

THE
RENEWTON 
PROJECT

Two cities. One community.

Development Guide

A resource for professional developers
and private investors

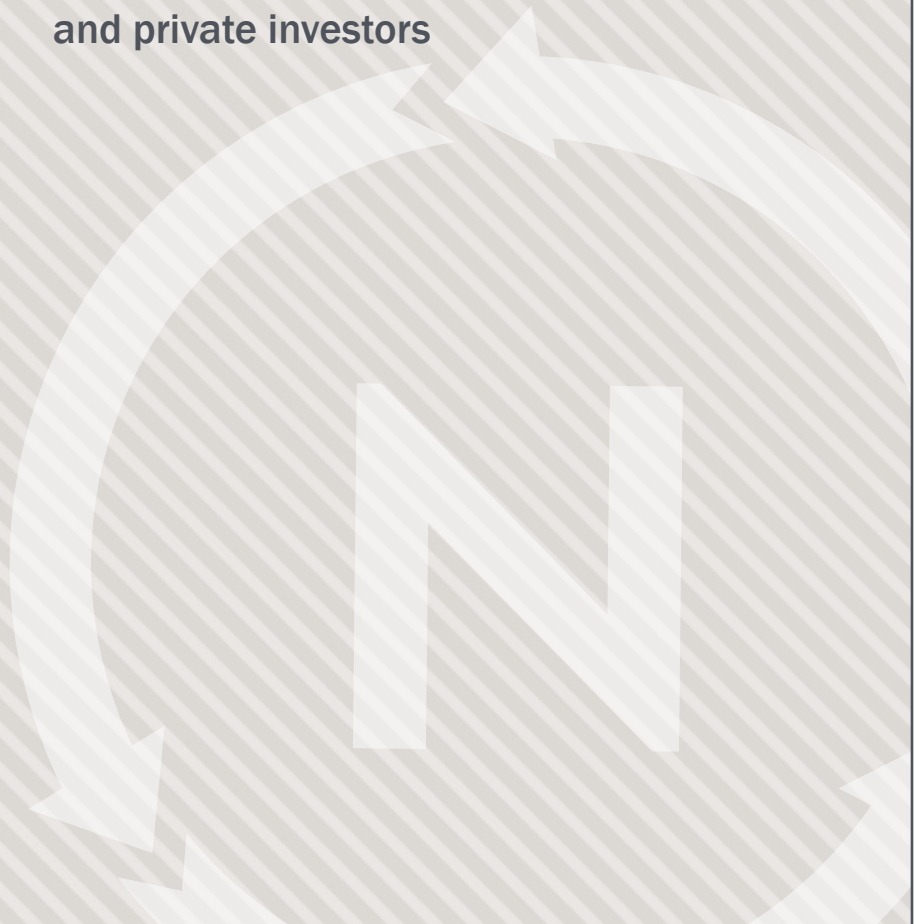


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Note: To be environmentally conscious, this document is intended for double-sided printing.



Online Quick Reference Guide

The following documents are available online at the following addresses:

Planning Documents

The following are available at: www.newtonkansas.com

- [ReNewton 2030 Comprehensive Plan](#)
- [Downtown Redevelopment Master Plan \(PDF\)](#)
- [South Newton/I-135 Corridor Land Use Plan \(PDF\)](#)

Ordinances and Codes

The following are available at: www.newtonkansas.com

- Subdivision Regulations
- Zoning Ordinances
- Building Codes

Development Assistance Programs

See: www.newtonkansas.com

- [Neighborhood Revitalization Program \(PDF\)](#)
- Downtown Revolving Loan Program — contact (316) 284-6002
- [Economic Development Council Programs](#)
- [Kansas Small Business Development Center](#)

Relevant Websites

- City of Newton
www.newtonkansas.com
- The ReNewton Project
www.renewtonkansas.com
- Harvey County Economic Development Council Inc.
www.harveycoedc.org
- Kansas Logistics Park
www.kansaslogisticspark.com
- Kansas Department of Commerce
www.kansascommerce.com
- Kansas Housing Resources Corporation
www.kshousingcorp.org



Welcome to Newton

This is a great time to invest in a city that is ripe for development!

Whether you are exploring a façade improvement or building renovation on Main Street, constructing an industrial facility in the Kansas Logistics Park, or developing a box store in a greenfield on the south side of town, this guide should be your starting point. It has been designed to be informative for the professional developer needing specific information about Newton, as well as for the private investor who may require a step-by-step guide to navigating the development process.

What Is The ReNewton Project?

In February 2011, the City of Newton adopted a new comprehensive plan that was the final product of The ReNewton Project, a Newton-North Newton initiative to create a vision for the region's growth over the next 20 years. This plan is available at www.renewtonkansas.com.

The project's vision statement is as follows:

“Between 2010 and 2030, Newton will expand its tax base and enhance community amenities, while preserving its richness of character, heritage, and way of life.”

In order to grow property values in the community and increase the number of local, well-paying jobs, the plan encourages the community to take a series of steps, including:

- Revitalize the Newton Main Street Historic District, developing it into a pedestrian-friendly cultural center that is home to entertainment, shopping, dining, and residential living.
- Cultivate a spirit of entrepreneurship and actively nurture and support homegrown businesses to create new jobs and increase tax revenues, while also encouraging the Midwest values of self-reliance, self-determination, and willingness to support our neighbors.
- Recruit larger employers from the outside who have values in sync with our community's vision, and who bring with them well-paying jobs and new residents.



Quick Facts About the City of Newton, KS

Population Snapshot

Based on 2010 Census:

- Population: 19,132*
- Growth of 11.3% between 2000 and 2010.
- Children under 18 are 26.4% of the population.
- Adults 65 and older are 15.9% of the population.
- Women compose 51.6% of the population.
- Racial breakdown: 78.1% white (not Hispanic), 16.3% Hispanic/Latino, 2.2% African American, .8% Asian, 2.9% two or more races
- Foreign-born residents: 6.5%
- English not primary language spoken at home: 10.8%
- Education: 89% are at least high school graduates, 23.1% have a bachelor's degree or higher.
- 70.5% of households own their own home.
- Per capita income: \$22,431
- Median household income: \$45,000
- Percentage of people in poverty: 9.5%

**The City of North Newton is adjacent to the City of Newton's northern city limits. The population of that city in 2010 was 1,759, bringing the total community population to 20,891. The City of Newton provides most business services for North Newton residents.*

Brief History

Following the end of the Civil War in 1865, the Atchison, Topeka, and Santa Fe Railroad began extending its line to the southwest from Topeka toward Santa Fe, New Mexico. The rails intersected with the Chisholm Trail at what is now Newton, which was established in July 1871, and became the Santa Fe's railhead in 1872. Longhorn cattle from Texas were shipped to market from Newton between 1871 and 1873. From the beginning, the city's destiny has been closely tied to transportation. The town, named after Newton, Massachusetts (home of some Santa Fe stockholders), quickly became known as "bloody and lawless — the wickedest city in the west," because of an 1871 gunfight at Hyde Park that killed eight men.

