

# Committee Report

## Smith-Werner Buildings Study

### July 12, 2005

Over the past several months, the committee appointed by Judge Executive Reid Haire, has thoroughly studied options for the future of the county owned Smith-Werner buildings.

**Research:** Following a tour of the buildings in November, 2004, and over the next six months, Pat Strehl with Tetra Tech prepared a number of cost estimates for renovating the buildings and restoring the façade. The current projected cost for a complete renovation including the interior is approximately \$1.43 million, which is significantly lower than the original estimate by Q&S Contractors. The primary difference in cost was due to incorrect building measurements used by Q&S.

The committee then researched funding opportunities including meeting with state legislators to inquire about state funding options. Renaissance funding from the state of Kentucky for fiscal year 2005-2006 is \$2 million, down from \$6 million the previous year, for the entire state. An additional \$10 million will be available from Community Economic Growth grants (CEGG).

The committee met with potential tenants and local developer Malcolm Bryant to determine interest in occupancy or investment in the buildings. Malcolm indicated that current commercial/office space rents for \$7-12 per square foot. Properties offered for comparison are as follows:

The Springs \$12 / sq. ft.

Corporate Center \$9-10 / sq. ft.

Masonic Building \$7 / sq. ft. (including cleaning and utilities)

Based on a \$1.5 million restoration cost, the projected rental rates would need to be in the \$11 - \$13 per square foot range compared to current downtown rental rates of \$7 - \$10. Any available “gap” financing, which will be discussed later in this report, would reduce the cost of the renovation, and therefore the rental rates, thereby making the project more feasible for a developer. Malcolm indicated that lease rates would probably be in the \$7-8

per square foot range for retail space in a renovated Smith-Werner building. Residential rent would be in the \$500 per month range, for a two bedroom, 1 1/2 bath apartment. We should also keep in mind that as the riverfront and downtown develop, rental rates will increase.

Malcolm suggested that if an anchor tenant would take the majority of the building there could be interest in developing residential units on the second floor. However, he cautioned that until a large downtown project occurs creating interest and enthusiasm, it will be difficult to attract developers who are willing to take a financial risk in an area that has significant substandard property. Mr. Bryant also suggested that the parking lots to the rear of the buildings could be redesigned to create a visually attractive and functional property that might entice further development in the area. A reconfigured parking lot design is included in this report.

**Funding Options:** We invited state renowned Lexington developer, Holly Wiedmann, with AU Associates, and National City Bank representatives to tour the building to determine their interest in a renovation/restoration project using tax credit programs. The tour and meeting took place on June 2, 2005. Historic tax credits could amount to 20% of the renovation costs, but would be about \$300,000, requiring an additional investment of \$1.2 million.

Housing tax credits might be an option, but would require the county to find a developer who was familiar with using the credits. Ms. Weidmann stated that the Smith-Werner façade was a “treasure” and should be restored, but the overall project was too small for her group to consider. Her architect estimated a project cost of \$1.5 million, which is in line with the committee’s estimate. The use of housing credits would require the county to relinquish ownership of the property for a period of time. In addition, a non-profit agency would be required to manage the residential units. It could also be difficult to construct more than four residential units on the second floor due to building codes that require bedrooms to have windows. Historic credits would not allow the addition of any windows.

Commissioner Kunze notified the committee of a recent \$10 million in Community Economic Growth Grant and \$2 million Renaissance on Main funds that will soon be available for capital improvement projects. Several committee members will attend a training session on July 19 to learn about

these funding requirements with the intention of applying for these funds with county approval to help offset the cost of this project.

**Future funding for downtown development:** Future downtown development by private individuals will require innovative financing. The committee requests that a Revolving Loan Fund that would consist of zero interest loans set aside by the City and County and paid back in full by developers be considered. The recommended amount necessary to have a significant impact would be approximately \$500,000 each from the city and county governments. Also, the committee asks for consideration of an Interlocal Agreement between the City and County to deposit future increased property tax revenues received from downtown improved properties into a fund that will be offered to developers and new property owners for downtown capital projects. The proposal would require that the funds be allowed to accumulate for a four to five year period in order to be large enough to substantially aid in property development. Without some form of “gap” financing, including historic, housing, or new market tax credits, or low or no interest loan pools which would lower the cost for development, it will be difficult to make the cost/income calculations work for renovation of many properties.

**Recommendations:** It should be noted that the fire that destroyed the Peachtree antique building could result in the property being demolished, creating a vacant lot in the block. Unless steps are taken to renovate property on both the north and south sides of 2<sup>nd</sup> street, the area is in danger of becoming a blighted section of downtown Owensboro. For that reason, as well as preserving the historic value of the Smith-Werner building, and having completed the above-mentioned research, the committee feels that the following options will allow the Fiscal Court to make a significant contribution to the downtown at minimal cost. The committee proposes six options, including offering the property for sale, demolishing the buildings, doing minimal renovation that will allow continued occupancy, or undertaking more comprehensive restoration and renovation. The options are attached.

