PIRC: Sub-Committee Public Meeting
July 14, 2016
10:00 a.m.
City Commission Room, City Hall

AGENDA

1. Review and approval of draft sub-committee 6-16-16 meeting minutes.

2. Continued discussion and workshop on Economic Development policy changes.

3. Review of Sub-Committee memo.

4. Adjourn

DRAFT MINUTES: Work Session Meeting

City of Lawrence
Public Incentives Review Committee
June 16, 2016 minutes

MEMBERS PRESENT:	Aron Cromwell, Bradley Burnside, Brian Iverson And Linda Jalenak
MEMBERS ABSENT:	Jill Fincher
STAFF PRESENT:	Diane Stoddard, Britt Crum-Cano, Tom Markus
PUBLIC PRESENT:	None

Aron Cromwell called the meeting to order at approximately 9:03 a.m.

Linda Jalenak made a motion to approve minutes as drafted. Seconded by _____. Motion passed 4-0.

Aron Cromwell asked about affordable housing. Brian Iverson stated he thought the set aside percentages were way too high. There are other ways to achieve affordable housing. For example, Bob Schumm's duplex offer. This would be more economically viable for developers than a set-aside requirement for the project. He asked what the monthly rate for 2 bed unit would be that would fit definition of affordable.

Diane Stoddard mentioned that HUD has Section 8 guidelines and other programs that define affordable. The Affordable Housing Advisory Board is also talking about what is affordable and working to create a good definition that could be used within our policies.

Cromwell asked if the set aside provision passes, do we have any idea what to do with the units designated as affordable? The implementation piece needs to be addressed. Tom Markus mentioned that is why staff is suggesting developers work with a non-profit for management of those units.

Markus stated the policy would have to include the definition of affordable housing and have some metric for changing that amount annually. From his experience, an affordable housing set aside provision is not a turn off for developers. He agrees the upper limit is a bit hard and stated that the percentage should be implemented incrementally. Yesterday he had a conversation with a local developer who had no problem with the commitment to provide affordable housing. However, they want to manage those units themselves. This may be an odd requirement for smaller developers, but for larger developers, it won't be a big challenge. The community has a group that regularly is against incentives. Incentive require a public benefit. Typically, it has been employment, tax base growth, downtown parking.

Markus mentioned that from his experience, developers would be ok with the set aside, but 35% is a bit aggressive. 10% shouldn't hurt anyone. The approach suggested by Schumm for accommodating affordable housing in separate duplex unit conveyed a lack of understanding of what the policy is trying to accomplish. That could have been interpreted many ways, including he didn't want affordable housing in his building. The affordable housing set aside provision will disburse the units throughout the community. It is a challenge to disburse affordable housing. When you integrated affordable housing units in a mixed-use building, there is not stigma associated with that family. However, if you put affordable housing in one area, that creates a stigma. The set-aside provision is a means to disburse affordable. Going back to numbers, 35% is too aggressive.

Brad Burnside asked what the rents were at the Poehler building: $540-900. Cromwell mentioned that project was a bit different as they used tax credits to make the project financially feasible. That type of development is a whole different way of doing things.

Markus mentioned the idea of having a non-profit managing the affordable units, is that they have the necessary skill set. However, some developers in the region are also very skilled.

Markus mentioned another challenge for affordable housing is the expiration of those units when incentives expire.

Iverson suggested if four units is the right place to start requiring affordable housing. Jalenak said no. Cromwell state that projects with 10 units and under should be exempt from the requirement. Jalenak agreed. Cromwell stated that it is not clear in the policy what the set aside is when you have a small number of units. Language should be tweak to round up or down. Developers need to know what is affordable housing and its parameters.

Markus mentioned that the gap is why the incentive is needed and as the public purpose grows, the gap grows. The incentive needs to expand to accommodate. Maybe 50% cap is not a workable number, especially if you expand public purpose.

Cromwell mentioned he thought there would be push back from developers on 50% cap regardless. Some type of additional incentives need to exist for accommodating affordable housing. Stoddard stated that policy should have a definition and tie it to a federal standard. It could be reported annually similarly to what the City does with the wage floor.

