

July 17, 2013

To: Lawrence City Commissioners  
From: Stan Hernly, Hernly Associates, 920 Massachusetts St.

Re: 1106 Rhode Island Street Property

As indicated at the May 7<sup>th</sup> City Commission meeting Hernly Associates is working to put together a project to rehabilitate the existing buildings at 1106 Rhode Island Street that are contributing to the South Rhode Island Street Historic District. Since that time we have made several steps to move forward with the project. These include:

- Finalized investors for the development group
- Met with City staff to review potential financing incentives for the project
- Updated project probable construction costs
- Updated project Proforma
- Discussed Kansas Preservation Tax Credit transfer with Commerce Tax Credit Services, a specialty unit within Commerce Bank
- Discussed project financing with two banks

On July 12<sup>th</sup> we made a purchase offer for the property to the current owners. We received a response on July 16<sup>th</sup> that they would like to meet to discuss a counter offer.

The overall proposed rehabilitation project is comprehensive in scope. A general overview of the various components involved follows.

**PROPERTY DESCRIPTION:**

1106 Rhode Island consists of two 50'x117' lots at the southeast corner of 11<sup>th</sup> Street and Rhode Island Street.

**REHABILITATION:**

- Demolish sheds and outhouse
- Repair house foundation
- Rehabilitate and add space to house, including garage with apartment above
- Repair house siding, roof, and windows
- Rehabilitate warehouse and garage to office use
- Repair warehouse and garage roof, siding, and windows
- Replace electrical, water and sewer services
- Paint warehouse and house
- Remove some smaller site trees
- Trim and thin bushes
- Add some new landscaping
- Remove privacy fence
- Add new parking areas
- Replace existing gravel drives with concrete
- Grade and seed lot as needed

**USES:**

- House: 3-Bedroom, 2 Bath rental,  
1,547 s.f. total finished (1,162 s.f. rehab + 385 s.f. new)  
315 s.f. basement (unfinished exist.)  
228 s.f. garage
- Apartment: 1-bedroom, 1 bath  
718 s.f. new  
228 s.f. garage
- Professional office in warehouse/garage  
2,170 s.f. rehab
- Existing open area of lot at NW corner remains open space, garden, etc...

**REQUIRED AMINISTRATIVE PROCESS:**

- City Of Lawrence:  
City Commission  
Minor Subdivision Re-Plat  
Standard Site Plan  
Rezone From RM-12 To RMO or RSO  
Board of Zoning Appeals for setback variances  
Historic Resources Commission  
Demolition Permits  
Building Permit
- State Historical Society:  
Parts 1, 2, And 3 of Historic Tax Credit Applications
- National Parks Service:  
Parts 1, 2, And 3 of Historic Tax Credit Applications

**PROJECT COST:**

The current proforma for the project shows a total development cost of approximately \$814,000. This includes the property purchase, construction costs, and development costs, except for a deferred developer's fee that would be paid from project cash flow over several years.

**PROJECT FUNDING:**

As part of our investigation of the financial viability of this project we have had an appraisal prepared for the property and we have researched the potential rental income from the property. For the redeveloped property to maintain a positive cash flow, some financing incentives are necessary. These incentives take several forms and include:

- Property Tax Rebate (Neighborhood Revitalization Act)
- Preservation Tax Credits (State and Federal)
- Preservation Grants (State and local)
- Development Grants (local)

The current proforma maintains a positive cash flow with a property tax rebate of 75% of the projected tax increment increase for 10 years.

The maximum bank financing for the project is capped at 80% of the estimated appraised value of the rehabilitated project, and this is one of the sticking points; the estimated appraised value is \$565,000, which means a maximum loan for the project is approximately \$450,000.

The following table shows the anticipated funding sources included in the current proforma for the project. All of these amounts are tentative, and all of them are flexible depending on actual construction costs, development costs, and securing of funding levels from the various sources.

Investor's Equity - cash	18.42%	\$150,000
Fed Tax Credits	8.12%	\$66,120
KS Tax Credits	9.59%	\$78,059
Preservation Grants	6.14%	\$50,000
Development Grants (City)	5.07%	\$41,300
Mortgage (not to exceed 80% of appraised)	52.65%	\$428,664
<b>TOTAL PROJECT FUNDING</b>	<b>100%</b>	<b>\$814,143</b>

**NEXT STEPS:**

At this time our development group is ready to move forward with the next steps of the project as soon as we are able to reach a purchase agreement with the current owners. If we are able to reach an agreeable price the next steps will be:

- Organize the redevelopment group as a Limited Liability Company (LLC)
- Purchase the property
- Submit a Site Plan for review and approval by City
- Submit design plans for review by Historic Resources Commission
- Submit rezoning application
- Submit Board of Zoning Appeals application for setback variances
- Submit demolition application for out-buildings and interior work
- Prepare Construction Drawings
- Obtain contractor bids
- Submit Historic Preservation Tax Credit Applications
- Submit preservation grant applications
- Negotiate NRA tax rebate agreement
- Negotiate development grant agreement with City
- Rehabilitate the existing buildings, construct the new additions, and complete the site improvements

**TIMEFRAME:**

As you can see there are lots of steps that need to happen before the full vision of a redeveloped project is complete. Our intent is to move forward as soon as we can and to keep moving forward at a good pace. We anticipate an 18 to 24 month timeline for the steps outlined.

Please let me know if you have any questions regarding the proposed project.

Sincerely,



Stan Hernly