

**Materials for Heartland Presbytery Meeting
January 16, 2014**

**Linwood Area Ministry Place
Redevelopment Plan Approval**

Summary of Enclosed Materials

- Part 1: Requested Presbytery Action
- Part 2: History of Presbytery Commitment to LAMP
- Part 3: Overview of Redevelopment Plan
- Part 4: Project Financial Plan and Analysis
- Part 5: LAMP Site Plan and Floor Plan

Part 1: Requested Presbytery Action

The Administrative Commission for Linwood Church and the Harold Thomas Center requests that Heartland Presbytery endorse a proposed redevelopment plan for the Linwood Area Ministry Place, as developed by the LAMP Board of Directors (Linwood Property, Inc.), including authorizing the Commission to act on behalf of the Presbytery as reflected in the following proposed action:

Approval of the concept of a redevelopment plan for the Linwood Area Ministry Place project, including the former Linwood Presbyterian Church, the Harold Thomas Center and surrounding properties, for purposes of creating a campus of community services and to authorize the Presbytery's Linwood Administrative Commission to serve as agent for the Presbytery in taking actions necessary to implement the plan, including execution of loan guarantees, property transfers, leases and related agreements. This action is taken with the following understandings:

- 1. The Commission will work in consultation with the LAMP Board, Presbytery Board of Trustees and the Business Affairs Committee to complete the project in a manner that serves the fiduciary, legal and mission interests of the Presbytery.**
- 2. The Commission will work closely with current non-profit tenants with the intent of enabling their ability afford space in facilities on the campus.**
- 3. The project will involve the use of federal and state historic preservation and federal new markets tax credits.**
- 4. The project will involve the bank loans secured by tenant lease payments and tax credit proceeds with loan payment guarantees provided by the Presbytery.**
- 5. The project will include the ownership of current Presbytery properties at this location to be transferred to a development company in which LAMP or another Presbytery entity will be a minority partner.**
- 6. The project will be subject to appropriate legal reviews.**
- 7. This action will superseded prior redevelopment plans approved by Heartland Presbytery.**

Members of the Linwood Administrative Commission include:

TE Krista Kiger – Moderator	RE Ron Carter – Linwood United Church
TE Ron Galvin	RE Bond Faulwell – Grace Covenant PC
TE Ron Patton	RE Tedrick Housh – Village PC

Part 2: History of Presbytery Commitment to LAMP

History of Site:

The Linwood Area Ministry Place (LAMP) is a 501(c)3 organization created by the Heartland Presbytery to redevelop the former Linwood Presbyterian Church, which is currently vacant and located at Linwood Boulevard and Michigan/Bruce R. Watkins Parkway in the heart of Kansas City, as well as the adjacent Harold Thomas Center, which currently houses the offices of the Heartland Presbytery.

From the first service in 1891 to the closing of the congregation in 1975, the Linwood Presbyterian church focused on providing help to those in need. In 1917, a home was established for girls with disabilities, followed by an impressive list of outreach services-- from a convalescent home for poor and working women in 1929 to a well-baby clinic and drug-counseling clinic in the 1960's to a day care and Head Start program for neighborhood children in the 1970's. From its earliest days, the spirit of Linwood has been one of bringing support and hope to its community.

Shortly after it was closed, the former Linwood church property was sold to a private party, although the Harold Thomas Center has always remained in Presbytery ownership. In 1995, with strong support from the community, the Heartland Presbytery made a bold decision to buy back the vacated church and created LAMP to undertake its redevelopment.

From the outset, LAMP has been a ministry of presence, service, and leadership. By returning to this site, the Presbytery has made a strong commitment to be an active, positive presence in a distressed area, working as neighbor and friend to people in need. As a ministry of service, LAMP aims to create a campus of service ministries to meet urgent human needs. And as a ministry of leadership, LAMP brings church and community resources together to restore this highly visible site and to be a catalyst for restoration of the surrounding community.

