

May 30, 2014

City of Lawrence
Mayor and City Commissioners
6 E 6th Street
Lawrence, KS 66044

Re: 1106 Rhode Island Street Property

Hernly Associates and our development group are very excited about the potential rehabilitation of 1106 Rhode Island Street. This project provides an opportunity to bring a derelict property into a good and profitable use and eliminate a 30+ year old eyesore from downtown Lawrence. We are working hard to find a way to bring the rehabilitation to fruition, but it is not easy. The "improvements" (ie. the buildings) on the property have been allowed to languish for so long that they actually subtract from the value rather than add to the value. The property would be worth more if the buildings were demolished and removed rather than left in place.

We have prepared detailed construction cost projections for the rehabilitation work and we have prepared detailed pro forma spreadsheets for the entire project, which calculates probable return on investment for our development group. We have prepared pro forma scenarios with and without economic development incentives. In order to make the project feasible we are requesting a development rebate grant of up to \$26,100 and a Neighborhood Revitalization Area designation for 85% property tax rebate of the incremental increase of property taxes over ten years.

What our pro forma spreadsheets reveal is that the cost of rehabilitation is too high to make it viable without economic development incentives. There are two sticking points in this regard. One is the amount of financing available for the project and one is the potential cash flow after rehabilitation.

PROJECT FUNDING:

Three components make up the project funding. These are Developer Investment, Bank Financing, and Development Incentives.

- **DEVELOPER INVESTMENT:** Our development group consists of five individuals who are willing to invest a total of \$150,000 of capital toward the project.
- **BANK FINANCING:** Two banks are interested in providing mortgage financing for the project; both are able to loan up to 80% of the "as-completed as-stabilized" appraised value. The appraised value will be based on the income the property can produce, not what it costs to rehabilitate the property. The amount of bank financing available for the project is approximately \$459,000.
- **DEVELOPMENT INCENTIVES:** The remainder of initial funding for the project will come from various incentives. These are anticipated to include Historic Preservation Tax Credits, various state and local grants, and "gap" bank financing.

The following table shows the anticipated initial funding sources included in the *pro forma* with a city grant. Amounts are tentative, and depend on actual development costs and securing funding levels from the various sources.

Investor's Equity - cash	16.85%	\$150,000
Fed Tax Credits	7.42%	\$73,000
KS Tax Credits	8.76%	\$86,500
Preservation Grants	5.62%	\$32,000
Development Grants (City)	3.09%	\$26,100
Development Fee Loan	7.69%	\$70,000
Mortgage (not to exceed 80% of appraised)	50.56%	\$459,000
TOTAL PROJECT FUNDING	100%	\$896,600

We are using state and federal historic preservation tax credits to help close some of the funding gap. These use a portion of the depreciation typically spread over the depreciable life of the property as “upfront development cash” in lieu of depreciation. We will use secondary bank funding to convert the federal tax credit to “development cash”, and also to cover a portion of non-construction development costs.

The last funding piece is grants, and both pro formas show that approximately \$58,000 in grant funds is needed to fully fund the project. We will apply for local and state historic preservation grants, but these are very competitive, especially for an entity that is not a non-profit organization. The pro forma with a City grant of \$26,100 reduces the historic preservation grant level required to \$32,000, which seems more possible. The city grant request is for fees that would be paid to the city as part of the development, or items which the city has potential in-house funding sources to cover the cost of the work. We have estimated the construction amounts using Means Cost Estimating Manuals and have used City fee schedules for others. The amounts are as shown in the following table:

Replat submittal/review fee rebate	\$200
Rezoning submittal/review fee rebate	\$200
Site Plan submittal/review fee rebate	\$200
BZA submittal/review fee rebate	\$200
Demolition Permit for out buildings and rear porch on house rebate	\$50
Building Permit fee rebate	\$3,950
Dumpster during construction rebate	\$3,450
Water service connections house/apartment and office – rebate from utility funds for installation of new water service lines	\$7,350
Sanitary sewer service connections house/apartment and office – rebate from East Lawrence sanitary sewer system upgrade program	\$10,500
TOTAL ESTIMATED FINANCIAL ASSISTANCE FROM CITY	\$26,100

CASH FLOW:

The second, and most significant sticking point, is that the monthly rental amounts that can be charged for the rehabilitated property are not high enough to sufficiently cover the monthly expenses projected to be incurred. Our pro formas use residential rental amounts equivalent to the 85th percentile lease rates for the residential portion of the property. For the office portion, the portion that will be occupied by Hernly Associates, the pro forma with NRA and City Grant uses a premium lease rate for the first five years to maintain a positive cash flow; the pro forma without NRA or City Grant uses a super-premium lease rate, which is not realistic or sustainable.

