the City, $11,557 to the County, and $205,219 to the State ($283,621 total).[1] The below assumes all construction materials are delivered to the site and subject to local sales taxes.

| ***Summary of Estimated Sales Tax Savings: Vermont Place IRB*** | | | |
|---|---|---|---|
| **City** | **Tax Rate** | **Estimated Sales Tax Amount** | **Total** |
| City Sales Tax | 1.55% | $48,937 | $66,845 |
| City Portion of Countywide 1% Sales Tax | 0.57% | $17,908 | |
| **County** | **Tax Rate** | **Estimated Sales Tax Amount** | **Total** |
| County Portion of Countywide 1% Sales Tax | 0.37% | $11,557 | $11,557 |
| **State** | **Tax Rate** | **Estimated Sales Tax Amount** | **Total** |
| State | 6.50% | $205,219 | $205,219 |
| **Other** | **Tax Rate** | **Estimated Sales Tax Amount** | **Total** |
| Other County Municipalities Portion of Countywide 1% Sales Tax | 0.07% | $2,107 | $2,107 |
| **Total** | **9.05%** | **$285,728** | **$285,728** |

[1] 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 ($2,107) 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 Expense % | Estimated Materials Cost |
|---|---|---|
| $9,673,522 | 32.64% | $3,157,210 |

| Vermont Place: Construction Sales Tax Exemption | | |
|---|---|---|
| **Taxing Jurisdiction** | **Tax Rate** (Jan 2017) | **Est Sales Tax Amount** |
| City | 1.55% | $48,937 |
| County | 1.00% | $31,572 |
| City Portion of 1% Countywide Sales Tax | | $17,908 |
| County Portion of 1% Countywide Sales Tax | | $11,557 |
| Other County Municipalities Portion of 1% Countywide Sales Tax | | $2,107 |
| **State** | 6.50% | $205,219 |
| **Total** | **9.05%** | **$285,728** |
| **City Total** | | **$66,845** |
| **County Total** | | **$11,557** |

- **Base Property Taxes**
  In its present condition, the two lots generate approximately $7,200 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.

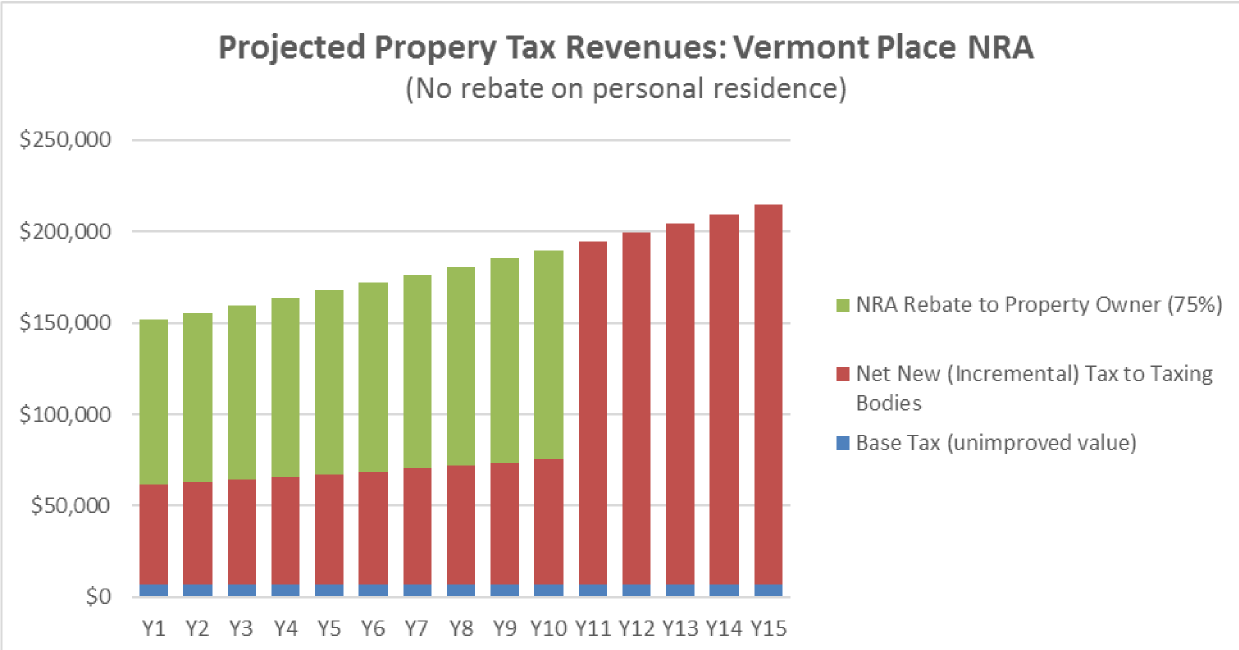
| 2016 Tax Information | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Property Address** | **Appraised** | | | **Assessed** | | | **Property Tax** (est.) |
| | **Land** | **Improvements** | **Total** | **Land** | **Improvements** | **Total** | 0.130970 |
| 800 Vermont Street, Block 2 | $234,000 | $0 | $234,000 | $28,080 | $0 | $28,080 | $3,678 |
| 800 Vermont Street, Block 3 | $222,300 | $0 | $222,300 | $26,676 | $0 | $26,676 | $3,494 |
| **Total** | **$456,300** | **$0** | **$456,300** | **$54,756** | **$0** | **$54,756** | **$7,171** |

- **Projected Property Tax Revenues**
  The below shows property tax projections for the incentive period as well as five years after the incentives expire. Amounts are broken out by the base taxes (or what the property would have originally generated if the property had not been improved), net new tax revenues, and annual NRA rebate to be provided to the property owner. Note the "Base Tax" is shielded from NRA rebates and will continue to be paid by the property owner throughout the incentives period.

| Projected Tax Revenues | | | | | | | | | | | Change in Net Tax Revenues |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | NRA Rebate Period | | | | | | | | | | |
| | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 | Y7 | Y8 | Y9 | Y10 | |
| Base Tax *(unimproved value)* | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $71,714 |
| Net New (Incremental) Tax to Taxing Bodies | $54,224 | $55,628 | $57,068 | $58,544 | $60,057 | $61,607 | $63,197 | $64,826 | $66,496 | $68,207 | $609,854 |
| NRA Rebate to Property Owner (75%) | $90,415 | $92,820 | $95,284 | $97,810 | $100,399 | $103,053 | $105,774 | $108,562 | $111,420 | $114,349 | |
| **Total Tax** | **$151,811** | **$155,620** | **$159,524** | **$163,526** | **$167,628** | **$171,832** | **$176,142** | **$180,559** | **$185,087** | **$189,728** | 750.40% |

| Projected Tax Revenues | | | | | | Change in Net Tax Revenues (Y1-15) |
|---|---|---|---|---|---|---|
| | Post Rebate Period | | | | | |
| | Y11 | Y12 | Y13 | Y14 | Y15 | |
| Base Tax *(unimproved value)* | $7,171 | $7,171 | $7,171 | $7,171 | $7,171 | $107,571 |
| Net New (Incremental) Tax to Taxing Bodies | $187,314 | $192,189 | $197,187 | $202,310 | $207,561 | $1,596,415 |
| NRA Rebate to Property Owner (75%) | $0 | $0 | $0 | $0 | $0 | |
| **Total Tax** | **$194,485** | **$199,361** | **$204,359** | **$209,481** | **$214,732** | 1384.05% |

Above projections assume mill levy is held steady (to account for future tax lid) and a 2.5% annual inflation factor on property valuation.




- **Evaluation Period**

  The benefit-cost 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 benefit-cost ratio than shown in the below analysis. A 15-year evaluation period thus produces a relatively conservative estimate of longer-term project benefits.

