

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager
CC: Diane Stoddard, Assistant City Manager
FROM: Britt Crum-Cano, Economic Development Coordinator
DATE: May 7, 2013
RE: Neuvant House East: Request for Industrial Revenue Bonds

Project Overview:

Neuvant House East is a proposed specialty healthcare facility that will provide 24/7 care for individuals with age or physical disabilities. Project plans call for the new facility to be located adjacent to its existing sister facility (Neuvant House), west of Wakarusa Street at 1216 B Biltmore Drive in Lawrence, Kansas. The project model has residential characteristics for a comfortable, home-like environment, but is designed to provide on-going medical and healthcare services. Some of the person-centered care and services available include geriatric psychiatry; general practitioner visitations; physical, occupation, and speech therapy; podiatry; and hospice. In addition to providing care based on the unique needs of each patient, Neuvant House East will also assist residents in staying involved in the community and provide support to family members.

Plans call for the facility to provide 14 individual suites within the approximately 14,700 square foot facility. The project will also provide kitchen and dining areas along with a sun room, sitting and walking areas, exercise room, whirlpool, salon, conference room, laundry, and administrative offices.

Capital Investment for the project is estimated at approximately \$2.1 million, including land and real property improvements. Construction is estimated at 10 months, with anticipated opening in early 2014.

Capital Investment		
	Land	Buildings, Other Real Property Improvements
Size:	1.087 Ac	14,683 SF
Estimated Amount:	\$156,268	\$1,938,156

Permanent job creation is estimated at 10 full-time positions (eight hired in year one and the remaining positions hired in year two) with an average annual salary of \$30,471. All positions are anticipated to be filled locally.

Incentive Request:

On April 17, 2013, Staff received a [request proposal and application](#) for Industrial Revenue Bonds (IRB) for the Neuvant House East project. IRBs are being requested in order for the project to receive a sales tax exemption on construction-related materials. The adjacent facility, Neuvant House, which opened in 2010, received a sales tax exemption through a State program that is no longer available. Currently, the only way to obtain a sales tax exemption for construction-related materials on for-profit projects is through an IRB.

Under most circumstances, IRBs are requested in conjunction with a tax abatement, which is not the case for this project. This request is for a stand-alone IRB and is not affiliated with a tax abatement. Therefore, the property is and will remain subject to property taxes. (It should be noted that State statutes require a cost-benefit analysis be performed for a tax abatement, but it is not required for a stand-alone IRB.)

IRB Eligibility:

According to City policy, the City may from time to time grant IRBs when the project under consideration helps further economic and community development objectives. Additional eligibility criteria, as stipulated in the Policy, are outlined below, along with notes on related project qualifications:

City Policy Criteria			
Item #	Policy Requirement	Project Delivers	Project Qualifies (Y/N)
1	Only those projects which qualify under Kansas Law will be eligible for IRB financing.		Y
3	<i>Proposed Project shall achieve one or more of the following public benefits:</i>		
	Meets economic goals of the City as set forth in policy and the Comprehensive Plan of Lawrence and Douglas County.	10 direct, net new jobs created. Average salary of ~\$30,500.	Y
	Promotes infill through the development of vacant lots, the rehabilitation of deteriorated properties or the adaptive reuse of historic properties.	Project will be located on site next to existing facility. Site is already serviced with existing infrastructure.	Y
	Enhance Downtown		N
	Incorporate environmentally sustainable elements into the design and operation of the facility	Project will have some environmentally friendly components (e.g. carpet tiles made of corn instead of petroleum; recycling program, low-E windows)	Y
	Provide other public benefits to the community, particularly as set forth in the Comprehensive Plan of Lawrence and Douglas County.	Individuals from development and management company spend about 1 week each month in Lawrence, using hotel and restaurant services.	Y
4	Prospective tenant shall show the financial capacity to complete the proposed project and successfully market the bonds.	Company completed a similar project, which opened in 2010.	Y

City policy also mentions other project qualities that are favored or preferred when issuing IRBs. Those aspects are outline below, along with project notes.