German-speaking Mennonites began immigrating to the Newton-Harvey County area in 1874 with encouragement from C.B. Schmidt, a Santa Fe land agent who offered immigrants a good price for government-granted, fertile railroad land. These immigrants contributed greatly to the development of the community, as they brought with them the now-famous Turkey red hard winter wheat seed from

Russia. The growing and milling of this special wheat would make Kansas the breadbasket of the world.

During World War II, the U.S. Navy constructed a naval air station runway near Newton. The runway was deeded to the city and county after the war. The main runway is more than 7,000 feet, giving the current Newton City-County Airport a greater capacity than is usual for an airport of its size.

Newton served as a headquarters for the Santa Fe Railway until the mid-1980s. Although the railroad's influence as an employer has diminished, it remains a visible and very important part of the community — and its transportation infrastructure. To take advantage of its unique mix of air, highway, and rail access, Newton is developing the Kansas Logistics Park (KLP). The park takes advantage of the overlapping connections to both rail and major interstates, and it has ample area for enclosed warehousing and outside storage. The park will enable manufacturers to reduce fees associated with shipping delays and ensure the most efficient means of providing its products to the customer. (See page 18 for more information about the KLP.)

Looking ahead, Newton is poised for growth and is actively investing in its future. Once again, it seems our destiny will be linked to transportation. The community is optimistic about our outlook because of our location along the I-35 Corridor Megapolitan Area, which stretches from Kansas City to San Antonio. This region is predicted to see much of the nation's growth by 2040. Planning and investments made today will ensure that investors and developers can take advantage of that growth potential tomorrow.

Government

The City of Newton has a city-commission form of government and employs a city manager to oversee administrative functions. **Names and contact information** of the current city commissioners and city staff can be found at www.newtonkansas.com.

Workforce

Newton is only a 20-minute drive from the City of Wichita, giving employers a broad base of employee possibilities beyond those living in the City of Newton. This is especially of interest to those looking for manufacturing and industrial employees. It is estimated that within a 50-mile radius of the community, there are



61,000 manufacturing employees, plus 30,300 aircraft workers. No other place in the Midwest has the abundance of qualified workers, suppliers, tier I and tier II manufacturers, original equipment manufacturers, and aircraft companies that south central Kansas does.

Education

Newton places great importance on education. From its outstanding public and private K-12 school systems to Bethel College (a private liberal arts college in North Newton) and Hutchinson Community College, citizens have access to many traditional and nontraditional forms of education and workforce training. Wichita State University also serves as a strong regional partner to help our metro area meet business and industry workforce development needs.



Building and Zoning

The City of Newton adheres to the following codes:

- 2006 International Building Code
- 2006 International Residential Code
- 2009 International Plumbing Code
- 2009 International Mechanical Code
- 2008 National Electrical Code
- 2009 International Fuel Gas Code
- 2006 International Property Maintenance Code

Builders must be certified through the Block & Associates, International Code Council, or Prometric testing programs. Contractors also may take a local exam for a contractor's license in the City of Newton, Kansas. All contractors and subcontractors must be licensed and insured.

The Building and Zoning Department performs inspections on all new construction and remodeling of residential and commercial projects, along with code enforcement.

Special Assessments

Special assessments for city streets and utility projects are available with amortization at 10, 15, or 20 years, as requested by the developer. A letter of credit is required in the amount of 35% of the total project, presented with the valid petition, for special assessment projects. No impact fees are required.

Public Utilities

Newton is a full-service municipality. Its award-winning wastewater treatment plant is newly modernized and upgraded, designed for a population of 25,000. The water supply is sufficient for many decades. The city also provides trash service with mandatory recycling to all citizens.

Emergency Services

A professional fire and emergency medical service department is available 24/7. A new fire station opened on the south side of Newton in 2011. Newton has a Class 2 fire service rating. Advanced Life Support ambulance service is provided throughout the city.



Contact Information

City of Newton Community
Development & Planning
→ (316) 284-6002

Newton Area Chamber
of Commerce
→ (316) 283-2560

Harvey County Economic
Development Council
→ (800) 648-7759 or
→ (316) 283-6033



Newton Development Districts

The City of Newton has three districts it has prioritized for new development:

- Downtown — bounded in general by 9th and 1st Streets to the north and south, and by Walnut and Ash Streets to the east and west
- South Side — land south of U.S. Highway 50
- Kansas Logistics Park and adjacent industrial areas, most of the land east of the city on Highway I-135

⇒ DOWNTOWN

Taking Downtown to the Next Level

When the 2009 Downtown Master Plan was developed, it was the result of a community engagement process to build upon earlier efforts to revitalize the historic downtown core. The committee behind the plan believed in 2009 that it was time to take Newton's downtown "to the next level" in order to maintain a sense of community around the core downtown area. Ideally, the plan is for downtown to become the social center of the community.

Proposed additions to downtown that came out of the master plan process included:

- A downtown farmer's market
- A downtown theater — ongoing efforts to refurbish and renovate the Fox Theater
- Urban mixed-use infill development — adding housing to upper floors so that people are downtown 24 hours per day
- Urban green space and multi-purpose venue spaces — locations for relaxation and events