The NRA property tax rebate requested is 85% of the tax increment increase on the property improvements for 10 years. Our pro formas show that a Neighborhood Revitalization Area economic development incentive that rebates 85% of the projected property tax increase for ten years makes the difference between a viable development project and one that investors would not support.

The two comparative pro forma spreadsheets, one with and one without economic development incentives, provide a “but-for” comparison for you to consider. The comparison between the two over a 10-year and 20-year time period are shown in the following table:

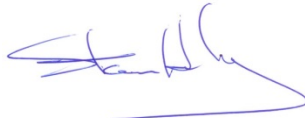
	With ED Incentives	Without ED Incentives
10 Year Ave. Annual Return on Investment	7.13%	1.60%
20 Year Ave. Annual Return on Investment	9.72%	6.82%

Without economic development incentives no investor can justify investing in this project. Without incentives the residential and office lease rates can't support the necessary cash flow needed for the project. Without economic development incentives this project is not viable.

The requested Development Grant from the City and the requested NRA tax rebate aren't just incentives, they are the funds that make it possible to reach the long term goal of rehabilitating this historic property. With the incentives this project becomes viable for our investors.

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

Sincerely,



Stan Hernly

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:	Stan Hernly
Title:	Managing Partner
Organization:	1106 Rhode Island Street Investors, LLC
Address 1:	920 Massachusetts Street
Address 2:	Lawrence, KS 66044
Phone:	785-749-5806
Email:	stan@hernly.com
Fax:	785-749-1515

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)	85%	10 years
Tax Abatement (TA)		
Industrial Revenue Bonds (IRBs)		
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):	1106 Rhode Island Street Investors, LLC	
Project Type (check one):	Expansion:	
	New Facility:	X
Company Type (check one):	Existing Local Company:	X (New local comp.)
	Out-of-Area Company Locating Locally:	
Current Company Address:	920 Massachusetts Street	
Location of Proposed New Facility/Expansion Project:	1106 Rhode Island Street	
Describe the Company's Plans to Develop or Expand in the Community: 1106 RI Investors plans to construct an addition to the house and to rehabilitate the existing contributing historic buildings at 1106 RI. This will convert the vacant buildings into useable leasable residential and office structures.		
Operations Start Date at the Expansion or New Facility:	July 2015	
Industry NAICS # for the New or Expanded Facility (6-digit code):	541310 531110	
Describe the Primary Industry the New or Expanded Facility Will Support: The 1106 RI property will consist of two residential rental units, a 3-Bedroom, 2-Bath unit, and a 1-Bedroom, 1-Bath unit. It will also provide 2,170 s.f. of professional office space, which will be occupied by Hernly Associates, Inc., an existing local architecture firm.		

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):	4,978 s.f.		
Estimated Size of Land for New Facility (acres):	.269 acres		
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	\$806,585	\$90,000	\$896,585
2			
3			
4			
5			
6			
7			
8			
9			
10			
Total	\$806,585	\$90,000	\$896,585
Will land be leased from the City or County (Y/N):		N	
If yes, Monthly Lease Rate for Land:			

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		\$50(Off) \$75(House) \$40(Apt)
Electricity		\$250(Off) \$125(Hs) \$75(Apt)
Phone		\$875(Off) \$50(Hs) \$50(Apt)
Cable		\$60 (Off) \$100(Hs) \$100(Apt)
Operating Expenditures		
For Expansion Projects, Current Annual Operating Expenses at Existing Facility:		\$580,000 (Off) \$0 (House/Apt)
Annual Operating Expenses after Expansion/Relocation:		\$620,000(Off) \$42,300(Hs/Apt)
% of Additional Operating Expenses Anticipated to be Spent Locally:		100%
Exports		
% of Revenues at the new Lawrence Facility Anticipated to Come from Non-Local Sources.		90%

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.