Other Considerations (Preferred)			
Item #	Policy Requirement	Project Delivers	Project Qualifies (Y/N)
1	<i>City looks more favorably upon projects that support the below targeted industries:</i>		
	Life Sciences/Research	n/a	N
	Information Technology	n/a	N
	Aviation and Aerospace	n/a	N
	Value-Added Agriculture	n/a	N
	Light Manufacturing and Distribution	n/a	N
2	<i>The City favors issuing Industrial Revenue Bonds to projects that bring in new revenues from outside the community or enhance the local quality of life over projects that will primarily compete against other local firms.</i>		
	Project anticipated to bring in new revenues from outside community:	37% of revenue is anticipated to be generated by patients coming from outside the community.	Y
	Project enhances local quality of life:	Project delivers proactive, care-based services for each unique patient need. Project solstices a team of community professionals to deliver in-house services to patients, including: geriatric psychiatry; general practitioner; physical, occupational and speech therapy; podiatry; and hospice.	Y
		Allows patients to receive healthcare in a quality, comfortable setting located in an area that is near related medical services.	
		Allows patients to locate near family members (e.g. adult children) residing in Lawrence.	

Additional Considerations:

- Stand-Alone IRB: Typically, a request for IRBs is made in conjunction with a tax abatement request, in which case policy criteria for each must be met. Neuvant House East is not requesting a tax abatement and therefore only subject to Policy IRB requirements.
- New Tax Base: The property would be subject to property taxes. Property taxes for the existing Neuvant House in 2012 was \$20,387.
- Analysis: A cost benefit analysis is not mandated for a stand-alone IRB request.
- Job Creation: While not considered primary jobs, 10 new, full-time positions are estimated to be created with an average salary of \$30,471. In comparison, the average private-sector wage in Lawrence is \$29,200.¹
- Recommendations as per the Lawrence *Retiree Attraction and Retention Task Force Report* (June 5, 2012), include:
 - "Encourage the development of a wide variety of older-adult friendly housing – both for those wanting to own and those wanting to rent, in all income ranges."²
 - "Establish policies to encourage the use of universal design principles in new home construction... universal design concepts ...include efforts to make a variety of products and environments usable for those with disabilities... a home built in accordance with this philosophy is also intended to be easier for older adults and all other people to use with minimal effort and a minimal likelihood of accidents."³
 - "Review zoning policies to ensure that they allow for a variety of community concepts and housing types to meet the needs of older adults in planned intergenerational neighborhoods." This also includes Continuing Care Communities that provide assisted living housing, independent living housing, and nursing home care in one facility.⁴

The report concludes: "Because no two situations are identical, states and localities must develop an array of approaches for meeting the diverse needs and preferences of their older populations."⁵

¹ Kansas Department of Labor, Kansas Labor Information Center, Average Private Sector Wage in Lawrence, KS (by Industry), Quarterly Census of Employment and Wages, \$29,239, data released fall 2012.

² *Retiree Attraction and Retention Task Force Final Report*, Dennis Domer, June 5, 2012, Page 14.

³ *Retiree Attraction and Retention Task Force Final Report*, Dennis Domer, June 5, 2012, Page 13.

⁴ *Retiree Attraction and Retention Task Force Final Report*, Dennis Domer, June 5, 2012, Page 14.

⁵ *Retiree Attraction and Retention Task Force Final Report*, Dennis Domer, June 5, 2012, Page 15.

- Foregone Revenues: The costs of incentives are restricted to a sales tax exemption on construction-related materials. To help illustrate typical sales tax savings that might be expected, the below table provides an estimate of sales tax revenues that each jurisdiction would forego if an IRB was issued for the project based on varying costs of construction materials. The applicant estimates construction materials at 50% of total construction costs (\$1,056,578).