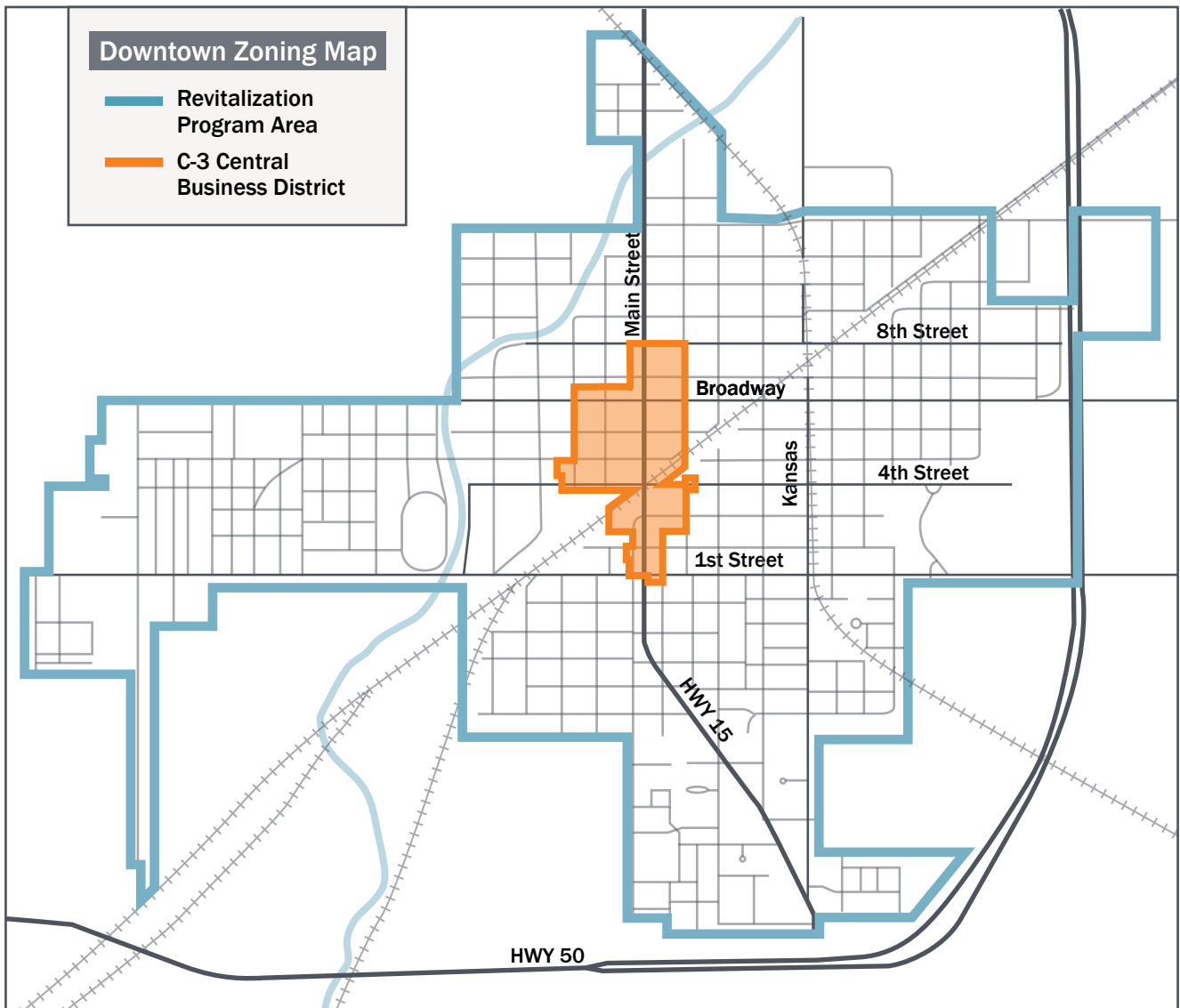
Starting on page 20, the Downtown Master Plan outlines 13 urban development opportunities that combine to make an ideal development pattern. These opportunities should be reviewed by anyone contemplating a project in the downtown area.



Downtown Reports

Anyone interested in development or redevelopment in the downtown area should be familiar with the following reports available at www.newtonkansas.com:

- [The Master Plan for Newton Downtown Redevelopment District, adopted in 2009 \(PDF\)](#)
- [The ReNewton Comprehensive Plan \(2011\) \(PDF\)](#), Chapter Four: Preserving Community Character, Neighborhoods, and Downtown, starting on page 24



Zoning

While a large portion of downtown lies within the C-3 Business District, there are large pockets of public, quasi-public, and park areas, in addition to zoned residential and industrial areas. The mix of zoning districts, their locations, and the presence of the BNSF railroad creates numerous complexities throughout the district.



Case Study: Newton Mercantile Building

About 10 years ago, Newton resident Dewayne Pauls and then-Newton Area Chamber of Commerce President Virgil Penner were talking about how to improve downtown Newton. With 18 empty storefronts at the time, Penner said someone needed to just start buying buildings and fixing them up.

“So I asked him how many he wanted me to buy,” said Pauls, who has worked as an accountant in Newton for 45 years. “My wife, Betty, and I wanted to do something for our community. It was time to pay Newton back and sow the seeds for Newton’s future.”

One of Pauls’ first downtown investments was the Newton Mercantile Building at the northwest corner of 6th and Main, a building originally constructed around 1890. He and Betty, along with several other investors, purchased it with the intention of gutting it and doing a major renovation — which they proceeded to do.

But what made this project different was an idea that Pauls had one day while talking with a friend about the property. They thought it would add something special to the project if people could pass from building to building on the block without having to go back outside.

During the demolition process, they found that great minds think alike. Old archway openings linking the downtown buildings had been built roughly 90 years ago and then later covered up. However, they only discovered the archways after they had made a cut in one, forcing them to rebuild the archways with new materials.

“We found out that it wasn’t an original idea,” Pauls said. “Unfortunately, we found out too late.”

Now Pauls owns a number of buildings downtown, including some in the 600 block of Main. Where he owns conjoining buildings, he’s tried to create interior openings between stores, and the public and his storeowners enjoy the flow of traffic between businesses.



“It really helps to encourage people to shop the whole block,” Pauls said.

Now the three buildings he jointly owns at the corner of 6th and Main house Prairie Harvest, Pages, the Leaf Tea Lounge, Kitchen Corner, and a meeting room on the main floor, with space on the upper two floors for professional offices, artists, photographers, and a quilt shop. While he’s had some modest turnover, he almost always can fill these spaces before they are open.

His philosophy is to find tenants who complement one another. With the open format, businesses have to get along and support one another or they won’t be able to coexist. To date, Pauls says he’s found a great group of tenants who want to make the concept work — and they enjoy it.

“Many people were convinced I’d never make it. When one puts in their own money, one is able to do things the way you like to see it done,” Pauls said. “We’ve had many wonderful comments about the results.”

Pauls, who privately financed the rehabilitation project through Midland National Bank, has three business partners who own shares in the building. His daughters — Lori Kingsley and Sherri Woods — as well as his grandsons also are involved in the family rental business, which, in addition to the downtown properties, includes residential rentals.

Building a strong downtown for Newton is a goal that Pauls has encouraged his family to keep up even after he is gone. He encourages others to make similar investments in the community’s future.

“While improving older buildings isn’t always financially advantageous at first, having a strong downtown really ties a community together,” Pauls said. “You have to have a passion for redeveloping older properties or it won’t be successful.”



⇒ SOUTH SIDE

Building in a Highly Visible Area

As Newton continues to grow, the proximity to Interstate 135 and U.S. Highway 50 will continue to make South Newton an attractive area for residential and commercial development. This area has access or planned access to municipal water and wastewater services, an inventory of available land, and easy access for commuters traveling daily to Wichita.

The 2008 South Newton/I-135 Corridor Land Use Plan presents a clear vision for how this area should develop, allowing for future capitalization on assets while ensuring long-term viability and sustainability of the area. Local leadership has been dedicated to making this emerging part of Newton a great place to live and work through:

- Guidelines to ensure visually attractive construction.
- Zoning regulations that encourage the creation of neighborhoods with a mix of residential, commercial, and institutional development.
- Pedestrian-friendly infrastructure and recreational amenities such as parks, walking trails, and sidewalks.