For some 19 years, the Presbytery, many Presbyterian congregations, several community partners, and the members of the LAMP Board have worked to realize this vision. Over the last several years, the Presbytery made considerable investment to stabilize the former Sanctuary, which was constructed in 1923, as well as to remove the original portions of the building which could not be restored. To demonstrate its commitment to the LAMP project, the Heartland Presbytery also partially renovated the adjoining Harold Thomas Center for its new home. The Harold Thomas Center also houses the Front Porch Alliance, an important ministry initiated by Village Presbyterian church. The Alliance now engages several congregations in a wide array of youth, elderly, employment, and community improvement ministries.

Recent Activities:

In 2004, LAMP and the Front Porch Alliance, with strong support from the Ivanhoe Neighborhood Council, created a partnership with ReDiscover, a nonprofit mental health and substance abuse service provider that has cared for more than 150,000 children, adolescents, adults and older adults throughout metropolitan Kansas City. The partnership developed a plan that was approved by the Presbytery to initiate the campus of services by redeveloping the church and surrounding block, creating a permanent home for ReDiscover's Substance Abuse Programs, as well as a home for the Presbytery and the Front Porch Alliance and other service agencies.

In 2005, ReDiscover and LAMP completed significant activities to develop the LAMP campus. Both organizations worked cooperatively to develop a site plan and to secure approvals from city agencies for redevelopment plans and for rezoning, and ReDiscover made significant investments to acquire property and to demolish interior portions of the sanctuary to make way for construction. In Spring 2005, ReDiscover took bids for construction, which were significantly higher than planned. Subsequent efforts to raise funds and scale back the project were not sufficient to close the financial gap.

Since that time, the partnership has attempted several other ideas to finance the redevelopment, including a 2009 plan involving ReDiscover operations and senior housing. The plan was approved by Presbytery, but was not successful in securing necessary housing tax credits.

In 2011, Heartland Presbytery Council formed a task force to review the progress of the redevelopment and to assess options for Presbytery's continued commitment to the location. At the same time, the current proposal continued to advance, including an award of historic tax credits in late 2012 and subsequent allocations in 2013 through the New Market Tax Credit program.

In late 2013, the Presbytery reconstituted the task force in the form of an Administrative Commission consisting of the current members to make timely decisions on behalf of the Presbytery to advance the redevelopment efforts. The Commission has met on a number occasions and has worked closely with LAMP members to develop a sound redevelopment plan.

Part 3: Overview of Redevelopment Plan

Improvements:

The proposed redevelopment includes the adaptive reuse of the former sanctuary structure built in 1923, as well as the adjacent Harold Thomas Center.

The 1923 structure will house major clinics operated by ReDiscover, including a day care facility, on the ground floor, with additional ReDiscover clinics housed on both levels of the east end of the 1923 building. In addition, ReDiscover will occupy the third floor of Harold Thomas Center, and a connecting link will be constructed to connect and enable easy passage between the two buildings. Presbytery and Front Porch Alliance will either remain in Harold Thomas Center or one or the other may move to the west end of the sanctuary. Other tenants will be recruited as the project proceeds. A significant portion of the former sanctuary space will be retained, used by ReDiscover for daily meals and activities and after hours by Front Porch Alliance and other community users. (See enclosed site plan and floor plan).

Future phases of redevelopment, which have not yet been planned or financed, will include a new structure on the northwest corner of the block (where the tower continues to stand), as well as housing on the southern portions of the block.

Use of Tax Credit Programs:

As presented in the financial overview (Part 4), the LAMP redevelopment plan is dependent on the use of federal and state historic preservation tax credits and federal New Market Tax Credits. Tax credits are a means by which governments subsidize projects that have a public purpose by forgoing tax revenue rather than making direct expenditures. When tax credits are issued to a project, they are sold to financial entities, such as banks or firms that specialize in tax credits, to generate funds for the project. The financial entities either use the credits or resell them to other taxpayers, typically large businesses, to meet their federal and/or state tax obligations at a discount. The cost of the credits is determined by the market demand for the credits.

Historic tax credits are awarded by the Missouri Offices of Historic Preservation, which administers both the federal and state credits. The LAMP project was awarded tax credits in 2011, which remain valid if as project proceeds as planned and which are expected to generate some \$2.9 million in equity for the redevelopment.