- **Benefit-Cost Model Results:**
  The following table shows benefit-cost model results for a 15-year evaluation period. As can be seen, the project exceeds the 1.25 benefit-cost ratio threshold for the City and County with a 10 year, 75% NRA rebate and a stand-alone IRB that captures sales tax exemption savings on construction materials.

| Vermont Place | | | | | |
|---|---|---|---|---|---|
| **Description** | **City** | **County** | **USD*** | **State*** | **Total Value** |
| 10 Year, 75% NRA Rebate | 1.82 | 2.74 | n/a | n/a | $1,019,888 |
| Stand-alone IRB for Sales Tax Exemption | | | | | $283,621 |
| **Total** | | | | | **$1,303,508** |

*State and School District does not have any costs associated with the project since it will not add full-time employees and thus no new households are assumed to be created.

The table below 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 | 1.82 | $66,845 | $268,631 | $335,476 |
| County | 2.74 | $11,557 | $369,932 | $381,489 |
| State* | n/a | $205,219 | $0 | $205,219 |
| USD* | n/a | $0 | $381,325 | $381,325 |
| **Totals** | | **$283,621** | **$1,019,888** | **$1,303,508** |

For model output, see **Addendum C.**

***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 its request for the NRA and IRB incentives demonstrate that a 75% NRA rebate and approval of IRBs to exempt eligible sales taxes are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed.

The NDC report is included in **Addendum D**.

.

## Addendum A: Applicant Request Letter and Incentives Application

Dear Mayor and City Commissioners, June 28, 2017

Please accept this letter as a request to revisit my application to establish an NRA and an IRB for the project known as Vermont Place LLC.

The original vote for this project was taken on 13 December, 2016 and failed by a 2-3 vote. While the project has not changed two important elements affecting this project have changed.

The first change is that the City Commission had not updated its Economic Development policy when my project was considered. At the time of the vote, there seemed to be a "mixed sense" of what the parameters of the policy should be in determining the length of time and the overall percentage rebate applicable to each project. In January of 2017, the City Commission did pass an updated comprehensive Economic Development policy. This policy allows for more flexibility in determining each project on its own merits.

The second change, from the time of the original vote, was that all residential units as well as commercial units were requesting an incentive tax rebate. As of this writing, I would offer that any residential unit that I might live in, would not request a tax rebate, thereby taking away the possibility that I would receive a discounted property tax bill for my personal benefit.

I believe the above two points mark a substantial change from the time of the original application request.

Additionally, there are two concerns I have regarding this request for reconsideration. First, is that this request should be treated under the original schedule of fees for an NRA and an IRB in place at the time of initial application. Noteworthy is the fact that this project has not changed in size or scope but would only be reconsidered because the City Commission has a newly updated Economic Development Incentive policy. In fact several aspects of my project as proposed encouraged the commission to update its ED policy and are included in that policy. I respectfully request that the fee schedule in place at the time of my original application be applied to this project upon this reconsideration review. Second, is the schedule of affordable housing units required under the new ED policy. The policy calls for 10% of the housing units to be in the affordable category for projects between 4 and 49 units. Above that 15% is required. Under my original application, I offered one unit out of 12 total units as affordable housing.

That translated to 8.3% of the total. This situation presents a question of mathematical rounding which is not detailed in the updated policy. Rounding up dictates that I should have to dedicate two units or 16.7% of the total which is greater than the requirement for a project of 50 or more units. I again respectfully request that you allow the original proposal with the dedication of one affordable housing unit for this project to be acceptable in order to conform to your new policy. Of importance here is that this unit will be affordable in perpetuity while others seeking incentives offer only a 15 year life of rented units for affordability. Also this unit includes a dedicated underground parking space and the total subsidy is estimated to be $154,300. Changes that increase the number of affordable units in this project may require a greater participation by the city in the NRA rebate in order for this project to be feasible.

Regarding my revised application, all of the numerical entries have been reviewed and updated to reflect a current scenario as well as withdrawing any personal residency from the tax rebate total. Your consultant, Mr. Tom Jackson, has conducted this review and it would be necessary for him to be in attendance in order to answer questions and advise you about the project pro-forma. I would ask that you advise staff to establish an appropriate calendar for this project as soon as possible.

Finally I would like to state that I believe my project conforms to the major points of your updated Economic Development Policy which was approved by a 5/0 vote of the City Commission. The project supports the following policy criteria:

A. Affordable Housing

B. Sustainability – LEED designation

C. Primary job creation: Non-primary businesses provide goods and services to local businesses and consumers

D. In-fill Development

E. Revitalization of underutilized property

F. Promotion of downtown density

G. Tax base growth

H. Onsite parking

I. Universal design standards – Full accessibility

J. Project to attract retirees

K. Above average wages – Hi-tech Office environment will support above average wages and salaries.

Commissioners, I hope the above information along with positive recommendations from your Project Consultant and your City Management Staff present a strong case for additional review for re-consideration. I am always available to visit with each of you at your convenience.

Thank you for considering my request.

Sincerely,

Bob Schumm,

Vermont Place LLC

Copy: Tom Marcus, City Manager

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: | Bob and Sandra Schumm ( Revised Application ) |
| Title: | Developer/Owner |
| Organization: | Schumm Property Company |
| Address 1: | 719 Massachusetts Street, Lawrence, Ks. 66044 |
| Address 2: | |
| Phone: | (785) 766-0888 |
| Email: | schummfoods@gmail.com |
| Fax: | (785) 842-4025 |

***Application Tips:***

*Enter contact information for the company representative completing this application.*

| Economic Development Support Requested | | |
|---|---|---|
| **City Incentives** | **Amount** | **Term (in years)** |
| Tax Increment Financing District (TIF) | | |
| Transportation Development District (TDD) | | |
| Neighborhood Revitalization Area (NRA) | 75% | 10 years |
| Tax Abatement (TA) | | |
| Industrial Revenue Bonds (IRBs) | $9,750,000 | n/a |
| Community Improvement District (CID) | | |
| *Other (Please Describe):* | | |

***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.*

| Project Information | | |
|---|---|---|
| Name of Company Seeking Incentive(s): | Schumm Property Company | |
| Project Type *(check one)*: | Expansion: | |
| | New Facility: | X |
| Company Type *(check one)*: | Existing Local Company: | X |
| | Out-of-Area Company Locating Locally: | |
| Current Company Address: | 719 Massachusetts Street | |
| Location of Proposed New Facility/Expansion Project: | 815 Vermont Street | |
| Describe the Company's Plans to Develop or Expand in the Community:<br><br>Five story building to include commercial, office, condos and on site parking. | | |
| Operations Start Date at the Expansion or New Facility: | | 2019 |
| Industry NAICS # for the New or Expanded Facility *(6-digit code)*: | | 531120 |
| Describe the Primary Industry the New or Expanded Facility Will Support:<br><br>Expansion and long term stabilization of Downtown Lawrence. | | |

***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)*: | 50,463 sq. ft. | | |
| Estimated Size of Land for New Facility *(acres)*: | 11,115 sq. ft. | | |
| ***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 | | $700,000 | $700,000 |
| 2 | $8,973,522 | | $8,973,522 |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| **Total** | $8,973,522 | $700,000 | $9,673,522 |
| Will land be leased from the City or County *(Y/N)*: | No | | |
| If yes, Monthly Lease Rate for Land: | N/A | | |