Kansas Avenue Mixed-Use Corridor

One of the key areas for future city growth is along Kansas Avenue south of U.S. Highway 50 to 36th Street. This area is planned to accommodate a mix of activities, ranging from residential neighborhoods to commercial uses. These commercial areas will support not only the residents living south of U.S. Highway 50, but people throughout the greater Newton-North Newton region. The abundance of undeveloped greenfields makes Kansas Avenue especially attractive for big-box retailers, as well as multi-tenant shops and restaurants.

Newton Medical Center, south of U.S. Highway 50 off Kansas Avenue, also serves as a focal point for the district. There is room for the construction of additional medical offices, diagnostic centers, laboratories, and related businesses.

The vision laid out in the Master Plan is for Kansas Avenue to continue to serve as the primary arterial, creating an aesthetically pleasing experience for nearby



South Side Reports

Anyone interested in development south of U.S. Highway 50 should be familiar with the following reports:

→ [South Newton/I-135 Corridor Land Use Plan \(2008\) \(PDF\)](#)

→ [The ReNewton Comprehensive Plan \(2011\) \(PDF\)](#), Chapter Six: Future Land Use, starting on page 46

residents and visitors. This vision will require developers to be thoughtful in their site planning, architecture, signage, and landscaping. Safe and convenient sidewalks and bikeways must connect the shopping areas to residential areas within the corridor.

See pages 14 to 16 of the [South Newton/I-135 Corridor Land Use Plan \(PDF\)](#) for more information.

Zoning

Zoning along Kansas Avenue contains a mix of single- and multi-family dwelling districts, as well as neighborhoods and general business districts.

I-135 Regional Commerce Area

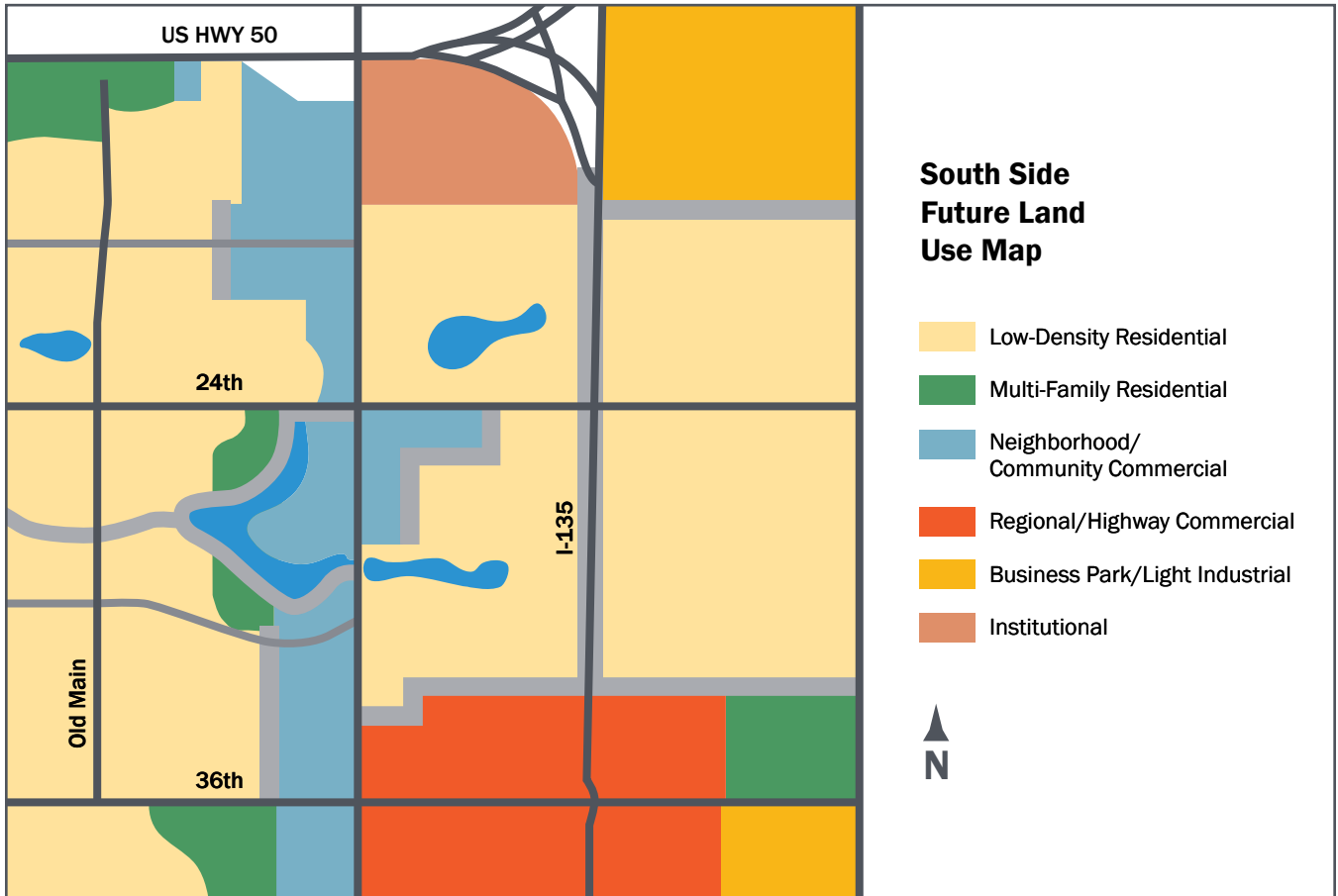
Defined as the area one mile east and west of the I-135 Highway from 12th Street on the north to a half mile past 36th Street on the south, the I-135 corridor offers unique mixed-use opportunities for development. Because of this area's visibility from the highway, and the large number of residential neighborhoods planned, developments will be designed to present a visually appealing entranceway to Newton. A few facts to keep in mind:

- The northern part of the corridor is mostly developed, with a few key undeveloped sites suitable for infill development.
- The 36th Street interchange will become a principal entryway into Newton.
- The west side of I-135 has, or will have, three residential neighborhoods of about 160 to 200 acres each. These neighborhoods must be protected from encroachment of developments that are incompatible with family living.
- The east side of I-135 is earmarked for industrial development. The plan envisions the area being developed as business parks to present a positive image from I-135.

See pages 53 through 55 of the [ReNewton Comprehensive Plan \(PDF\)](#) for more information.

Zoning

Zoning in this region varies; see the map for a specific location.





Case Study: Sand Creek Station Golf Course

The Sand Creek Station project started as a concept in the mid-1990s, and finally came to fruition a decade later as a public-private partnership. With an award-winning, city-owned golf course at its core and 560 lots surrounding it, this planned golf-course subdivision gave the community a housing asset to attract residents from Wichita looking for a full-service community with a small-city feel, while also providing the community with a terrific recreational amenity it was previously lacking.

The challenge for the city was to fund the project without using existing property tax revenues or raising the mill levy. The business model eventually adopted was to use the revenues generated from the increase in the development's assessed valuation to pay for the golf course.