Iverson asked if the need has been defined? Markus mentioned that Justice Matters number took all the people on their wait list on available units and related that to assumptions related to cost/sf. That is the information out there. That is how they came up with their ask for $3M/year. When staff met with Fred Bentley (Kansas Housing Authority) he provided a model that is best used by small communities. Cromwell state that in a college town, if you build it they will rent it. That demand squeezes the supply of affordable units. Markus mentioned that metrics are all over the place and there is not a great formula, but in early years, you won't have risk of overbuilding affordable housing units..

Iverson asked what the inventory of affordable unit is? Markus mentioned the City can get you the #s that meet definition.

Iverson asked if the City was contemplating having an additional incentive on top of what they currently provide? Markus stated there would be no addition, but rather provide flexibility on the 50% cap. Projects go through a gap analysis, which looks at expenses, revenues, investment equity, and then determines rates of return. If ROI is not enough, the project won't proceed. It is really running a financial pro forma.

Iverson asked if the amount of incentive would no longer be tied to the cost of public infrastructure. Markus stated that project negotiations occur and then it's a matter of the amount of risk developer is willing to take. Burnside asked Markus if in his experience, has there been agreement between public entities and developer on level of risk a project should be subject to? Markus stated that in Iowa they used an outside agency to do gap analysis. Nobody challenges those rates. Banks do this all the time. Cromwell mentioned that this is the "but for" we are talking about.

Cromwell asked the group their thoughts on the upper percentage for the set-aside provisions. Jalenak stated they were way too high. All were in agreement on that. Propose we have round down, which would help tiny projects. Iverson asked if it made sense to have a different percentage based on size of project? Wouldn't 10% work for all?

Markus stated that in Iowa City they had one percentage, which started at 10%. This allowed the concept to become embedded and to see how it works. No one blushed at 10%. Thirty-five percent is pushing the limit and may have some developers walking away from projects. Maybe on larger scale project they could absorb more. Stoddard mentioned that the Affordable Housing Advisory Board's recommendation was 15% for 30 years. It was more important to them to have more years and a lower percentage. Markus stated that he understands after the incentive period runs out, affordable housing requirements extend cost burdens on the project. Cromwell stated he didn't think that requiring affordable housing set asides after incentive expiration would fly.

Iverson liked the idea of a single percentage requirement. Thirty-five percent seems pretty unusual. Cromwell state he suggests a 10% set aside, to be required over the life of the incentive and to round down by unit. All agreed with that recommendation. He stated that maybe the percentage can be increased in the future once the palatability of the requirement is evident. He stated that this incentive is a rebate of dollars the City wouldn't have without the project. There is a lack of understanding on part of the public on what tools do and how they work. Markus mentioned there is a huge public disconnect.

Iverson asked if any incentives had been given for apartments. Stoddard mentioned the Poehler and 9 Del Lofts project. Poehler's help was in the form of infrastructure and had no public outcry. There was a significant amount of public money invested in neighborhood infrastructure for that area. Jalenak mentioned that RCP was what started the outcry. Markus stated there is an interesting project coming in the future. The group that has typically opposed using incentives seems to be on board for this project. Affordable housing starts to build bridges between the need for incentives and public purposes. Obviously, you need people with wealth to invest in the community.

Stoddard added that all apartments getting incentives were mixed-use, except for Poehler and 9 Del Lots. Iverson asked if the 9th and New Hampshire project had incentives limited only to public infrastructure expenses? Cromwell stated that yes, due to TIF law, which dictates what public improvements are eligible.

Stoddard added that the City uses these incentives in pay-as-you-go (paygo) manner in which the developer has the responsibility for paying for the improvements and then they are reimbursed back over time via project revenues. In all cases, the way we use is paygo programs, the City not fronting the money for public improvements.