In addition, the project will use federal New Market Tax Credits to support new investment in distressed communities. Two local financial institutions, Central Bank of Kansas City and Community Development Entity of Kanas City, Missouri (a city-affiliated non-profit agency) have been authorized to participate in this program and have made allocations to the LAMP project that are expected to net some \$2.4 million in equity for the redevelopment project.

The LAMP project will follow a model that has been used successfully for many other projects, including projects undertaken by churches and community agencies. The model entails the creation of a development company that will own the properties and undertake their development. LAMP will serve as a general partner in the development company with a very small share of ownership (less than 1%) but with the responsibility to oversee the development. The investors are silent partners, but retain the large share of the ownership until the credits expire after 7 years. Upon expiration, the general partner, or LAMP, becomes full owner of the project, and can at that time, choose to continue to own the project

or to sell or divest its interests. LAMP will follow a similar process through creation of a management company that will oversee the operations of the project, including the retention of a professional property management company. Because of its past investment in the site, including its ownership of part of the site, ReDiscover will be offered option to join in ownership of the property as tax credits expire.

Transfer of Properties:

In order for the project to proceed, it is necessary for the Presbytery to transfer its properties to the new development company. This will essentially represent the Presbytery’s financial commitment to the project. At this point, the Presbytery will no longer have an interest in or liability for the former Linwood church and Harold Thomas Center. However, through LAMP, the Presbytery will maintain a close connection to the project, and LAMP will eventually regain ownership. The Presbytery has signed an option for the release of property, which was necessary to apply for tax credits.

Project Participants:

LAMP is using Kansas City based professional firms to guide this project, led by Scott Associates, an architectural and development consulting firm with a proven track record in using tax credits to implement similar projects in Kansas City and St. Louis.

Redevelopment Professional Team:

- Scott Associates, Jim Scott, Architect and development management
- Sterrett Urban, Pat Sterrett, Financial analysis
- Husch Blackwell, Ryan Brunton, Legal
- Marsh & Co., Mike Marsh Tax credit accountant
- Rosen Preservation, Elizabeth Rosin Historic preservations consulting
- Bob D. Campbell & Co., Inc. Structural Engineers
- SK Design Group Civil Engineers

Contractors:

Contract will be negotiated with one of at least three firms, currently including Brinkmann Construction of St. Louis, as well as A.L. Huber and Straub Construction of Kansas City. The latter two firms have done previous work in the facility and have provided project pricing on multiple occasions.

Lenders/Financial Institutions:

- Simmons First Bank, Paul Baker
- Central Bank, Bill Dana
- Kansas City Community Development Entity, Ruben Alonzo
- Baker Tilley, tax credit consultants
- U.S. Bank, tax credit purchaser (likely)

Project Schedule:

- First Quarter 2014: Presbytery approval of loan guarantees
Contractor selection
Final design development
Financial and lease agreements finalized
Tax credit closing
- Second Quarter 2014: Begin construction in phases to allow for minimal tenant disruption
- First Quarter 2015: Complete Construction

Part 4: Project Financial Plan and Analysis

Following is a summary of expenses and revenues. These are subject to change, but the overall structure will remain.

Project Expenses:

Cost Category	Estimated Cost
Site Improvements	\$800,000
Architectural, engineering and related costs	587,154
Facility Construction	5,160,600
Construction period financing, legal, insurance and taxes	610,291
Value of land and current structures (in-kind)	660,000
Auditing and Closing Fees and Contingencies	650,000
Developer Fee	1,100,000
Escrows and Reserves	241,521
State, local and consulting fees, environmental review	269,526
Total Expenses	\$10,079,092

Revenue Sources and Loan Summary:

Source	Purpose/Source	Amount	Interest	Term
A	New Market Tax Credit Equity (made by LAMP to for profit developer with tax credit investor proceeds)	\$2,444,180	1.50%	7 years
B	Project Loan (secured by leases)	3,100,000	5.5%	7 years
C	Historic Preservation Tax Credits ---Federal ---State Total Tax Credits (advanced by bridge loan)	1,376,442 <u>1,523,558</u> 2,900,000	3.25%	20 mos. or upon state approval
D	Developer Fee Contribution to Project (secured by bridge loan)*	672,539	3.25%	20 mos. or upon state approval
E	One-day Loan (value of property)	660,000	0%	same day
F	Developer Equity (pre-development expenses)	302,373		
	Total Revenue	\$10,079,092		
	* <u>Developer fee detail:</u> Contribution to Project: \$672,539 Rent/Principal reduction: <u>207,461</u> Revenue to project: 880,000 Withheld for Taxes <u>220,000</u> Total Fee \$1,100,000			

Revenue Summary:

Simmons First Bank, with offices in Overland Park, is the sole lender for all loans, and it has informally agreed to these terms.