The city hired the National Golf Foundation to conduct a market analysis about what kind of golf course could be operated successfully in Newton.

“Their recommendation was to build a B+ golf course — a high-quality municipal course that was better than average, but not a country club,” said Tim Johnson, Newton assistant city manager. “We were instructed to build a course that could charge mid- to high-end green fees for a municipal course, but not one that would crush the city with its development costs.”

The residential developers gave the city \$600,000 to develop the course. Each lot was given a special assessment of \$2,400 (paid over 20 years) to help pay the debt service on the project. Revenues generated through property taxes on the houses built around the course will continue to be applied to the project's cost.

Johnson said the best move the city made was not to manage the course itself. The city outsourced operations to KemperSports, a firm that manages more than 75 courses nationwide. From the start, the course has made a profit operationally.



“We did our homework, built the right course for the market, built a quality course for the market, and hired the best firm to run it,” Johnson said.

Another smart move was applying for — and receiving — a federal grant to construct a gray water line for course irrigation. This means the course is irrigated with wastewater from domestic uses such as laundry or bathing. This practice saves the city \$50,000 a year.

Lots are still available in the subdivision, and homes are being built to sell between \$165,000 and \$500,000. The city has anticipated it will take until approximately 2025 for all the lots to be developed.

“Sand Creek Station is virtually the only affordable golf course left in the metropolitan area with a significant number of residential lots for sale,” Johnson said. “One of the reasons we built it [the course] is to attract people to move here who want a small-city quality of life, but close proximity to Wichita.”



➔ KANSAS LOGISTICS PARK

Kansas Logistics Park and Industrial Areas

The City of Newton, in association with Harvey County, the Harvey County Economic Development Council, Watco Companies, and TranSystems, has established the Kansas Logistics Park to attract new industries to the area by capitalizing on Newton’s strategic geographical location and convenient access to highways, rail lines, and the nearby regional airport. More than 400 acres have been set aside for the development of the KLP, with additional land available for expansion, including ample room for enclosed warehousing and outside storage.

The current focus is on recruiting wind energy and other new energy-related manufacturers. The KLP is attractive to these industries because it can help overcome the high costs associated with manufacturing, storage, and transportation of large equipment such as wind turbines.

The Kansas Logistics Park, along with large tracts of undeveloped land in the same general proximity, is located along what is referred to as the “SuperCorridor,” a region that stretches from Canada south through the United States, and into the seaports of Mexico. The KLP offers manufacturers a central location with room for expansion, and easy access to multiple transportation modes, which will reduce the costs associated with shipping delays and speed up distribution.

Watco, the largest privately held short line railroad company in the country, connects the KLP with the Union Pacific and BNSF Class I carriers into the nation’s rail network. The Watco line also connects the KLP with the Port of Catoosa in Tulsa, which is one of the largest, most inland seaports in the United States. This connection will give the KLP, which is seeking Foreign Trade Zone status, the ability to assist businesses and manufacturers in efficiently, and economically, transporting products into the heart of the United States before having to pay import taxes.



Industrial Development

Anyone interested in industrial development should be familiar with the following:

- ➔ [The ReNewton Comprehensive Plan \(2011\) \(PDF\)](#), Chapter Six: Future Land Use, starting on page 46
- ➔ www.kansaslogisticspark.com





The City of Newton has extended water and sanitary sewer utilities to serve the KLP. Improvements to roads, rail lines, and airport runways are also in the works or have been completed through millions of dollars of grants from the Kansas Department of Transportation, the U.S. Economic Development Administration, and the Federal Aviation Administration.

Please see the Kansas Logistics Park website for additional information:
www.kansaslogisticspark.com



Case Study: New Millennium Wind Energy

By late 2013, the Kansas Logistics Park will be home to a new 50,000-square-foot manufacturing facility for New Millennium Wind Energy. A phase II development project is already planned for a 100,000-square-foot expansion. The company plans to employ about 70 people initially, with an annual payroll of \$3 million, and plans to hire 323 employees after its phase II expansion, with an estimated payroll of \$14 million by 2018.

	Phase 1	→ Phase 2	→ TOTAL
Facility sq. ft.	50,000	100,000	150,000
 Employees	70	323	393
Annual Payroll 	\$ 3 million	11 million	14 million

“Newton was a logical choice for our manufacturing facilities,” said Drew Thacker, founder and chief executive officer. “Newton has a strong local workforce with the right skill sets, as well as good logistical support, including rail, barge, and highway access. Those were key factors in our decision, as our product lines will ship worldwide. We wanted to be in the heartland of wind generation and believe that Kansas will lead the way in this field.”

The project is making use of several **incentives**:

- The City of Newton will finance the facility’s construction through industrial revenue bonds, structured as interest-only payments for the first three years, paid by the city and Harvey County.
- The Kansas Logistics Park Development Authority will own the building and will lease it to New Millennium under a long-term lease.

- After the first three years, New Millennium will pay all debt service and operating costs.
- The city has granted a 10-year, 100% tax abatement for the facility.
- The city and county will pay the costs of extending a rail spur to the New Millennium facility, through a Kansas Department of Transportation grant.
- The facility will bear no special assessments for the surrounding rail, street, and utility improvements, most of which are being covered by the U.S. Economic Development Administration and KDOT grants.
- The Harvey County Economic Development Council is helping with employee recruitment and hiring.

Of the project, Kansas Governor Sam Brownback said: “New Millennium represents an innovative company making exciting products in an expanding industry for the state. Kansas is beautifully positioned to create new good-paying jobs through alternative energy.”





Property Development 101

For those who do not live and breathe the terminology of property development daily, the City of Newton has created this section to help guide you through the process. Hopefully this chapter will help you investigate whether property development is right for you and get you started on the right foot!

The first rule of thumb with any development or redevelopment project is that you can only construct, or fix up, a building to the degree that it can generate enough revenue to repay the investment costs and produce an acceptable rate of return. This is the advantage of development programs described in the appendix of this book (page 30) — using these programs may provide the critical assistance necessary to make your venture financially feasible.

Please take the time to review your options and talk to the contacts provided in this book to make sure you are using all the resources available to you.

Assessing Risk

Let's say you have a good idea and a vision for how it would look when it is complete. That's great. The first step in determining whether that dream can become a reality is assessing the project's risk, what will be required of you to make it come true, and what your anticipated returns may be (other than pride in your accomplishment).

Your project can only be a success if the property will generate enough revenue to offset the risk incurred — and by its very nature, there is a lot of risk involved in real estate development! A few possible risks:

- Construction costs coming in higher than anticipated.
- Sales prices actualizing at a lower price than predicted.
- The sales/rental process taking longer than projected.
- Financing coming in at a higher interest rate than expected.

Of course, you can also be pleasantly surprised if any of the above risks turn out more favorably. A professional real estate developer makes his or her living by recognizing and acting upon potential opportunities. Through experience, successful developers learn ways to minimize risk at every turn. For nonprofessionals or novices, the key to minimizing your risk is to ask a lot of questions of those who have the experience you lack.