IRB and Tax Abatement Request Information	
If you are seeking an IRB, please list the firm that will be receiving the IRB:	
Will your firm be leasing the building or the land in your expansion or newly constructed facility? (Y/N)	
If you are leasing the building or land, and you are seeking a tax abatement <u>without</u> an IRB, please list the tenant and owner and the financial relationship between tenant and owner.	
Total Cost of <u>Initial</u> Construction for the Project:	
Estimated Cost of Construction Materials for <u>Initial</u> Construction:	
Anticipated Annual Gross Profits:	

Application Tips:

Anticipated Annual Gross Profits: If you are seeking a tax abatement or an IRB, please provide an estimate of anticipated Annual Gross Profits (\$). Note: For expansions, please enter anticipated gross annual profits from expansion.

This question helps estimate the impact of your incentive request on the State of Kansas, which is required for all tax abatements and IRBs.

Environmental Information		
Will the new facility meet Energy STAR criteria? (Y/N)		N
Will the project seek or be designed to LEED certification standards? (Y/N)		N
If yes, please indicate level:	Certification	
	Silver	
	Gold	
	Platinum	
Please describe environmentally friendly features of the project: Rehabilitating existing historic structures rather than demolishing and constructing all new buildings. Maintaining open green space on portion of lot nearest the intersection of 11th & Rhode Island Streets. Maintaining existing brick sidewalks along 11th & Rhode Island Streets. High-efficiency heating/cooling, low-energy lighting (T-5 fluorescent and led).		
Please describe anticipated positive environmental impacts resulting from the project: Rehabilitating dilapidated historic buildings that are an eyesore directly across the street from a major public facility (Douglas County Judicial Center) and that are very visible from a collector street (11th) feeding into downtown Lawrence. Maintaining as much open green space as possible.		
Please describe anticipated negative environmental impacts and planned remediation efforts: Eleven parking spaces are required for the proposed project and a single parking lot for that many cars would take up all the open green space on the property. The proposed parking is dispersed into three separate areas on the site so open green space can be maintained at the northwest corner, nearest to the intersection of 11th & Rhode Island.		

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.

Additional Community Benefits

Describe Other Local Economic Benefits Resulting From Project:

The proposed office use will bring clients to downtown area; many clients will go for breakfast/lunch/dinner before or after a meeting at the office.

Two new apartments will bring new residents closer to downtown shops and restaurants.

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.)

Describe Other Quality of Life Benefits Resulting From Project:

Buildings that have been a visual detriment to the downtown area for at least thirty years will become a visual attraction for the downtown area. The rehabilitation of these buildings will show that historically significant structures can be saved with cooperation between public and private sectors. Local organizations that support historic preservation will be given an opportunity to financially participate in a significant rehabilitation project of a property that many thought could not be saved.

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:								9	
Average Annual Salary for Full-Time, Construction Workers (during construction period):								\$38,688	
Construction Period (months):								12	
For Expansion, # of Full-Time Employees Currently Working in Lawrence: 4									
New Employment Resulting from Project									
Net New Jobs (full-time, permanent)	Year	Hernly Assoc.							
		# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary	# Jobs	Avg Annual Salary
	1								
	2	1	35,000						
	3	1	50,000						
	4								
	5								
	6								
	7								
	8								
	9								
	10								
	Total								
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:									
# of Net New Full-Time Employees Anticipated to be Relocated from Outside of Lawrence/Douglas County:									
# of Local, Full-Time Jobs Anticipated At End of Incentives Period: 6									

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	100%
% of Health Care Premium Covered by Company	90%
% of Employees with Company Provided Retirement Program	100%
Will You Provide Job Training for Employees? (Y/N)	Y
If Yes, Please Describe: Depending on prior work experience, job training may include training in specific areas related to general architecture and to historic preservation architecture.	
What is the Lowest Hourly Wage Offered to New Employees?	\$15
What Percentage of Your New Employees Will Receive this Wage?	0%
Will You Provide Additional Benefits to Employees? (Y/N)	
If Yes, Please Describe:	

Disclosures	
Company Form of Organization: Limited Liability Corporation	
Company Principals: Stanley C. Hernly, Managing Partner	
List all subsidiaries or affiliates and details of ownership:	
Subsidiary :	
Principals:	
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?	No
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:	

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:

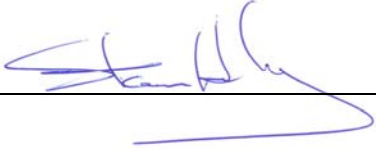
City of Lawrence
Attn: Economic Development Coordinator
6 East 6th Street
Lawrence, KS 66044
Fax: 785-832-3405
Email: bcano@lawrenceks.org

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: Stanley C. Hernly

(Please Print)

Signature: 

Date: May 30, 2014