

Memorandum

City of Lawrence

City Manager's Office

TO: David L. Corliss, City Manager
 CC: Diane Stoddard, Assistant City Manger
 Cynthia Wagner, Assistant City Manger
 FROM: Britt Crum-Cano, Economic Development Coordinator
 DATE: June 27, 2014
 RE: Supplemental material for HERE Kansas NRA request

The following is offered as additional information for the HERE request. Additional analytical results (supplemental to the technical report and which was provided at the PIRC meeting) are also reproduced at the end of this memo.

NRA Eligibility

The Criteria for NRA eligibility as specified in Res 6954, Section 3, paragraph 2A and Section 3, paragraph 2B was covered on pages 3-4 of the technical report.

City policy criteria is reproduced from the report below:

City Policy: NRA Eligibility			
City Policy Criteria	When considering the establishment of a NRA, the City shall consider not only the statutory criteria, but if the project meets a majority of the below criteria:		Eligible
	1	The opportunity to promote redevelopment activities which enhance downtown	N
	2	Provides the opportunity to promote redevelopment activities for properties which have been vacant or significantly underutilized.	Y
	3	Provides the opportunity to attract unique retail and/or mixed use development which will enhance the economic climate of the City and diversify the economic base.	Y
	4	Provides the opportunity to enhance neighborhood vitality as supported by the City's Comprehensive Plan or other sector planning document(s).	Y
	5	Provides the opportunity to enhance community stability by supporting projects which embrace energy efficiency, multi-modal transportation options, or other elements of sustainable design.	Y
	Project must meet or exceed a 1:1.25 cost-benefit ratio.		Y

As indicated above, the proposed redevelopment of 1101/1115 Indiana Street properties by HERE Kansas appears to meet both State and City criteria for NRA eligibility.

Model Evaluation Period

For projects contributing to traditional economic development goals (i.e. primary job creation, high wage jobs, capital investment infusion) the model evaluation period has been 15 years. Keeping the evaluation period consistent allows projects requesting financial assistance to be examined under the same benchmark.

As might be expected, taxing jurisdictions generally bear a larger cost component during incentive years and less after those incentives have expired. In general, with all other application inputs held constant, extending the evaluation period examined has the effect of raising the cost-benefit ratio.

In some projects that do not have traditional economic goals as their primary community contribution or projects that provide substantial intangible benefits (which would not be considered within the model, such as neighborhood revitalization, historic preservation, fulfilling infrastructure gaps, environmental goals, increased safety, etc.), the governing bodies may decide a longer evaluation period is appropriate.

To date, the 15 year evaluation period has been utilized for all projects that have been analyzed and approved under the City's cost-benefit model, including the four approved NRAs.

NRA Amount and Duration

The City's NRA policy (Res. 6954) speaks to the NRA duration and amount as follows:

Section Two: Policy Statement

"In determining the amount of a rebate, the Governing Body may balance the desirability of the project verses the amount and duration of the rebate and the requirements set forth in Section Four. It is the policy of the City to only consider the establishment of Neighborhood Revitalization Areas which yield a benefit/cost ration of at least 1.25."

Section Four: Amount of Rebate

"As a standard practice, the City will not provide a rebate amount in excess of 50% of the incremental property taxes and will not establish an NRA for a period of time longer than 10 years. The City may consider a greater rebate and/or a longer duration if sufficiently justified in the 'but for' analysis required by Section Five. The determination of the rebate amount and duration of the NRA is the sole discretion of the governing body."

For reference, below are previously approved NRAs:

Approved Neighborhood Revitalization Areas (NRA)			
NRA	% Rebate	First NRA Tax Year	Last NRA Tax Year
8th and Pennsylvania District: 720 E 9th Street	95% Annually	2011	Once maximum amount due (\$324,673.18) has been rebated or 12-31-2032, whichever comes first.
1040 Vermont (Treanor Headquarters)	Years 1-4: 95% Annually	2013	2022
	Years 5-6: 85%		
	Year 7: 70%		
	Year 8: 50%		
	Year 9: 30%		
	Year 10: 20%		
810/812 Pennsylvania (Cider Building)	Years 1-10: 95% Annually	2014	2023

Note: 1001 Massachusetts Street NRA (Masonic Temple) was approved, but has not proceeded due to change in use.