Of course, as a business or property owner, you may also realize a return on investment by increasing the success of the business in the space, or by generating higher rental income through property enhancements or expansions. If doubling your store's retail space triples your annual income, then the project might pay for itself in a short amount of time.

However, the risk in a project goes beyond you. The lender, who provides the construction loan or carries the permanent debt, is also at substantial risk. Requirements that limit the amount of debt that can be secured by a property, as well as provisions that often require the borrower to personally guarantee the debt, lower that risk for lenders.

Reviewing Financing Options

When you've got a cool idea, it's hard to not get wrapped up in the emotions of the project. However, success in real estate development — and in securing financing — depends on solid market research along with a good plan to test the idea's feasibility. Nail down the numbers before rushing to the architect or calling contractors.

Most developers use a variety of financing sources to fund a project, including equity (cash), debt (loans), grants, and tax credits. A good rule of thumb is to have about 20% of the total cost up front in equity. This shows your commitment to the project and provides working capital to get you started.

Private bank loans are probably the second most used source of funds. There are also government agencies and nonprofit organizations that can provide low-interest loans as an incentive to developers for projects such as affordable housing and historic preservation.

Grants and tax credits are ways government incentivizes people to improve property. For example, the City of Newton offers a Neighborhood Revitalization Program that can provide property tax relief to commercial or residential owners whose property taxes have increased because of property improvements. (See more on this program and others starting on page 30.)

How you repay your loan depends on whether you plan to sell or rent the property upon completion. Remember, even small projects will take some time to complete and find an occupant for, so make sure you have a plan for carrying the debt in the short term.

Before you get too caught up in your vision, do your homework on funding options. For more information, contact the City of Newton Community Development Office at (316) 284-6002, the Newton Area Chamber of Commerce at (316) 283-2560, or the Harvey County Economic Development Council at (800) 648-7759 or (316) 283-6033.

When are the stakes too high?

When taking on a project, you must decide whether the potential return on your investment is worth the risk if the results don't follow your plan. For example, let's say you find a site that can accommodate 10 homes. If the cost of building those 10 homes is \$100,000 each and you think you can sell them for \$125,000 after commissions, then the differential represents a 25% return on the investment. If a potential 25% return is worth the associated risks to you, then it might be a project to pursue. If not, then you may need to revise the plan or abandon the project.

Developing Your Pro Forma

Before recruiting investors or approaching a bank for funding, it will be helpful to create a pro forma for your project. *Pro forma* means literally “as a matter of form.” This is a hypothetical but realistic look at how the project will financially play out, anticipating all expenses and revenues. While based on many assumptions, if you’ve done solid research and compared your project to similar properties in the community, your pro forma should help both you and other investors determine whether a project is viable. If you move ahead on the project, the pro forma should be updated throughout the process, as your assumptions (such as estimated construction costs) become realities (invoiced fees).

If there are multiple approaches to your project — such as dividing it into different numbers of units or floors, or adding upgraded features — you can create different pro formas for each scenario. Your pro forma should also anticipate long-term maintenance needs, such as roof or HVAC replacement, with money put in reserve regularly to prepare for these costs.

The pro forma should help you to:

- Identify assumptions about the financial and operating characteristics of the project — including the estimated total cost and the estimated value of the project upon completion.
- Develop revenue and expense projections.
- Assemble the results into profit and loss projections.
- Translate the information into cash-flow projections (monthly payments vs. monthly receivables).
- Compare the resulting balance sheets to the original plan.
- Make decisions between alternative plans.

Determining the value of your property once the project is complete isn’t as much of a guess as you might think. You may want the help of a local commercial real estate agent, appraiser, architect, contractor, and even city staff members to calculate the estimated value. An experienced commercial banker can probably give you some guidance as well. There are also some online calculators that can help you estimate construction costs and property values.

Determining All Expenses

If you are developing a property that will be leased to tenants, you must decide what type of lease terms you will offer. Full-service and triple-net (NNN) are two common types. Under full-service, the owner pays all utilities (gas, electricity, water, garbage, and maybe some telecommunications services), taxes, insurance,

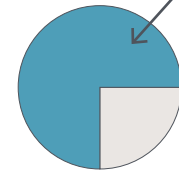
maintenance, landscaping, and custodial services. Triple-net leases pass on all of these expenses to the tenant. You may come up with an option in between. Regardless, you need to make these decisions before developing the expenses in your pro forma if you want an accurate snapshot of the operating costs.

Deciding on the type of lease can also help you make some decisions during the construction process. For example, if you are going to be undertaking all of the costs under a full-service lease, you might want to invest in a high-efficiency HVAC system or flooring that will better endure wear. Such expenses may cost more now, but save you in the long run.

Another issue to keep in mind is property management. Depending on the size and scale of the project, you might want to hire an outside firm to manage the property. It takes a lot of time to market properties, show them, negotiate leases, keep up with maintenance and handle accounting. If you hire a management company, you'll need to budget for their fees. However, if you decide you have the capacity to handle the property yourself, you need to figure your time, the cost of marketing, and any legal fees into your expenses.

Bank Financing Terms

Financing your project through a **bank loan** is very common. Such a loan is often secured by a real estate asset and/or a personal guarantee. Traditional loans are usually limited to the value of the asset securing the debt, with maximums on secured debt based on measures such as a **loan-to-value ratio**. A typical ratio may be 75%, meaning the debt on the property cannot exceed 75% of the expected value of the finished property.



Typical Loan-to-Value Ratio
Debt on the property cannot exceed 75% of the expected value of the finished property.

Another term you might hear is **debt-coverage ratio**, which means that the net operating income of the property (income less expenses) is anticipated to exceed the debt service (monthly payments) on the loan. A debt-coverage ratio of 1.25 would indicate that the expected income would be at least 125% of the debt service of the loan. These limitations help assure the bank that the borrower can pay back the debt.

A **second loan or second-position debt** is a type of debt with higher risk to the bank, thus higher interest rates and fees. It is riskier because if the loan goes into default, it is paid back after the primary loan. This type of loan also can be secured with an asset.

A **construction loan** is designed to be short term and often carries higher interest rates and fees than a conventional loan. It is often guaranteed by the equity invested in the project. The part of the building that is complete serves as collateral, which makes it very risky to the bank, because if the project fails, the bank is left

with an unfinished building. Thus, this type of loan is more like a line of credit, with funds drawn at specified intervals. In theory, as the size of debt grows, the project is also moving closer to completion. With each draw from the line, the bank usually will require a progress report. The bank may also hold back a percentage of the principal until final inspections are complete to motivate the owner to finish the project on time.