***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.*

| Local Utility Expenses | | |
|---|---|---|
| **Utility** | **Current Local Monthly Expenses** | **Projected Local Monthly Expenses *at New Facility*** |
| Gas | | $1819.00 |
| Electricity | | $5439.00 |
| Phone | | $612.00 |
| Cable | | $3138.00 |

| Operating Expenditures | |
|---|---|
| For Expansion Projects, Current Annual Operating Expenses at Existing Facility: | N/A |
| Annual Operating Expenses after Expansion/Relocation: | $424,836.00 |
| % of Additional Operating Expenses Anticipated to be Spent Locally: | 100% |

| Revenues | |
|---|---|
| % of Revenues at the new Lawrence Facility Anticipated to Come from Non-Local Sources. | 35% |
| Anticipated Annual Gross Profits: | Unknown |

*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:<br><br>Vermont Place L.L.C. | |
| Will your firm be leasing the building or the land in your expansion or newly constructed facility? *(Y/N)* | No |
| If you are leasing the building or land, and you are seeking a tax abatement without an IRB, please list the tenant and owner and the financial relationship between tenant and owner.<br><br>Not leasing the building or land. | |
| Total Cost of Initial Construction for the Project: | $9,673,522 |
| Estimated Cost of Construction Materials for Initial Construction: | $3,157,210 |

*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) | | Yes |
| Will the project seek or be designed to LEED certification standards? (Y/N) | | Yes |
| *If yes, please indicate level:* | Certification | X |
| | Silver | |
| | Gold | |
| | Platinum | |

Please describe environmentally friendly features of the project:

LED Lighting throughout.
Water efficient plant scape on east side and north side of building.
Energy efficient heating and air conditioning systems installed.
Facility to be built to the 2012 International Energy Conservation Code.
Project will achieve a "certified" LEED designation but will not be inspected and verified by the LEED association. Project will strive to get to silver status.

*__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.*

Please describe anticipated positive environmental impacts resulting from the project:

This project is infill development which will use existing city infrastructure ie, Streets, gutters, sidewalks, sewers, water lines, alleyway, electric, gas, phone and cable utilities.
Creating more mixed use density for the downtown reduces the City's cost per capita of the maintenance and repair of these infrastructure assets.

Please describe anticipated negative environmental impacts and planned remediation efforts:

There are no apparent negative environmental impacts.

| Additional Community Benefits |
| --- |
| Describe Other Local Economic Benefits Resulting From Project:<br><br>Project continues to add critical mass to Downtown Lawrence. It will eliminate a vacant lot. Allows for more than 30 class A office spaces featuring high capacity fiber to be dedicated to entrepreneurship in the community. This facility will attract existing and new high tech personnel to live and work in Lawrence. Additionally, more living units will be available downtown thereby allowing for the long term sustainability of our central business district. The project will add 22 underground parking spaces on site. |
| Describe Other Quality of Life Benefits Resulting From Project:<br><br>Enhanced street scape on Vermont Street, adding to the overall vitality of Downtown Lawrence. The project will help promote the need for a downtown grocery store as well as the need for high speed fiber cable. Project will add ornamental street lights to Vermont Street. Project principles are long term Lawrence citizens who have contributed generously in time and work to our community. |

***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.*

| Employment Information | |
|---|---|
| **Construction Employment for New Facility or Expansion** | |
| # Full-Time, Construction Jobs: | 100 |
| Average Annual Salary for Full-Time, Construction Workers *(during construction period)*:$7,569,413 total construction cost x 60% labor cost = $4,541,647\$45,500= 99.82 full time construction jobs. | $45,500 |
| Construction Period (months): 12 months | |
| **For Expansion, # of Full-Time Employees Currently Working in Lawrence: 0** | |
| **New Employment Resulting from Project** | |

| | Year | # Jobs | Avg Annual Salary | # Jobs | Avg Annual Salary | # Jobs | Avg Annual Salary | # Jobs | Avg Annual Salary |
|---|---|---|---|---|---|---|---|---|---|
| **Net New Jobs** (full-time, permanent) | 1 | .5 | 15600 | | | | | | |
| | 2 | .5 | 15600 | | | | | | |
| | 3 | .5 | 15600 | | | | | | |
| | 4 | .5 | 16000 | | | | | | |
| | 5 | .5 | 16000 | | | | | | |
| | 6 | .5 | 16500 | | | | | | |
| | 7 | .5 | 16500 | | | | | | |
| | 8 | .5 | 16500 | | | | | | |
| | 9 | .5 | 17000 | | | | | | |
| | 10 | .5 | 17000 | | | | | | |
| | **Total** | .5 | 17000 | | | | | | |

| **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: | N/A |
| # of Net New Full-Time Employees Anticipated to be Relocated from Outside of Lawrence/Douglas County: | N/A |
| **# of Local, Full-Time Jobs Anticipated At End of Incentives Period: .5** | |

*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 | 0 |
| % of Health Care Premium Covered by Company | 0 |
| % of Employees with Company Provided Retirement Program | 0 |
| Will You Provide Job Training for Employees? *(Y/N)* | N/A |
| *If Yes, Please Describe:* | |
| What is the Lowest Hourly Wage Offered to New Employees? | $15.00 |
| What Percentage of Your New Employees Will Receive this Wage? | 100 |
| Will You Provide Additional Benefits to Employees? *(Y/N)* | No |

*If Yes, Please Describe:*

**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:

The proposed project site, being the result of a devastating fire in 1990, leaves the site incompatible with the existing commercial district. The current state renders the site useless and contributes to the overall deterioration of the economic neighborhood thereby substantially impairing the sound growth of the municipality and creating an economic detriment to the public.

(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:

This project is located in Downtown Lawrence next to a building listed on the Federal Historic Register. The original buildings, the Lawrence House Hotel and the Miller Print Shop, were lost to a fire on December 24, 1990, thereby leaving this lot vacant and non-productive. Since the fire, this area has lost much vitality. Building on this vacant lot will greatly help to revive this part of our downtown and add definition to the long term sustainability of our downtown.

| Disclosures |
|---|
| Company Form of Organization: L.L.C. |
| 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.<br><br>Company Principals:<br>Robert J. Schumm<br>Sandra J. Schumm |
| List all subsidiaries or affiliates and details of ownership: |
| Subsidiary : N/A |
| |
| |
| Principals: Robert J. Schumm |
| Sandra J. Schumm |
| |

| | |
|---|---|
| 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? | Yes |
| Has the Company, developer or any affiliated party had judgments recorded against them? | No |

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

City Commission 1990 – Rezoning case filed by developer J.V.J. of Cleveland, OH. for a cornfield mall. Case decided in favor of defendants in both State and Federal court. The City won big time!

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

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: Robert J Schumm
*(Please Print)*

Signature: Robert J Schumm Date: 6-28-2017

Sandra J. Schumm

June 27, 2017

Mr. Robert Schumm
719 Massachusetts Street
Lawrence, KS 66047

RE: Vermont Place, 815 Vermont Street, Lawrence, Kansas

Dear Mr. Schumm:

RCB Bank is interested in providing financing for Vermont Place at 815 Vermont Street. This is not a commitment to lend nor a promise to set an interest rate. It is a discussion using interest rates and terms that RCB Bank has provided on similar projects in Kansas and Oklahoma. A project cost of $8,750,000.00 is anticipated with an eighteen month construction phase and debt financing of $3,750,000.00.

A large construction project would be priced at Wall Street Journal Prime Rate plus .75% fixed for 18 months with an origination fee of $18,750.00 and a document fee of $295.00. An owner's title insurance policy for $8,750,000.00 of coverage; a mortgagee title insurance policy for $3,750,000.00, recording fees, mortgage registration tax and closing fees would be approximately $18,000.00.

When the project is complete, the construction loan will be refinanced by a long term loan to amortize over 25 years at a variable rate. The rate would be Wall Street Journal Prime Rate plus .75% and adjust every 5 years at .75% above the index rate.

Please contact me if you have any questions or need additional information.