Model Consideration of Sales Tax Revenues:

The model examines sales tax revenues based on the following:

1. Sales taxes generated from construction materials

Unless an IRB is requested, the model calculates estimated sales tax revenues generated to each taxing jurisdiction on project construction materials. If an IRB is requested, the model does not include sales tax on construction materials as a benefit to taxing jurisdictions. Sales tax revenues for construction materials are based on project costs, as indicated by the applicant on their application.

2. Sales taxes generated from company spending.

The model estimates approximate sales tax revenues generated to each taxing jurisdiction based on project operating expenses, as indicated by the applicant on their application. These expenses are adjusted to account for those subject to sales tax and the percent spent locally (as indicated on application) to determine sales tax revenues generated locally from company spending.

3. Sales taxes generated from new resident (based on direct and indirect job creation) spending.

Sales tax revenues generated from residents is based upon both direct and indirect jobs and the household assumptions around those residents fulfilling those jobs. Using the amount of direct jobs estimated to be created from the applicant's application, the model calculates the approximate number of indirect jobs that will also be generated and further calculates new household formation, spending, and resulting sales tax revenues.

Retail sales tax generation is not considered within the model outside of new resident spending based on job creation (direct and indirect jobs). Sales taxes generated from spending by existing residents is assumed to be previously captured (not net new spending) and not examined within the model.

As such the model neither examines the level of sales tax revenues generated by current property residents (residents of the current apartment complex), nor the projected level of sales tax revenues to be generated by the new project. A market study could examine the net sales tax revenues generated by the project and account for any redistribution of retail sales from existing retail businesses. Once net new retail sales are estimated, the cost-benefit model could be manually adjusted to account for additional retail sales tax revenues.

The model does not consider sales taxes generated from visitor spending.

Additional Analysis

The following are results based on supplemental analysis from the cost-benefit model, including the use of HERE Kansas' estimated property tax values and extending the evaluation period from 15 to 20 years.

Cost-Benefit Results: 1101 & 1115 Indiana Street (15Y Evaluation Period)						<i>Cost/Benefit Threshold Met</i>
Incentive Package	City	County	USD 497	State	10-Years--Total Package Value	
10Y-85% NRA, IRB for Sales Tax X (2017-2026)	1.26	1.38	14.67	n/a	\$5,669,571	
12Y-85% NRA, IRB for Sales Tax X (2016-2027)	1.19	1.23	12.91	n/a	\$6,064,273	
10Y-95% NRA, IRB for Sales Tax X (2017-2026)	1.18	1.20	12.59	n/a	\$6,034,925	
12Y-95% NRA, IRB for Sales Tax X (2016-2027)	1.09	1.02	10.62	n/a	\$6,476,062	<i>CBA Results using HERE Tax estimates</i>
12Y-95% NRA, IRB for Sales Tax X (2016-2027)	1.15	1.14	11.91	n/a	\$6,265,676	

Cost-Benefit Results: 1101 & 1115 Indiana Street (20 Year Evaluation Period)						<i>CBA Results using a 20 Year Evaluation Period</i>
Incentive Package	City	County	USD 497	State	10-Years--Total Package Value	
12Y-95% NRA, IRB for Sales Tax X (2016-2027)	1.43	1.60	15.38	n/a	\$6,476,062	<i>CBA Results using a 20 Year Evaluation Period</i>

The below table compares the estimated amount of foregone revenues to taxing jurisdictions given a 12Y-95% NRA as compared to a 10Y-85% NRA. Annually, the total difference represents \$80,649 over a 10 year period or \$67,208 over a 12 year period.

Comparison of Incentive Packages	
12Y-95%	\$6,476,062
10Y-85%	\$5,669,571
Difference (total)	\$806,491