Attracting Outside Investors

A detailed pro forma showing a high rate of return is the best way to recruit private investors. The pro forma spreadsheet shows return on investment by dividing net operating income by total equity investment. This standard ratio will help investors compare your opportunity to other types of investments. Property development can be risky because buildings are harder to sell than, say, stocks. That's why property investors typically look for projects with a higher rate of return, such as 12% to 16%. The rate an investor will accept varies with the economy and the stock market.

Be sure your pro forma gives a multi-year projection. As time goes by, your rents should increase, while the debt service typically will stay constant. Thus, the rate of return often goes up over time.

Financing Historic Renovations

Many of the buildings in downtown Newton are historic structures, many well over 100 years old. Keeping these buildings in good physical shape will impact the success of the businesses in them and the overall look of the community itself.

Rehabilitating older buildings can be cost effective and energy conserving. Such investments will stabilize or increase property values, encourage others to reinvest in their own properties, maintain or increase local government tax values, and provide new housing and jobs for the community. In fact, according to the U.S. Department of Commerce, rehabilitating historic structures creates more jobs and has a greater impact on local suppliers than the same amount of investment in new construction.



Be sure to read the appendix of this guide (starting on page 30), which provides a listing of possible funding sources, including the Newton Neighborhood Revitalization Program, federal rehabilitation tax credits, State of Kansas rehabilitation tax credits, and investment tax credit for low-income housing.

Ready to Move Ahead?

If you've done your homework, created and evaluated a pro forma, talked to experienced professionals in the community, and identified potential sources of funding, you've taken steps to prevent a money-losing situation. If the bottom line falls within your own tolerance for risk, you should feel that you are acting wisely and not just feeding upon your own excitement over the project's potential.

Hiring Professionals

As soon as you have decided the project has merit, we encourage you to hire an architect to partner with you on the project. Architects have the experience to both capture your vision and help you maximize your budget through:

- Conceptual design services — defining the project's potential vision.
- Schematic design — refining the vision and determining rough construction costs.
- Design development — further refining the vision and costs, and preparing for the city permitting process.
- Construction — guiding the project through the construction process.

Architects do more than design buildings. They also act as your representative with the city and contractor. They solicit bids, monitor progress at the construction site, and facilitate building inspections. Architects bill in different ways, including lump sum, percentage of the total project costs, or hourly, depending on the services you select.



Getting Started: Navigating City Hall

Now that you've decided your project has merit and you've got your financing lined up, it's time to figure out the logistics of developing a property within the city limits. This guide attempts to streamline the process of navigating city regulations regarding building projects.

The City of Newton Department of Public Works and Engineering will be your primary resource. All forms referenced below and most of your questions can be answered on the city's website, www.newtonkansas.com, or by calling **(316) 284-6020**.

1. Determine whether the property needs to be platted.

If the property is already platted appropriately for your project, then move on to step #2.

A licensed surveyor must map all land to be developed to show subdivision lines, streets, alleys, easements, and topographic features. This map, called a plat, defines how the land will be divided so that it can be sold to different owners. The Newton/North Newton Planning Commission must approve the plat before it is a legal document. Once approved, sections of land can be referred to in block and lot numbers.

If the land you want to develop needs to be platted or replatted, you need to obtain a Plat Application and submit it to the Newton/North Newton Planning Commission. A filing fee is assessed for each lot to be platted. To determine whether your land is platted, contact the Department of Public Works and Engineering at **(316) 284-6020**. Subdivision regulations explaining the city's requirements for platting and development are available at: www.newtonkansas.com (PDF).

Any questions about property ownership should be directed to the Harvey County Register of Deeds at **(316) 284-6950**.

2. Determine whether the property is correctly zoned for your type of business.

If you aren't sure of the property's zoning, then download the current zoning map from our website, www.newtonkansas.com (PDF), or contact the Engineering and Code Enforcement Office at **(316) 284-6020**.

If the land is not correctly zoned, you can submit a Zoning Amendment Application to the Planning Commission. Please keep in mind that Newton

does not allow spot zoning; thus, a change of zoning request may be denied if the change would make that property the only property in the general area zoned differently.

Once you are sure of your zoning status, move on to step #3.

3. Find out whether the property is located in a flood zone.

To determine whether your property is located within a flood zone, contact the Engineering and Code Enforcement Office at **(316) 284-6020**. The Federal Emergency Management Agency (FEMA) has designated properties along Sand Creek and Slate Creek in a flood hazard area. Article 14 of the Zoning Ordinance places restriction on the use and development of properties in these flood zones.

If there are no conflicts with flood zones, move on to #4.

4. Determine whether the property must conform to any historic preservation restrictions.

Development on property in a historic district or within 500 feet of a historic property or district may require a review to determine its impact on the environs of any adjacent historic properties. Call the historic preservation assistant at **(316) 283-2560** to determine whether your property is affected.

Once you know of any restrictions on your property, move on to #5.

5. Purchase your building permit.

Building permits allow the City of Newton to track all building projects. Building inspections are vital to the safety, health, and overall well-being of the community. Inspections make sure that all construction conforms to the adopted building, electrical, mechanical, and plumbing codes, and that all structures are safe for occupancy.

Permits can be purchased at Newton City Hall, in the Engineering and Code Enforcement Office, on the 3rd floor. The permit fee varies depending on the project valuation. A table explaining the fee structure can be found at www.renewtonkansas.com.

Once you have the appropriate permits, get to work! Move to step #6 when it is time for an inspection.

6. Schedule building inspections.

When your project is ready to be inspected, call **(316) 284-6020** to arrange for an inspector to visit your property. You'll need to tell the staff person the address of the project, the type of inspection, and the time you'd like the inspection. Please try to allow 24 hours' notice for each inspection. Your contractor or architect will be able to guide you through this process.

Once your property is safe for the public to enter, you'll receive a certificate of occupancy and you can begin using your building.

7. Choose building signage that fits zoning classifications.

A permit is required to install most types of signs. Signage is regulated by Article 11 of the Zoning Ordinance, based on the zoning classification and the sign type, size, location, and illumination. There are some types of exempt signs. The Engineering and Code Enforcement Office can help: **(316) 284-6020**.

8. Determine whether you need a business license.

Certain types of enterprises require local licensing. The City Clerk's Office is charged with all forms of local business licenses and permits, including:

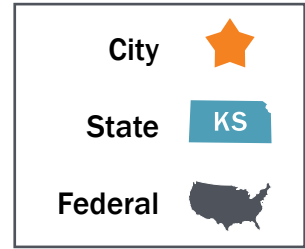
- Cereal malt beverages
- Liquor (following state approval)
- Food
- Peddlers
- Taxi cabs
- Street closures (construction- and nonconstruction-related)
- Fireworks stand permits
- Handbills
- Pawnbroker and precious metal
- Mobile home parks

Applications for these licenses can be downloaded at the City Clerk's page at www.newtonkansas.com, or obtained in the Utility Billing Office on the ground floor of City Hall, 201 E. 6th Street.