Sincerely,

Chris L. Kollman

Chris L. Kollman
Market President
RCB Bank
1201 Wakarusa Drive, Ste, B2
Lawrence, KS 66049

## Addendum B: Staff Memo on Project NRA Eligibility

# Memorandum
# City of Lawrence
# City Attorney's Office

TO: City Commission
FROM: Toni R. Wheeler, City Attorney trw
C: Thomas M. Markus, City Manager
Diane Stoddard, Assistant City Manager
Britt Crum-Cano, Economic Development Coordinator
DATE: July 27, 2016
RE: Schumm Property Company's Application and Eligibility for Neighborhood Revitalization Act (NRA) Incentive

The City Commission requested our office provide an opinion on whether the application submitted by Robert and Sandra Schumm and Schumm Property Company is eligible for Neighborhood Revitalization Act (NRA) tax rebates under state law. We conclude the proposed project satisfies at least one of the conditions described in subsection (c) of K.S.A. 12-17,115, and amendments thereto. Provided the Governing Body finds the condition exists and that rehabilitation or redevelopment of the area is necessary to protect the public health, safety, or welfare of Lawrence residents, then the project will be eligible for the NRA incentive.

Brief Background of Neighborhood Revitalization Act (NRA)
The Kansas Legislature enacted the NRA in 1994. Its purpose is to improve blighted areas in municipalities by incentivizing property owners to improve their properties through the use of property tax rebates. Under the law, a municipality is authorized to designate an area as a neighborhood revitalization area and develop a corresponding revitalization plan for the area. A special fund is established and all or a portion of the increment in the ad valorem property taxes resulting from the taxpayer's improvements to his or her property in the designated area is credited to the fund. The tax increment (or percentage approved by the governing body) is returned to the taxpayer in the form of a rebate.

Neighborhood Revitalization Area Defined
The Act defines a neighborhood revitalization area as follows:

> "'Neighborhood revitalization area' means:
>
> (1) 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

1

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 substandard 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 or 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."

K.S.A. 12-17,115(c).

The proposed NRA area will comprise a single lot near the middle of the 800 block of Vermont Street. The land has been vacant since a 1990 fire destroyed an historic structure on the lot. A hair salon, bakery, restaurant, and extended stay hotel are located north of the subject lot; to its south is an office building that contains a law office, dental office, and an optometrist's office. The City's Carnegie Library is located on the south end of the block. A map is attached for your reference.

The vacant lot that is the subject of the Schumms' application meets the "incompatible land use relationships" condition identified in K.S.A. 12-17,115(c)(2). The subject lot is located amid an otherwise thriving commercial area, but has remained undeveloped and virtually useless for many years. As a vacant lot, the subject lot is incompatible with other land uses on the block and the commercial uses along Massachusetts Street. Since the area meets at least one of the conditions listed in the statute, it can be designated as a revitalization area if the governing body makes the necessary finding that the rehabilitation of the area is necessary to protect the welfare of the Lawrence residents.

Please let me know if you need additional information.


815 Vermont Neighborhood Revitalization Area

0 200 400 Feet

City of Lawrence

## Addendum C: CBA Model Results

## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for Sales Tax Exemption

**Project Summary**

| | | |
|---|---|---|
| Capital Investment in Plant: | $8,973,522 | |
| Annual Local Expenditures by Firm: | $424,836 | |
| Retained Jobs (part-time): | 0.5 | Model does not consider impact of part-time jobs |
| Average Wage per Retained Job (part-time): | n/a | Model does not consider impact of part-time jobs |
| Indirect Jobs Created: | 0 | |
| Economic Value per Indirect Job: | $0 | |
| Total New Households: | - | |
| Discount Rate: | 5.75% | |
| Cost and Revenue Escalation: | 1.50% | |
| Number of Years Evaluated: | 15 | |

**Incentives**

| | | |
|---|---|---|
| IRB Offered | Y | |
| Value of IRB Construction Sales Tax: | $283,621 | Does not include County Other sales tax ($2,107) |
| 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 | $1,019,888 | |
| **Value of All Incentives Offered:** | **$1,303,508** | |
| Value of All Incentives per Job per Year: | n/a | Model does not consider impact of part-time jobs |
| Value of Incentives in Hourly Pay: | n/a | Model does not consider impact of part-time jobs |
| Value of Incentives per Dollar Invested: | $0.15 | |

**Summary of Results**

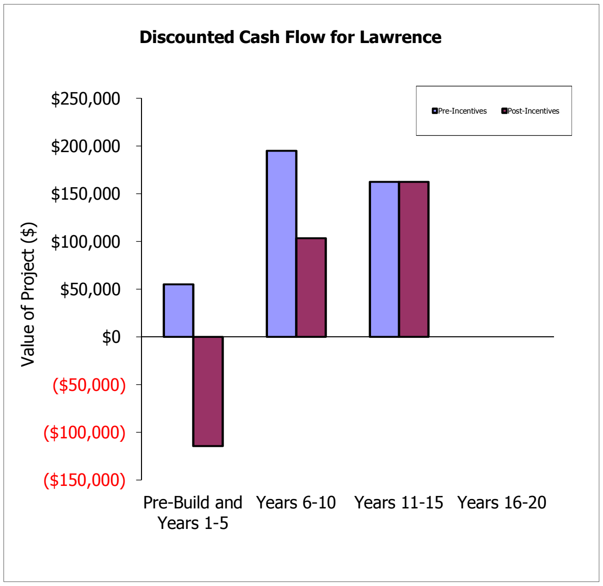
| **Returns for Jurisdictions** | **Lawrence** | **Douglas County** | **USD 497** | **State of Kansas** |
|---|---|---|---|---|
| Revenues | $923,244 | $952,179 | $1,109,765 | $573,064 |
| Costs | $195,253 | $126,721 | $0 | $0 |
| *Revenue Stream, Pre-Incentives* | *$727,991* | *$825,457* | *$1,109,765* | *$573,064* |
| Value of Incentives Offered | $335,476 | $381,489 | $381,325 | $205,219 |
| **Revenue Stream with Incentives** | **$392,515** | **$443,969** | **$728,440** | **$367,845** |

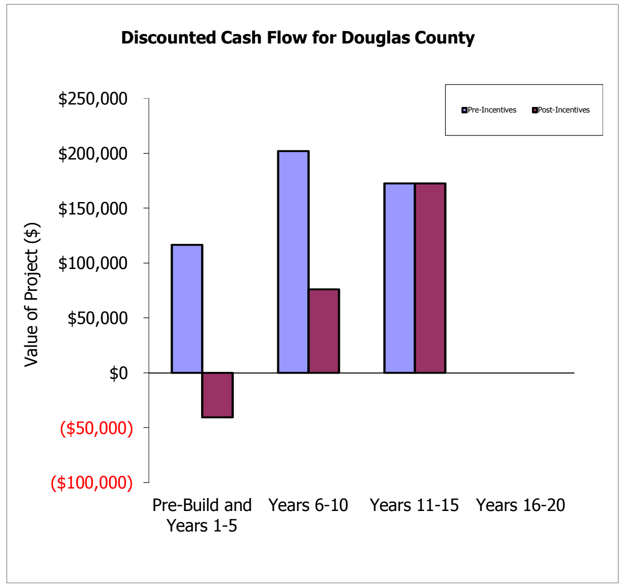
| **Returns for Jurisdictions, Discounted** | **Lawrence** | **Douglas County** | **USD 497** | **State of Kansas** |
|---|---|---|---|---|
| Discount Rate | 5.75% | | | |
| Discounted Cash Flow, Without Incentives | $412,304 | $491,202 | $711,888 | $371,196 |
| *Benefit/Cost Ratio, Without Incentives* | *3.23* | *5.10* | *n/a* | *n/a* |
| Discounted Cash Flow, With Incentives | $151,408 | $208,041 | $431,270 | $177,137 |
| **Benefit/Cost Ratio, With Incentives** | **1.82** | **2.74** | **n/a** | **n/a** |