Source A: New Market Tax Credit revenue of \$2,444,180 will be paid by tax credit investors to the project upon closing of the tax credit transaction and related loan agreements. The revenue will accrue to Linwood Property, Inc. and will, in turn, be loaned to the company formed to implement the project.

Source B: A project loan of \$3.1 million will act as a mortgage and will be secured by leases. It is an interest only loan for the first two years of the project and a more typical amortized loan for the remaining five years of the tax credit compliance period. The financial plan projects repayment of \$490,000 of the principal during this period. The project loan will be refinanced after the tax credit compliance period, at which time financing costs are projected to decrease due to a principal being reduced to some \$2.6 million, lower transaction costs because tax credits are not involved and the availability of public bond financing options.

Source C: Historic tax credit revenue totaling \$2,900,000 will be paid by tax credit investors upon completion of the project and a state approval of an audit of eligible expenses. A bridge loan will enable these funds to be used during the construction period, and it will be repaid in full upon receipt of tax credit proceeds, typically a 20 month period.

Source D: The property development company created by Linwood Property, Inc. will earn a developer fee of \$1.1 million, for costs and risks as project developer. Linwood Property, Inc. will retain the balance of \$207,460 to offset rents for tenants. The balance will be paid to the development company formed to implement the project. The company will withhold \$220,000 to pay taxes, and the balance of \$672,539 will support the project fund as revenue.

Source E: The one-day loan of \$660,000 is a financial accounting transaction to reflect the value of the existing property and to enable tax credits to be received for the value of this donation. The funds are loaned and repaid in the same day of the closing at no cost.

Source F: The developer equity of \$302,373 reflects the value of costs incurred to date by Linwood Property, Inc.

Supplemental Funding . In addition to these revenues, the project will also benefit from philanthropic sources of \$750,000 to ensure that net rents to tenants are \$8.25/sf, plus operating expenses of \$5.00/sf. These funds are projected to extend for the first 10 years of the project, beyond the tax credit period. In December, the Hall Family Foundation approved a contribution of \$250,000. Grant proposals will now be submitted to other philanthropies, including William T. Kemper Foundation and Bank of America affiliated trusts, which made commitments to the project in 2004-5 and invited us to reapply when the project did not proceed.

Presbytery Role:

The Presbytery would not need to commit specific collateral or assets. Loans would not be part of the Presbytery financial statements, except that they would be disclosed as a contingent liability.

The Presbytery would commit to ensuring that loan repayments are made for the seven year term of Loan B. Annual Loan payments for Loan B from the project to LAMP are \$170,500 per year, along with other operating expenses.

The Presbytery would also commit to ensuring that work is completed on construction in accordance with state historic preservation standards, a commitment that is backed by guarantees to Loans C and D for an estimated 20 months.

Rent:

At the time of the loan commitment, signed leases would be in place with ReDiscover for 20,000 SF of the 35,622 SF of leasable space, approximately 56%, for a period of ten years. Presbytery itself would sign a master lease for the remaining 44%, which will be sublet to other users, for a period of nineteen years. It is expected that Presbytery will use approximately 3,185 SF. Front Porch Alliance would lease 4,163 SF, although its space use is less clear and its rent would likely need to be supported externally.

Tenants will pay \$8.25 per square foot in net base rent for the entire term of the lease, plus common area maintenance charges of \$5.00 per square foot, or a total of \$13.25 per square foot. To facilitate the redevelopment financing plan, the actual lease will be for \$11.00 per square feet for base rent that will be accompanied by a separate agreement between tenants and Linwood Property, Inc. that will provide for rent to be reimbursed \$2.75 per square foot with funds raised from philanthropic sources. The leasing costs include finishing the space to enable tenants to occupy the leased spaces.