Appendix: Project Tools

Developers have many alternatives when putting together financing for their projects, including city, state, and federal incentive programs. The list below overviews many programs that might be applicable to your project.



Tenant Improvement Loans

In some instances, the City of Newton may offer property owners low- or no-interest loans for a variety of uses, from leasehold improvements to operating capital for commercial property within the downtown Newton Central Business District (C-3 Zone).



Community Improvement Districts (CIDs)

Property owners and developers can petition the City of Newton to establish CIDs for commercial, industrial, or mixed-use projects. CIDs can fund eligible private and public improvements by imposing a special property tax, sales tax, or combination of both within the district.



Industrial Revenue Bonds (IRBs)

IRBs are used in Kansas to finance acquisition and construction of a broad variety of industrial and commercial properties. IRBs require a government entity to act as the issuer of the bonds. The entity will hold an ownership interest in the property for as long as the IRBs are outstanding. The issuer leases the property to the business tenant on a triple-net basis for a term that matches the term of the IRBs, with lease payments sufficient to pay the principal and interest on the IRBs. Such properties are eligible for property tax exemption. Income earned on IRBs is exempt from all state taxes, except inheritance taxes. Income earned from many, but not all, IRBs is also exempt from federal income taxes. After the IRBs are paid in full, the property is deeded back to the business.



Property Tax Abatement

Property taxes may be abated for up to 10 years for new improvements to property, and for newly acquired items of personal property in connection with an expansion or relocation of a business's operations in Newton if new jobs are created as a result of the improvements.



Tax Increment Financing (TIF)

The City of Newton can use TIF district financing to fund the costs of public infrastructure and other eligible improvements related to redevelopment of blighted or declining areas. TIFs allow use of increased taxes from redevelopment of property in a redevelopment district to pay for certain improvements in conjunction with the redevelopment.

Current eligible areas include:

- Blighted areas — including environmental contamination and 100-year floodplains.
- Conservation — when over half of the buildings are more than 35 years old and show signs of dilapidation.
- Former officially designated Enterprise Zones.
- Major commercial entertainment or tourism areas.
- Bioscience development areas — leased to the Kansas Bioscience Authority.

KS

High Performance Incentive Program (HPIP)

This program was designed to retain Kansas' existing high-performance businesses; encourage investment in worker training and education; and attract new, high-quality firms to the state. To be eligible, a firm must also invest 2% of payroll in training or participate in one of the state's workforce training programs. Eligible firms must be in the major Standard Industrial Classification (SIC) categories of 20-49 or 60-89, or be a national headquarters or ancillary support operation. Benefits include a sales tax exemption, a generous investment tax credit, and workforce training tax credits.

KS

Kansas Enterprise Zone Act

Harvey County is designated as a nonmetropolitan business region, which allows for enhanced incentives under the Kansas Enterprise Zone Act. Eligibility depends on the type of business, its location, and the number of jobs that are created. These credits can offset 100% of a firm's corporate income tax liability, and the unused portion of the credit may be carried forward to subsequent years until the entire credit is used. If eligible, a sales tax exemption may be granted on the purchases of goods and services related to constructing, enlarging, or equipping a facility. See www.kansascommerce.com for more information.

KS

Kansas Economic Opportunity Initiatives Fund

These 0%, forgivable five-year loans provided by the state legislature address opportunities or emergencies that may have a substantial impact on the Kansas economy. Eligible opportunities could include:

- The expansion of an existing Kansas enterprise.
- The potential location in Kansas of the operations of a major employer.
- The award of a significant grant that has a financial matching requirement.
- The possible departure from Kansas, or the substantial reduction of the operations, of a major employer.
- The closure of a major federal or state institution or facility.

See www.kansascommerce.com for more information.

KS

Promoting Employment Across Kansas (PEAK)

This program encourages businesses to relocate employment to Kansas. For-profit companies who move jobs from outside the state to Kansas can retain 95% of the payroll withholding tax of the relocated jobs over a period of five or more years. There are restrictions on the type of businesses that can qualify. See www.kansascommerce.com for more information.



Newton Neighborhood Revitalization Program

The City of Newton has partnered with USD 373 and Harvey County to provide a rebate of up to 100% of the additional property taxes incurred as a result of improvements made to commercial or residential property. Improvements must increase the appraised value of the property by at least 15% or \$5,000, whichever is greater. Eligible commercial properties receive a decreasing (tiered) rebate over a period of 10 years, while rehabilitated residential properties receive a 100% rebate over a period of five years. A full brochure is available at www.newtonkansas.com (PDF). See page 10 of this book for a zoning map.



Federal Rehabilitation Tax Credits

Incentives exist in the Internal Revenue Service Code for the rehabilitation of certified structures listed on the National Register of Historic Places, and buildings built prior to 1936 that are not listed on the National Register. Rehabilitations must be substantial. Incentives include:

- A 20% tax credit for the certified rehabilitation of a listed historic structure.
- A 10% tax credit for the rehabilitation of nonhistoric, nonresidential buildings.

See www.nps.gov for more information about these tax credits.

KS

State of Kansas Rehabilitation Tax Credits

A tax credit of 25% of qualified expenses can be taken off income taxes owed to the state when the cost of a rehabilitation project exceeds \$5,000. These credits may be sold and carried forward for up to 10 years following the tax year in which the plan was first placed into service. This credit can apply to both buildings that produce income and those that don't, including private residences. Before you apply, the building must be listed on the Kansas State or National Register of Historic Places or be a contributor to a state or nationally listed historic district. All projects must be reviewed and approved before work begins. There is no cap on expenses or any limit to the number of times you can apply for and take this credit. All work must meet the Secretary of the Interior's Standards for Rehabilitation. Plans and specifications must be reviewed by the State Historic Preservation Office. See www.kshs.org for more information.



Low-Income Housing Tax Credit (LIHTC) Program

This joint program of the Internal Revenue Service and the Kansas Housing Resources Corporation provides investment tax credits for acquisition, construction, or rehabilitation of low-income rental housing. The credit provides as much as 55% to 65% of the total development cost, which reduces the amount of debt financing and allows lower rates. Apartments must be affordable to individuals or families living below set median income levels. The state is responsible for determining which housing projects receive tax credits and the dollar amount awarded. Once tax credits are awarded, developers can sell them to private investors, who use them to offset taxes they otherwise owe. The money paid to developers for the credits goes into the project as equity financing, reducing the gap between the development costs and borrowed funds. See www.kshousingcorp.org for up-to-date information.



Special Assessment Financing for Asbestos and Lead Paint Management

The City of Newton allows special assessment financing to pay for abatement of asbestos and lead paint in privately owned commercial buildings. The city pays for the abatement of the hazardous materials up front, and property owners repay costs over a 15-year period in annual or semi-annual payments.



Contact Information

For more information about these programs, please contact:

City of Newton Community Development Office

→ (316) 284-6002

Harvey County Economic Development Council

→ (800) 648-7759

→ (316) 283-6033