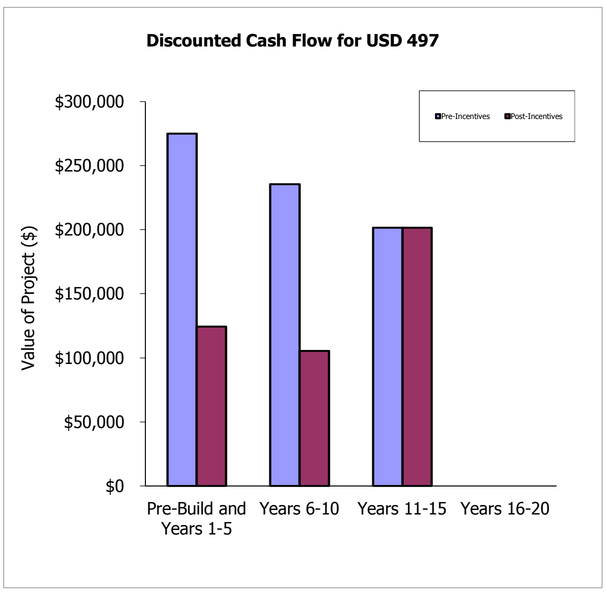
# Cost-Benefit Model Results: Vermont Place project

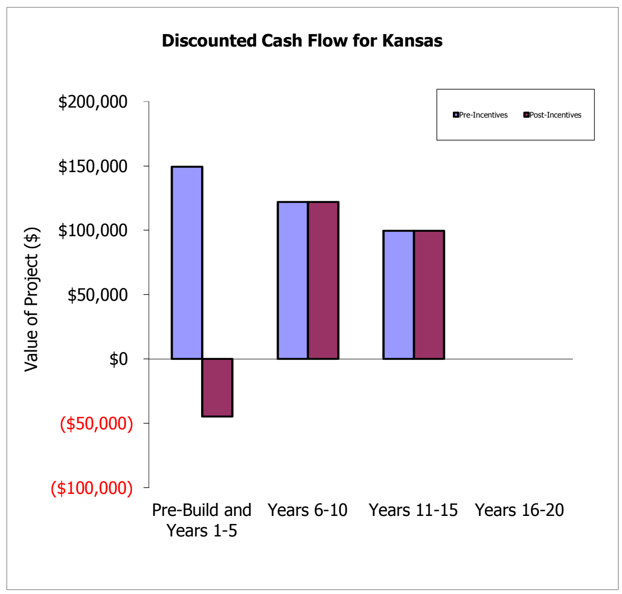
Scenario: 75%, 10-Year NRA Rebate, IRB for Sales Tax Exemption

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



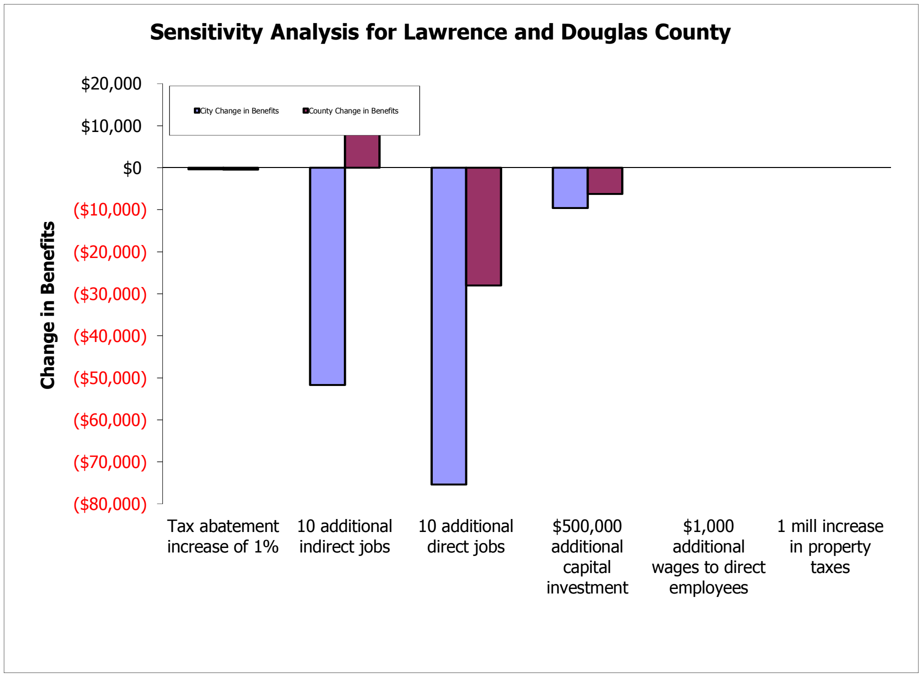




 *6/29/2017*

## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for Sales Tax Exemption

**Sensitivity Analysis**



## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for 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 | $54,196 | ($195,253) | ($90,659) | ($231,717) | ($231,717) |
| 2 | $55,383 | $0 | ($24,448) | $30,935 | ($200,782) |
| 3 | $56,598 | $0 | ($25,097) | $31,500 | ($169,282) |
| 4 | $57,840 | $0 | ($25,762) | $32,077 | ($137,204) |
| 5 | $59,111 | $0 | ($26,444) | $32,666 | ($104,538) |
| 6 | $60,410 | $0 | ($27,144) | $33,267 | ($71,271) |
| 7 | $59,514 | $0 | ($27,860) | $31,654 | ($39,617) |
| 8 | $60,087 | $0 | ($28,594) | $31,493 | ($8,124) |
| 9 | $61,433 | $0 | ($29,347) | $32,086 | $23,962 |
| 10 | $62,811 | $0 | ($30,119) | $32,692 | $56,654 |
| 11 | $64,220 | $0 | $0 | $64,220 | $120,874 |
| 12 | $65,662 | $0 | $0 | $65,662 | $186,536 |
| 13 | $67,138 | $0 | $0 | $67,138 | $253,674 |
| 14 | $68,648 | $0 | $0 | $68,648 | $322,322 |
| 15 | $70,193 | $0 | $0 | $70,193 | $392,515 |
| 16 | $0 | $0 | $0 | $0 | $392,515 |
| 17 | $0 | $0 | $0 | $0 | $392,515 |
| 18 | $0 | $0 | $0 | $0 | $392,515 |
| 19 | $0 | $0 | $0 | $0 | $392,515 |
| 20 | $0 | $0 | $0 | $0 | $392,515 |

| **Douglas County: Annual Results** (not discounted) | | | | | |
|---|---|---|---|---|---|
| **Year** | **Revenues** | **Costs** | **Incentives** | **Net** | **Cumulative** |
| Pre-Operation | $0 | $0 | $0 | $0 | $0 |
| 1 | $53,216 | ($126,721) | ($44,352) | ($117,858) | ($117,858) |
| 2 | $54,530 | $0 | ($33,667) | $20,863 | ($96,995) |
| 3 | $55,877 | $0 | ($34,561) | $21,315 | ($75,680) |
| 4 | $57,256 | $0 | ($35,478) | $21,779 | ($53,901) |
| 5 | $58,671 | $0 | ($36,417) | $22,254 | ($31,647) |
| 6 | $60,120 | $0 | ($37,379) | $22,740 | ($8,907) |
| 7 | $61,604 | $0 | ($38,366) | $23,238 | $14,332 |
| 8 | $63,126 | $0 | ($39,377) | $23,749 | $38,081 |
| 9 | $64,686 | $0 | ($40,414) | $24,272 | $62,352 |
| 10 | $66,284 | $0 | ($41,477) | $24,807 | $87,159 |
| 11 | $67,921 | $0 | $0 | $67,921 | $155,080 |
| 12 | $69,599 | $0 | $0 | $69,599 | $224,680 |
| 13 | $71,319 | $0 | $0 | $71,319 | $295,999 |
| 14 | $73,082 | $0 | $0 | $73,082 | $369,081 |
| 15 | $74,888 | $0 | $0 | $74,888 | $443,969 |
| 16 | $0 | $0 | $0 | $0 | $443,969 |
| 17 | $0 | $0 | $0 | $0 | $443,969 |
| 18 | $0 | $0 | $0 | $0 | $443,969 |
| 19 | $0 | $0 | $0 | $0 | $443,969 |
| 20 | $0 | $0 | $0 | $0 | $443,969 |

## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for 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 | $61,851 | $0 | ($33,805) | $28,046 | $28,046 |
| 2 | $63,403 | $0 | ($34,704) | $28,698 | $56,744 |
| 3 | $64,993 | $0 | ($35,626) | $29,368 | $86,112 |
| 4 | $66,624 | $0 | ($36,570) | $30,054 | $116,165 |
| 5 | $68,295 | $0 | ($37,538) | $30,757 | $146,922 |
| 6 | $70,008 | $0 | ($38,531) | $31,478 | $178,400 |
| 7 | $71,764 | $0 | ($39,548) | $32,216 | $210,616 |
| 8 | $73,564 | $0 | ($40,590) | $32,974 | $243,590 |
| 9 | $75,408 | $0 | ($41,659) | $33,750 | $277,339 |
| 10 | $77,299 | $0 | ($42,754) | $34,545 | $311,885 |
| 11 | $79,237 | $0 | $0 | $79,237 | $391,122 |
| 12 | $81,224 | $0 | $0 | $81,224 | $472,346 |
| 13 | $83,260 | $0 | $0 | $83,260 | $555,606 |
| 14 | $85,347 | $0 | $0 | $85,347 | $640,953 |
| 15 | $87,487 | $0 | $0 | $87,487 | $728,440 |
| 16 | $0 | $0 | $0 | $0 | $728,440 |
| 17 | $0 | $0 | $0 | $0 | $728,440 |
| 18 | $0 | $0 | $0 | $0 | $728,440 |
| 19 | $0 | $0 | $0 | $0 | $728,440 |
| 20 | $0 | $0 | $0 | $0 | $728,440 |

| **State of Kansas: Annual Results** (not discounted) | | | | | |
|---|---|---|---|---|---|
| **Year** | **Revenues** | **Costs** | **Incentives** | **Net** | **Cumulative** |
| Pre-Operation | $0 | $0 | $0 | $0 | $0 |
| 1 | $34,221 | $0 | ($205,219) | ($170,998) | ($170,998) |
| 2 | $34,751 | $0 | $0 | $34,751 | ($136,247) |
| 3 | $35,291 | $0 | $0 | $35,291 | ($100,956) |
| 4 | $35,838 | $0 | $0 | $35,838 | ($65,118) |
| 5 | $36,395 | $0 | $0 | $36,395 | ($28,723) |
| 6 | $36,960 | $0 | $0 | $36,960 | $8,238 |
| 7 | $37,534 | $0 | $0 | $37,534 | $45,772 |
| 8 | $38,118 | $0 | $0 | $38,118 | $83,890 |
| 9 | $38,710 | $0 | $0 | $38,710 | $122,600 |
| 10 | $39,312 | $0 | $0 | $39,312 | $161,913 |
| 11 | $39,924 | $0 | $0 | $39,924 | $201,837 |
| 12 | $40,545 | $0 | $0 | $40,545 | $242,382 |
| 13 | $41,176 | $0 | $0 | $41,176 | $283,558 |
| 14 | $41,818 | $0 | $0 | $41,818 | $325,376 |
| 15 | $42,469 | $0 | $0 | $42,469 | $367,845 |
| 16 | $0 | $0 | $0 | $0 | $367,845 |
| 17 | $0 | $0 | $0 | $0 | $367,845 |
| 18 | $0 | $0 | $0 | $0 | $367,845 |
| 19 | $0 | $0 | $0 | $0 | $367,845 |
| 20 | $0 | $0 | $0 | $0 | $367,845 |

## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for 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 | $51,249 | ($184,636) | ($85,730) | ($219,117) | ($219,117) |
| 2 | $49,524 | $0 | ($21,861) | $27,662 | ($191,455) |
| 3 | $47,858 | $0 | ($21,222) | $26,636 | ($164,819) |
| 4 | $46,248 | $0 | ($20,600) | $25,649 | ($139,170) |
| 5 | $44,694 | $0 | ($19,995) | $24,699 | ($114,470) |
| 6 | $43,193 | $0 | ($19,408) | $23,786 | ($90,685) |
| 7 | $40,238 | $0 | ($18,837) | $21,402 | ($69,283) |
| 8 | $38,417 | $0 | ($18,282) | $20,135 | ($49,148) |
| 9 | $37,142 | $0 | ($17,743) | $19,399 | ($29,749) |
| 10 | $35,909 | $0 | ($17,219) | $18,690 | ($11,059) |
| 11 | $34,719 | $0 | $0 | $34,719 | $23,660 |
| 12 | $33,568 | $0 | $0 | $33,568 | $57,228 |
| 13 | $32,456 | $0 | $0 | $32,456 | $89,684 |
| 14 | $31,381 | $0 | $0 | $31,381 | $121,065 |
| 15 | $30,343 | $0 | $0 | $30,343 | $151,408 |
| 16 | $0 | $0 | $0 | $0 | $151,408 |
| 17 | $0 | $0 | $0 | $0 | $151,408 |
| 18 | $0 | $0 | $0 | $0 | $151,408 |
| 19 | $0 | $0 | $0 | $0 | $151,408 |
| 20 | $0 | $0 | $0 | $0 | $151,408 |

| **Douglas County: Annual Results** *(* discounted) | | | | | |
|---|---|---|---|---|---|
| **Year** | **Revenues** | **Costs** | **Incentives** | **Net** | **Cumulative** |
| Pre-Operation | $0 | $0 | $0 | $0 | $0 |
| 1 | $50,322 | ($119,831) | ($41,941) | ($111,449) | ($111,449) |
| 2 | $48,761 | $0 | ($30,105) | $18,655 | ($92,793) |
| 3 | $47,248 | $0 | ($29,224) | $18,024 | ($74,770) |
| 4 | $45,782 | $0 | ($28,368) | $17,414 | ($57,355) |
| 5 | $44,362 | $0 | ($27,535) | $16,826 | ($40,529) |
| 6 | $42,985 | $0 | ($26,726) | $16,259 | ($24,270) |
| 7 | $41,652 | $0 | ($25,940) | $15,712 | ($8,558) |
| 8 | $40,360 | $0 | ($25,176) | $15,184 | $6,626 |
| 9 | $39,108 | $0 | ($24,434) | $14,674 | $21,300 |
| 10 | $37,895 | $0 | ($23,713) | $14,182 | $35,483 |
| 11 | $36,720 | $0 | $0 | $36,720 | $72,202 |
| 12 | $35,581 | $0 | $0 | $35,581 | $107,783 |
| 13 | $34,477 | $0 | $0 | $34,477 | $142,260 |
| 14 | $33,408 | $0 | $0 | $33,408 | $175,669 |
| 15 | $32,372 | $0 | $0 | $32,372 | $208,041 |
| 16 | $0 | $0 | $0 | $0 | $208,041 |
| 17 | $0 | $0 | $0 | $0 | $208,041 |
| 18 | $0 | $0 | $0 | $0 | $208,041 |
| 19 | $0 | $0 | $0 | $0 | $208,041 |
| 20 | $0 | $0 | $0 | $0 | $208,041 |