Markus mentioned that from his perspective, the community is very prudent and responsible in the way incentives are utilized. Jalenak mentioned that the Annual Report shows that. Cromwell stated the community does a pretty good job in its use of incentives and it important we set policies that are clear in accommodating the goals of community.

Cromwell asked what is expected out of this sub-committee? Find and present alternative language back to the whole PIRC team. Stoddard suggested a memo that outlines key areas of discussion and what the committee is recommending. This will go back to PIRC as a whole for further discussion. Staff can help craft language.

Cromwell state they would likely need one more committee meeting where the memo is voted on and discussed.

Recommendations stated:

- Strike the "but for" requirement on IRBs
- Lift the ban on doing analysis only at the 10 year, 50% level and allow the pros and cons of an individual project be examined. Open up that threshold for flexibility.
- Projects with under $1M in capital investment should be subject to a modest application fee (e.g. $100) to make it palatable for small projects to make requests, but keep a flood of applications from onerously being submitted.
- Add language on cost recovery to make it more clear what fees would be required.
- Require a 10% set-aside for affordable housing, applicable only during the duration of the incentive period. In cases with a fraction of a unit is specified, round down to the nearest whole unit.

Burnside asked if the way the Schumm request was considered was unusual. Stoddard mentioned that Staff had been visiting with the City Commission on potential policy changes for well over a year. At previous study sessions, the City Commission provided clear instruction that staff was not to evaluate projects at over the 50%, 10 year rebate level unless directed otherwise from the Commission. In the Schumm request, staff needed direction on if the Commission was even interested in considering the request. From a process level, the item is typically on consent agenda to go to PIRC. But there might be desire on the part of the City Commission to not entertain a project at all. Going to the Commission initially helps let the developer and staff know which direction to go and what work to perform. Jalenak was bothered that PIRC didn't get a chance to see the request.

Burnside mentioned there is a disconnect on ED report and how impactful projects have been. Even though projects are successful, there are lots of people against incentives. Cromwell mentioned there is a vocal minority that is totally against incentives. He stated that most people want judicious use of incentives, but are not against using the tools.

Burnside motioned to adjourn, which was seconded by Cromwell. Motion passed and meeting ended at 10:10 a.m.

DRAFT: For Discussion

TO: Public Incentives Review Committee
CC: Tom Markus, City Manager
Diane Stoddard, Assistant City Manager
Britt Crum-Cano, Economic Development Coordinator
FROM: PIRC Sub-Committee
DATE: July 14, 2016
RE: Sub-Committee recommendations for Economic Development Policy Changes

On April, 19, 2016, the City Commission referred draft changes of economic development policies to the Public Incentives Review Committee for review and recommendations. In response, PIRC met on May 17, 2016 to discuss potential changes and formed a sub-committee to examine and provide suggestions for changes for further consideration by the entire PIRC team.

The sub-committee met on May 26, 2016, June 16, 2016, and July 14, 2016. The sub-committee consisted of: Aron Cromwell, Brian Iverson, Brad Burnside, Jill Fincher, and Linda Jalenak. The committee provides the following recommendations for changes to the City's economic development policies for consideration by the Public Incentives Review Committee:

- Strike the "but for" requirement on IRBs as the only cost to the city from implementation of an IRB is a loss of the city's portion of sales tax on building materials, which is small.

- Open up the cap on analyzing NRAs beyond the 10 year/50% level to allow the pros and cons of an individual project to be examined on it's merits. Changing this policy maintains flexibility to examine projects which may contribute greatly to our community's goals.

- Projects with under $1M in capital investment should be subject to a modest application fee (e.g. $100) to make it palatable for small projects to make requests, but still keep a flood of frivolous applications from being submitted.

- Add language on cost recovery to make it clear that any fees an applicant would be required to pay would be clearly defined upfront in an agreement with the city so that they have clear expectations and no surprises.

- For projects involving residential units, require a 10% set-aside for affordable housing which would be applicable only during the duration of the incentive period. In cases where a fraction of a unit is specified, round down to the nearest whole unit. The committee has concerns about the 35% being too high with the end result being that projects are not completed and no affordable housing is created.