Committee members: Pat Strehl, John Hall, John Froelich, Sue Fowler, Keith Free, Ann Kincheloe, Burley Phelan, Dan Edelschick, Bruce Kunze

Meeting dates: November 3, 2004, November 15, 2004, January 6, 2005, April 7, 2005, April 18, 2005, May 25, 2005 (visit to renovation project in Glasgow), June 2, 2005, July 5, 2005

***Proposal A- Total Renovation  
Including removal of back 16' of building  
Projected Cost – \$1,437,819***

- ~ Remove back 16' depth of wall, replace with brick wall, and tie walls back into existing structure.
- ~ Restore façade and replace roof.
- ~ Use County labor to gut and clean up first and second floors.
- ~ Renovate interior including new plumbing, electrical, mechanical, paint, carpeting, etc.
- ~ Will regain 10 parking spaces that would be lost with parking lot reconfiguration (potential of \$250/mo rental income)
- ~ Will lose potential rental income of \$ 1,500-2,000/ month due to loss of 2560 square feet. (2560 x \$9/sq. ft.= \$23,040/12= \$1920/mo)
- ~ These improvements will accommodate new tenants in former Elite space & current Cage location, as well as on the second floor, therefore providing an increased revenue stream.
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$ 1,437,819

Funding Resources: Developer (Including Historic and/or Housing tax credits)

Renaissance/Community Economic Growth Grant

Fiscal Court- up to \$100,000\*

***\*IN LIEU OF ESTIMATED COST TO FISCAL COURT TO DEMOLISH BUILDINGS: \$100,000.***

***Proposal B- Total Renovation  
Including rebuilding back wall  
Projected Cost- \$1,421,783***

- ~ Remove and rebuild rear wall(s) and tie walls back into existing structure.
- ~ Restore façade and replace roof.
- ~ Use County labor to gut and clean up first and second floors.
- ~ Renovate interior including new plumbing, electrical, mechanical, paint, carpeting, etc.
- ~ Will lose 10 parking spaces with parking lot reconfiguration (potential of \$250/mo rental income)
- ~ Will gain potential rental income of \$ 1,500-2,000/ month due to retention of 2560 square feet. (2560 x \$9/sq. ft.= \$23,040/12= \$1920/mo)
- ~ These improvements will accommodate new tenants in former Elite space & current Cage location, as well as on the second floor, therefore providing an increased revenue stream.
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$ 1,421,783

Funding Resources: Developer (Including Historic and/or Housing Tax Credits)

Renaissance/Community Economic Growth Grant

Fiscal Court- up to \$100,000\*

***\*IN LIEU OF ESTIMATED COST TO FISCAL COURT TO DEMOLISH BUILDINGS: \$100,000.***

***Proposal C- Partial Renovation  
Including repair of rear walls and renovation of  
building shell  
Projected Cost- \$587,434***

- ~ Repair rear wall(s) and cracks in side walls.
- ~ Restore façade and replace roof.
- ~ Use County labor to gut and clean up first and second floors.
- ~ Remove existing electrical, plumbing, mechanical components.
- ~ Remove existing non-loadbearing interior walls
- ~ Will lose 10 parking spaces with parking lot reconfiguration (potential of \$250/mo rental income)
- ~ These improvements will create a building “shell” ready to be completed by a developer or tenant who would be responsible for all interior work.
- ~ County would have the option of selling the building or leasing to developer to complete interior and rent
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$ 587,434

Funding Resources: Renaissance/Community Economic Growth

Grant- \$500,000

Fiscal Court- up to \$100,000\*

***\*IN LIEU OF ESTIMATED COST TO FISCAL COURT TO DEMOLISH  
BUILDINGS: \$100,000.***

***Proposal D- Partial Renovation  
Including repair of rear walls and  
façade restoration  
Projected Cost- \$202,632***

- ~ Repair rear wall(s) and cracks in side walls.
- ~ Restore façade.
- ~ Use County labor to gut and clean up second floor.
- ~ Will lose 10 parking spaces with parking lot reconfiguration (potential of \$250/mo rental income)
- ~ These improvements will take care of existing structural and mold problems while allowing continued use of first floor rental space.
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$202,632 + \$32,421 if determined to be prevailing wage project=  
\$235,053

Funding Resources: Fiscal Court- Up to \$235,053

***\*INCLUDES \$100,000 IN LIEU OF ESTIMATED COST TO FISCAL COURT TO  
DEMOLISH BUILDINGS.***

***Proposal E- Sale of Smith-Werner Buildings  
Projected Cost- 5-6% of income from  
sale of property to realtor***

- ~ County would be relieved of responsibility of buildings needing repair.
- ~ Would put property back on tax rolls.
- ~ County would lose approximately \$21,000 annually in rental income.
- ~ Could not guarantee recovering investment in property (approximately \$300,000).
- ~ Could create situation where property is allowed to remain vacant and deteriorate until buyer renovates or sells.
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$ ?

Funding Resources: Fiscal Court from sale of property



***Proposal F- Demolish Smith-Werner Buildings  
Including creating green space  
and possible repair to Apex building wall  
Projected Cost- \$100,000***

- ~ Loss of approximately \$21,000 annual current rental income
- ~ Ask city to realign/reconfigure parking lot on Allen Street to compliment plans for green space, pedestrian access and new parking area in back of Smith-Werner buildings.
- ~ Ask City and County to restrict parking in downtown public lots to 8:00 am – 5pm for leased spots and open free of charge to public after 5:00 pm and on weekends.

Cost: \$ 100,000

Funding Resources: Fiscal Court- \$100,000