## Cost-Benefit Model Results: Vermont Place project

Scenario: 75%, 10-Year NRA Rebate, IRB for 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 | $58,488 | $0 | ($31,967) | $26,520 | $26,520 |
| 2 | $56,695 | $0 | ($31,033) | $25,662 | $52,183 |
| 3 | $54,957 | $0 | ($30,124) | $24,833 | $77,015 |
| 4 | $53,272 | $0 | ($29,241) | $24,031 | $101,046 |
| 5 | $51,639 | $0 | ($28,383) | $23,256 | $124,302 |
| 6 | $50,056 | $0 | ($27,549) | $22,506 | $146,808 |
| 7 | $48,521 | $0 | ($26,739) | $21,782 | $168,590 |
| 8 | $47,033 | $0 | ($25,951) | $21,082 | $189,672 |
| 9 | $45,591 | $0 | ($25,186) | $20,405 | $210,076 |
| 10 | $44,193 | $0 | ($24,443) | $19,750 | $229,826 |
| 11 | $42,837 | $0 | $0 | $42,837 | $272,663 |
| 12 | $41,523 | $0 | $0 | $41,523 | $314,187 |
| 13 | $40,250 | $0 | $0 | $40,250 | $354,437 |
| 14 | $39,015 | $0 | $0 | $39,015 | $393,452 |
| 15 | $37,818 | $0 | $0 | $37,818 | $431,270 |
| 16 | $0 | $0 | $0 | $0 | $431,270 |
| 17 | $0 | $0 | $0 | $0 | $431,270 |
| 18 | $0 | $0 | $0 | $0 | $431,270 |
| 19 | $0 | $0 | $0 | $0 | $431,270 |
| 20 | $0 | $0 | $0 | $0 | $431,270 |

**State of Kansas: Annual Results** (discounted)

| Year | Revenues | Costs | Incentives | Net | Cumulative |
|---|---|---|---|---|---|
| Pre-Operation | $0 | $0 | $0 | $0 | $0 |
| 1 | $32,360 | $0 | ($194,059) | ($161,700) | ($161,700) |
| 2 | $31,075 | $0 | $0 | $31,075 | ($130,625) |
| 3 | $29,841 | $0 | $0 | $29,841 | ($100,784) |
| 4 | $28,656 | $0 | $0 | $28,656 | ($72,128) |
| 5 | $27,519 | $0 | $0 | $27,519 | ($44,609) |
| 6 | $26,426 | $0 | $0 | $26,426 | ($18,182) |
| 7 | $25,378 | $0 | $0 | $25,378 | $7,195 |
| 8 | $24,371 | $0 | $0 | $24,371 | $31,566 |
| 9 | $23,404 | $0 | $0 | $23,404 | $54,970 |
| 10 | $22,475 | $0 | $0 | $22,475 | $77,445 |
| 11 | $21,584 | $0 | $0 | $21,584 | $99,029 |
| 12 | $20,728 | $0 | $0 | $20,728 | $119,756 |
| 13 | $19,906 | $0 | $0 | $19,906 | $139,662 |
| 14 | $19,116 | $0 | $0 | $19,116 | $158,778 |
| 15 | $18,358 | $0 | $0 | $18,358 | $177,137 |
| 16 | $0 | $0 | $0 | $0 | $177,137 |
| 17 | $0 | $0 | $0 | $0 | $177,137 |
| 18 | $0 | $0 | $0 | $0 | $177,137 |
| 19 | $0 | $0 | $0 | $0 | $177,137 |
| 20 | $0 | $0 | $0 | $0 | $177,137 |

## Addendum D: Gap Analysis (NDC)

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

MEMORANDUM

Date: June 28, 2017

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

From: Tom Jackson, Senior Director, National Development Council

RE: Updated and Revised Gap Financing Analysis for Proposed Mixed-Use Development at 815 Vermont Street

The National Development Council (NDC), in a memorandum dated October 3, 2016, provided an analysis of the reasonableness of development incentives requested by the Schumm Property Company, LLC (hereinafter, the "Developer") for the development of a mixed-use project at 815 Vermont Street (the "Project"). This memorandum reviews an update to that analysis based on modifications to the Project's financials and the Developer's request, as follows:

- The project's hard constructions costs were adjusted upward by 5.05% over 2016 estimates given industry trends through the first quarter of 2017.
- Projected rents and operating expenses were raised by 3% consistent with the annual escalators projected in the initial analysis.
- Condominium sale prices, residential valuations and commercial valuations were increased by 2% over 2016 projections based on the trends identified by the Douglas County Assessor's office.
- Interest rate projections for initial financing and refinancing were adjusted upward given recent rate increases approved by the Federal Reserve and anticipated future adjustments.
- Projected bank underwriting for minimum debt coverage ratio was lowered to 1.20 to 1.00 given continued strengthening in the Lawrence real estate market.
- Property and sales tax burdens and rebate amounts were adjusted to reflect current levies and rates and adjusted project costs.
- Property taxes available for the NRA rebate were reduced given the State of Kansas's exemption (under Senate Bill 19) of school district capital levies from local government NRA, TIF and abatement incentives for incentives where public hearings weren't conducted before May 1, 2017.
- The Developer has not requested Neighborhood Revitalization Area (NRA) benefits associated with the condominium he intends to purchase for personal use.

NDC has analyzed a request by the Developer for a 75% Neighborhood Revitalization Area (NRA) property tax rebate and approval of Industrial Revenue Bond (IRB) financing during construction to provide a sales tax exemption for the development of the Project. The Project will redevelop two vacant parcels of land owned by the Developer into a five-story mixed-use building that will include:

- One level of underground parking with 22 spaces
- A first floor designed for retail, restaurant and commercial uses with 7,788 square feet of leasable space
- A second floor with 6,504 square feet of leasable space that will be divided into approximately 30 individual offices of 150-300 square feet each.
- Three floors (#3, #4 and #5) of for-sale residential condominiums totaling 12 units
    - The unit mix is currently configured as:
        - One Bedroom – 3 units
        - Two Bedroom – 8 units
        - Three Bedroom – 1 unit
    - A 600 square foot, one-bedroom unit on the 3rd floor will be fully finished and its sale will be restricted to income-qualified households.
    - The remaining 11 units will vary in size from 739 to 2,845 square feet and will be sold partially finished. Final finishes will be the responsibility of the condominium buyers and are estimated for the purposes of this analysis at $102 per square foot (adjusted from $100 per square foot in the initial review).

NDC has had extensive discussions regarding the Project with the Developer since the City received the original request for assistance in the fall of 2016. The Developer has supported its assumptions and projections on the Project's original and adjusted development costs, condominium sales proceeds and operating 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 its request for NRA and IRB incentive financing and NDC's analysis of the request:

- A Development Budget based on:
    - Architectural designs by Hernly Associates of Lawrence. The designs are characterized by the Developer as having progressed through the schematic

stage and ready to move into the design-development and construction documents stages.

- Multiple preliminary construction estimates, based on the schematic designs and prepared and updated by:
  - First Construction LLC of Lawrence
  - RF Benchmark Construction of Eudora and Manhattan, Kansas
  - B. A. Green Construction of Lawrence
- Bid comparisons compiled by the Developer
- Soft cost estimates completed by the Developer and supported with average cost documentation from the Developer and Project design team.