All tenants will share in common area maintenance (CAM) costs, such as utilities, grounds maintenance, property management, insurance and commonly used areas. These costs will total \$5.00 per square foot in the first year, which will be adjusted only as necessary to meet reasonable expenses. The financing plan allows for an annual increase of 3 percent over the first ten years. The CAM charges will be structured as in a typical lease in that reasonable expenses beyond those assessed are shared among tenants on a pro-rata basis. CAM charges include the cost of retaining a professional property management firm.

Financial Analysis:

A detailed financial pro forma has been prepared for the first ten years of the project and has been reviewed by an independent tax credit and financial analysis. The financial pro forma for the project is structured in a conservative way in several respects:

- The pro forma assumes only 90% of the space will be leased. While not all tenants are confirmed at this time, we expect that 83% will be leased by the time the loan is closed and that 90% will be leased by the time construction is completed. Subsequent occupancy beyond 90% will enhance financial outcomes beyond those projected.
- An appraisal has been secured, valuing the property at \$6,800,000 upon completion of renovations, which is sufficient to back core loans.
- The pro forma reflects revenue that exceeds the annual debt requirement by 63% in the first year and increases each year up to 81%.
- The project maintains a debt service reserve of \$103,600 and an operating expense reserve of \$89,000 throughout the compliance period. A replacement reserve exists throughout the pro forma, ranging between \$17,100 and \$18,700 annually.
- After all expenses are paid, the project has a positive net cash flow of about \$90,000 per year for the first five years of tenancy. The net cash flow drops to about \$72,000 in the sixth year of

tenancy when the project is refinanced. The balance is expected to be used to repay Loan B at a faster rate to reduce debt service costs when the project is refinanced.

- The operating reserves, debt service reserve and positive cash flow are above and beyond the funds to be accumulated through philanthropy, which are held by Linwood Property, Inc., outside of the bank financed project. These sources diminish the risk potential to Presbytery during the first ten years. Presbytery retains its option to sell or transfer the property at any point after the tax credit compliance period of seven years.
- The project budget includes costs associated with ensuring the construction is completed in accordance with preservation standards, including a team of historic preservation architects, consultants and accountants, architects, as well as contractor performance bonds and cost limited contracts. The team retained has a long history of completing projects that are reimbursed by the state without exceptions.

Administrative Commission Role and Assessment:

There are details yet to be determined as the redevelopment plan is fine-tuned and as leases, property transfers and tax credit and bank loan agreements are executed. The Presbytery is being asked to designate the Linwood Administrative Commission for Linwood Church to act as its agent in implementation of the plan to facilitate timely decision-making and due diligence.

The Linwood Administrative Commission, along with the LAMP Board, believes the proposed redevelopment plan is a responsible strategy for completing this project for several key reasons.

The project achieves the initial vision of the Presbytery to return the former church to Linwood to community use as a campus of community service ministries and to use our investment as a catalyst for community renewal. Moreover, it supports important service ministries of the Presbytery in the short term and provides a platform for expanded urban ministry through the Presbytery and its congregations over the long term.

The development relieves the Presbytery of the current financial liability of owning major facilities in need of significant repair. It also allows the Presbytery to realize a return on the investments it has made over the years in these properties, attracting substantial reinvestment to the site that will ultimately be turned over as an asset to LAMP as a subsidiary corporation of the Presbytery. In addition, the plan will not require further investment of Presbytery funds, while providing a new space for Presbytery offices and functions.

Equally important, we have no other viable options for redevelopment. Over the last decade, the LAMP Board has diligently, but unsuccessfully pursued many other ideas for financing, including fundraising, commercial operations, and attracting new ministries and service agencies. This plan, by attracting significant public investment, represents the only economical viable strategy with any promise for success. While the proposed plan involves risks, they are being appropriately addressed and do not exceed the type of risks and obligations inherent in a project of this nature.

Questions regarding this proposal may be directed in advance of the Presbytery meeting to Rev. Krista Kiger, Linwood Administrative Commission Moderator, fpchurchpastor@att.net or David Warm, LAMP Board Chair, dwarm@marc.org.