Estimated IRB Sales Tax Exemption: Neuvant House East			
	50% Construction Materials Cost	40% Construction Materials Cost	30% Construction Materials Cost
Total Construction Costs	\$2,113,156	\$2,113,156	\$2,113,156
Estimated Construction Materials	\$1,056,578	\$845,262	\$633,947
Sales Tax Estimates			
City (1.55%)	\$16,377	\$13,102	\$9,826
County (1%)	\$10,566	\$8,453	\$6,339
State (6.3%)	\$66,564	\$53,252	\$39,939
Total Sales Tax Savings (8.85%)	\$93,507	\$74,806	\$56,104

- **Historical Bond Support:** The City has previously assisted other healthcare facilities in the community by facilitating revenue bonds. Examples are as follows:

Other Lawrence Projects Receiving Bonds						
Reg Docs	Ord Date	Project	Bond Series	Bond Type	Amount Authorized (up to)	Purpose
Ord 4948	7/25/1978	Prairie-Ridge ⁶	Series July 1, 1978	Revenue Bonds (Housing Development)	\$2,310,800	Senior Apartments , low income housing. Some HUD subsidized.
Ord 5045	5/15/1979	Vermont Towers ⁷	Series May 1, 1979	Revenue Bonds (Housing Development)	\$1,757,000	Apartments . Low-rent, subsidized
Ord 6553	5/31/1994	Drury Place at Alvarado ⁸	Series 1994	Revenue Bonds (Elderly Housing)	\$2,880,000	Acquiring, constructing, installing and equipping an Elderly Housing Apartment Project
Ord 6395	12/22/1992	Brandon Woods ⁹	Series 1993	Revenue Refunding Bonds (Multi-Family Housing Development)	\$6,000,000	Refund Multi-Family Housing development variable rate demand revenue bonds, Series 1987 Multi-Family Housing Development
Ord 5739	3/31/1987	Brandon Woods ⁹	Series 1987	Variable Rate Demand Revenue Bonds	\$6,000,000	Acquire, purchase, construct and install a Commercial Multi-Family Housing Project .
Ord 4627	11/11/1975	Lawrence Presbyterian Manor ¹⁰	Series 11-1-1975	IRB	\$2,000,000	Elderly Housing
Ord 5706	7/1/1986	Lawrence Presbyterian Manor ¹⁰	Series 1986	IRB	\$3,500,000	Purchase, construct and equip certain additions and improvements to an existing Nursing Home Facility .

⁶ Indicated as a Section 8, Low-income Housing Assistance facility as per www.publichousing.com, data retrieved 4-22-2013.

⁷ Specified as a Domestic Limited Partnership as per the Business Entity Search Station (BESS) for the Secretary of State's office. Data retrieved 4-2-2013, from: <http://www.kansas.gov/businesscenter/>

⁸ Specified as a For Profit Corporation as per the Business Entity Search Station (BESS) for the Secretary of State's office. Data retrieved 4-2-2013, from: <http://www.kansas.gov/businesscenter/>

⁹ Specified as a Kansas Not for Profit Corporation as per the Business Entity Search Station (BESS) for the Secretary of State's office. Data retrieved 4-2-2013, from: <http://www.kansas.gov/businesscenter/>

¹⁰ Specified as a Kansas Not for Profit Corporation as per the Business Entity Search Station (BESS) for the Secretary of State's office. Data retrieved 4-2-2013, from: <http://www.kansas.gov/businesscenter/>

About Industrial Revenue Bonds

Industrial Revenue Bonds (IRBs) are an incentive established by the State of Kansas to enhance economic development and improve the quality of life. Considered a “conduit financing mechanism” whereby the City can assist companies in acquiring facilities, renovating structures, and purchasing machinery and equipment through bond issuance, IRBs can be useful to companies in obtaining favorable rate financing for their project, as well as providing a sales tax exemption on construction-related materials.

IRBs are repayable solely by the company receiving them and place no financial risk on the City. When IRBs have been issued, the municipality owns the underlying asset and the debt is repaid through revenues earned on the property that has been financed by the bonds. If the company defaults, the bond owners cannot look to the city for payment.

Action Requested

PIRC to review Neuvant House request for Industrial Revenue Bonds and make recommendation to City Commission.