- Proforma statements of annual operating revenues and expenses (the Proforma) that were supported by:
  - Rent and vacancy surveys of the Lawrence market prepared by Collier's International (2016 and 2017 Lawrence Market Snapshots)
  - Rent rolls and associated lease rates for the Developer's existing multiple tenant, small office space on Massachusetts Street.
  - Developer estimates of Common Area Maintenance (CAM) expenses by floor
  - Absorption and associated vacancy rates provided by the Developer as refined through requests from NDC.
  - Property tax estimates prepared by the Developer as advised by the County Appraiser's office.
- Projected gross and net condominium sales proceeds and a three-year sales schedule prepared by the Developer and refined during the course of the review given design changes and additional documentation on sales in the Lawrence market, comparisons of amenities and broker opinions.
- A letter of interest with preliminary terms for commercial financing from RCB Bank in Lawrence dated June 27, 2017. This updated analysis projects that the minimum Debt Coverage Ratio has improved (fallen) since the initial review while lending rates have risen.
- Project narratives from the Developer describing the development team and the Project's components and benefits.

Documentation that has not yet been available for review includes:

- A detailed appraisal report (FIRREA-compliant) that provides:
    - A third party opinion on the Fair Market Value of the proposed Project
    - Verification of estimates of revenues, expenses and vacancy rates for the retail and commercial space
    - Verification of residential condominium sale prices per square foot and likely absorption rates.
- A final commitment letter and term sheet from the Project's senior lender.

NDC's analysis of the Project's proposed financing sources and uses, projected net operating revenue, net condominium sales proceeds, property appreciation and associated returns on invested equity suggests that a NRA rebate of 75% of available property tax increment over 10 years, combined with an IRB sales tax exemption on eligible project costs is reasonable. As noted above, the Developer has modified its request to eliminate NRA rebate incentives associated with the residential condominium Mr. Schumm expects to purchase.

The reasonableness of the requests has been evaluated given the following:

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

| | Amount | % of Total |
|---|---:|---:|
| **Total Project Costs** | **$9,675,629** | **100.00%** |
| | | |
| **Project Sources** | | |
| Projected Bank Loan | $3,404,489 | 35.19% |
| Net Condominium Sales Proceeds | $3,688,600 | 38.12% |
| Required from Developer | $2,582,540 | 26.69% |
| **Total Sources** | **$9,675,629** | **100.00%** |

2) The estimated permanent bank debt projected by the Developer, $3,404,489, exceeds NDC's projection of debt capacity by $303,170 given the Developer's estimate of operating revenues and expenses and underwriting criteria (1.20 Debt Coverage Ratio (DCR), 80% Loan To Value (LTV) ratio) proposed by the prospective lender's preliminary term sheet and adjusted by NDC for a more favorable DCR.

a. The interest rates modeled in NDC's analysis start with an adjusted rate of 4.75% and increase to 6.25% given a projected refinance of the outstanding principal at the end of Year 5 of operations.
b. The maximum projected loan amount is also influenced by the capitalization rate. This rate has been identified by area appraisers for other observed sales and for proposed projects in the 7.0-7.77% range, depending on their location, proposed uses, and other factors. NDC's analysis projects a capitalization rate of 7.0%, at the lower end of this range given the Project's favorable location. The final capitalization rate will be determined by the appraisal report.
c. Pending completion of the appraisal report, the Developer has done a thorough job of documenting prevailing lease rates in the Lawrence market and associated Project revenues and expenses. The projected rents for the first and second floors of the project appear to be in the upper range for similar space in Downtown Lawrence.

3) The anticipated presales and sales of the 12 residential condominiums provide $3,688,600 in financing that reduce debt, equity and gap financing requirements.
   a. The unfinished market rate condominiums are projected to sell for $229.50 per square foot.
   b. The finished, affordable unit is projected to sell for approximately $161.50 per square foot for a total price of $96,900. The provision of the affordable unit reduces the Developer's sales proceeds, net of realtor/broker charges, by an estimated $38,352 and the estimated finishing costs of $102 per square foot brings the total additional cost of the unit to $99,552. The prorated value of the parking space assigned to the unit, $54,340, increases the total subsidy to $153,892.
   c. The appraisal report ordered by the Project's senior lender will verify or advise adjustments to net condominium sales proceeds.

4) The Developer, using construction estimates provided by the three firms identified above, originally estimated the incremental cost of the underground parking at $1,138,020. Given the 5.05% inflation factor used for this updated review, the estimated cost of this feature rises to $1,195,490. While the Developer has noted that few developments in the area provide underground parking, the appraisal report should address how this amenity may positively impact the Project's commercial lease rates and condominium sale prices.

5) The NRA incentive, according to an opinion issued by the Attorney General of Kansas, is only payable to the owner of the property that is responsible for the taxes. With the sale of each condominium, the ownership of the unit would pass from the Developer to the buyer. The

Developer has indicated that it will require the assignment of any NRA rebate for each condo unit back to the Developer as part of its sales agreements.

a. The market rate residential condos will be sold without final finishes, and the Developer estimates that finishing costs will average $100 to $200 per square foot. NDC's analysis added an additional $1.70 million, or $102 per square foot, in appraised residential value to the sales prices for the units that are not restricted for affordability to determine the valuation for property tax estimates.
b. Returns to the Developer associated with this 75% NRA rebate are outlined below. If the Developer is not able to take an assignment of the residential condominium property tax rebates, the estimated rebate in Year 1 would drop by over 50% from $96,674 to $44,806. Given this reduction, the returns on invested equity outlined in the following section, would drop dramatically.

6) The Developer's commitment of an equity contribution of $2,582,540 was based on the difference between projected project costs and the combination of projected bank financing and net sales proceeds.
   a. Given a 10-year rebate of 75% of the available increment in the completed Project's property taxes, excluding the Developer's unit; an IRB exemption of sales taxes on eligible construction costs; after-tax cash flows on the current projection of revenues and expenses; and, estimated net sales proceeds at the end of the 20$^{th}$ year of operations, the Developer's Internal Rate of Return (IRR) on invested equity is estimated at 7.43%.
      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 an 8.0% to 10% IRR would be an appropriate range for investments in and near the Massachusetts Street business district. The projected return of 7.43% for this project falls below this range.
      ii. If the NRA incentives were reduced to 50% for ten years, the estimated IRR would decline to 6.98%. Without any level of NRA incentives, the estimated IRR would fall to 6.12%.
      iii. The discounted value of the 75% NRA incentive over 10 years, given a target IRR of 8%, is approximately $673,175. The undiscounted rebates are projected to total $1,019,888.
   b. The estimated IRB incentive totals $283,621 and reduces the need for an equal amount of additional Developer equity. Without the IRB incentive, but with a

75% NRA rebate for 10 years, the Developer's estimated IRR would decrease to 6.77%.

c. Absent both the NRA and IRB incentives, the estimated IRR would decrease to 5.58%.

7) Without the 75% NRA and IRB incentives, the Project's financing gap can be estimated by subtracting the projected net sales proceeds and its calculated debt and equity capacity from total project costs as follows:
    a. If 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 9% (the middle of the target range); then,
    c. Without the NRA incentives outlined above, the project would face an estimated financing gap of $1,065,243.
    d. If the IRB incentive is also withdrawn, the estimated financing gap would increase to $1,323,372.

**Conclusion:** The documents, discussions and responses presented by the Developer in support of its request for incentives, as outlined above, demonstrate that a 75% NRA rebate and approval of IRBs to exempt eligible sales taxes are reasonable and help to avoid financing gaps that could make the project economically unfeasible and unlikely to proceed. If the appraisal report for financing, final terms for the senior debt, updated project costs and projected net sales proceeds are substantially different from what the Developer has projected, NDC will review this evaluation as requested by the City.

## Addendum E: October 19, 2016 Technical Report