

Memorandum

City of Lawrence

City Manager's Office

TO: Tom Markus, City Manager
CC: Diane Stoddard, Assistant City Manager
Casey Toomay, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: November 7, 2017
RE: Second reading of Ordinance No. 9303, establishing a Neighborhood Revitalization Area at 800-815 Vermont Street.

*Please see **List of Attachments** at the end of this memo.*

Request Overview

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 Applicant is now proposing removal of any personal residence within the project from participating in receiving NRA rebates.

Project parameters have not changed since the original request, including those of the affordable housing unit the Applicant will provide. However, project expense and revenue assumptions have been revised to reflect current real estate market and property tax conditions.

Should this request proceed, Vermont LLC is requesting the City, Douglas County and USD 497 each participate in the NRA program. The City, County, and School District individually decide their participation in the NRA and each will conduct a public meeting to consider the request. The IRB sales tax exemption is considered only by the City. (Scheduled meetings are shown on the attached request process calendar.)

Project Overview

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

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			
<i>SF</i>	<i># Units</i>	<i># BD</i>	<i># Pkg</i>
<i>600</i>	<i>1</i>	<i>1</i>	<i>1</i>
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

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 their July 11, 2017 meeting, the City Commission referred the request and analysis to the Public Incentives Review Committee (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 was set for September 19, 2017 for the City Commission to consider the request.

PIRC reviewed the request and updated analysis at their September 14, 2017 meeting and recommended, on a vote of 7-1, assistance approval for both the IRB sales tax exemption and the 10-year, 75% NRA rebate.

At their October 3, 2017 meeting, the City Commission continued the public hearing from September 19, 2017 on the establishment of a Neighborhood Revitalization Area (NRA) at 800-815 Vermont Street for the Vermont Place project. After the public hearing, the City commission voted 3 to 2 in favor of authorizing on first reading, Ordinance 9303 establishing the revitalization area and approving the NRA plan at the 10-year, 75% rebate level, with the provision that Plan language be revised by City's legal staff to tighten the provision excluding the applicant's personal residence from NRA rebate participation. At the October 3, 2017 meeting, the City Commission also voted 3 to 2 to approve Resolution 7173 authorizing Industrial Revenue Bond (IRB) financing to access a sales tax exemption on project construction materials.

City legal staff has since revised language for the exclusion provision under Section 11 of the NRA Plan. A memo addressing the revision and a copy of the revised Plan are included in the attachments below.

At their October 9, 2017 meeting, the USD 497 School Board received the request from Vermont LLC for a 10-year, 75% Neighborhood Revitalization Area (NRA) for the Vermont Place project (800-815 Vermont Street); received PIRC's recommendation, and voted 6-1 to support USD 497 participation in the NRA at the 10-year, 75% rebate level.

At their October 11, 2017 meeting, the County Commission received the request from Vermont LLC for a 10-year, 75% Neighborhood Revitalization Area (NRA) for the Vermont Place project (800-815 Vermont Street); received PIRC's recommendation, and voted 3-0 to support County participation in the NRA at the 10-year, 75% rebate level.

The City Commission will now consider on second and final reading, Ordinance No. 9303, establishing a Neighborhood Revitalization Area at 800-815 Vermont Street. If the ordinance is approved, the Commission to also vote on authorizing the City Manager to execute a Cooperative agreement between the City, County and School District on NRA administration and authorizing the City Manager to execute a Performance agreement between the City and Applicant.

Revised Analysis

The National Development Council (NDC) has performed an updated gap analysis given the below current assumptions to determine if the project requires assistance.

815 Vermont Update Assumptions: May 31, 2017	Source	Impact
1. Escalate hard costs by 5.05%	Turner Construction - http://www.turnerconstruction.com/cost-index	· Increase project cost.
		· Increase depreciation benefit
		· Increase sales tax
2. Escalate rents and expenses by 3%	Per original analysis - year 2 – T. Jackson	· Adjusts NOI
		· Adjusts max debt given DCR and LTV
		· Adjusts cash flow to investor
3. Escalate condo sales by 2%	Average annual increase 2016-17, per B. Eldridge, Douglas Co. Assessor – 20170531	· Increase sale revenues
		· Reduce need for debt, equity and gap assistance
4. Escalate condo valuation by 2%	Per B. Eldridge, Douglas Co. Assessor – 20170531	· Increase project valuation
		· Increase property taxes
		· Increase NRA rebate amount
5. Escalate commercial valuation by 2%	Average annual increase - per B. Eldridge, Douglas Co. Assessor - 20170531	· Increase project valuation
		· Increase property taxes
		· Increase NRA rebate amount
6. Increase initial loan rate to 4.75%	Given Fed hikes to discount rate in 2017	· Downward adjustment to maximum loan amount
		· Reduces cash flow to investor
7. Increase refinance rate for Y6 to 6.25%	Given Fed hikes to discount rate in 2017 and expected future rates	· Reduces cash flow to investor
8. Decrease max DCR to 1.20 given improvement in market	T. Jackson	· Increases maximum loan amount
9. Set loan to max by DCR and LTV (T. Jackson)	T. Jackson	· Adjusts previous loan amount to reflect changes in NOI, underwriting criteria and interest rate
10. Decrease Investor Tax Rate to 28% (T. Jackson)	T. Jackson – more realistic than original 35%	· Decreases depreciation benefit
		· Increase cash flow after tax.

As per the latest report, NDC concludes:

“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.”

City Staff has completed an updated benefit-cost analysis as per NDC's updated assumptions and assuming the Applicant's personal residence will not receive NRA rebates. Benefit-cost ratios meet policy requirements for the City and County, exceeding the preferred 1.25 ratio threshold.

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

*As no new residents are anticipated to be generated from the project, the model assumes the State and School District do not have additional costs.

Staff Position on Project Reconsideration

Staff generally views the project favorably since it would support several community goals, including in-fill and density development, environmental responsibility via LEED construction, adding affordable housing stock (specifically home ownership inventory) to the community, reducing rather than adding pressure on public parking, supporting area businesses and Downtown vibrancy, and increasing the tax base (both during and after the incentive period). Further, since the initial request was presented before the current economic development policy was approved, it seems reasonable that the project be re-evaluated. In addition, shielding the owner's personal residence within the project from receiving NRA rebates addresses perceptions of undue personal enrichment.

City Commission Requested Action (NRA 2nd Reading)

Adopt Ordinance No. 9303, establishing a Neighborhood Revitalization Area at 800-815 Vermont Street on second and final reading.

Authorize the City Manager to execute a Cooperative agreement between the City, County and School District on NRA administration.

Authorize the City Manager to execute a Performance agreement between the City and Applicant.