



LEE'S SUMMIT MISSOURI

License Tax Review Committee Annual Report for FY2021

March 7, 2022

EXECUTIVE SUMMARY

City staff presented the FY2021 update to the License Tax Review Committee on December 15, 2021. This report presents the discussion and recommendations from the Committee. The discussion and data is based on information before the announcement by PRI to sell large parcels of land in Lee's Summit.

Current Status

- The License Tax is assessed for development or re-development activity that increase traffic
- The City must spend funds received on transportation projects
- The License Tax Fund current balance was \$4.535 million as of June 30, 2021
- Maximum rate approved by voters in 1997 was \$2,116 per residential unit
- Current rates are: \$1,088 per Residential unit;
\$1,000 per trip for Manufacturing/Industrial; \$750 per trip for Commercial

Projections

- All categories of building permit activity exceeded projections in 2020
- All categories for building permits is expected to be flat through 2030, based on population growth forecasts
- Funding for U.S.-50 / M-291 North Interchange will be spread over 6 years to maintain a positive fund balance
- Fund is project to have a positive balance of \$409,900 in FY 2030

Committee Guidance

- Projects funded by the License Tax should be limited to projects identified in the City's Thoroughfare Master Plan (TFMP)
- Projects should exclude site specific projects such as adding a turn lane or signal required by one developer or landowner to complete a project
- Projects that remove impediments to future commercial or industrial development are the preferred use of this fund
- The License Tax funds should continue to manage cash flow so that projects are funded on a pay as you go basis

Actions

- The Committee re-affirmed previous recommendations to use the license tax funds for the US 50 / M291 North Interchange improvements project
- The Committee recommended increasing the rates for Manufacturing/Industrial and Commercial activities by 10%, with no change to Residential rates, starting in FY2023

Background

The license tax was adopted by voters in November 1997 and then adopted by Ordinance No. 4592 on March 17, 1998. The provisions of the license tax ordinance are found in Sections 28-175 through 28-183 of the City’s Code of Ordinances. The tax is administered by City Staff subject to the oversight of the License Tax Committee. The ordinances established the Finance Director as the License Tax Administrator and designated the City Traffic Engineer and a Plans Examiner as part of the implementation team.

The license tax uses a formula based on the additional traffic created by development to calculate the tax for each project. The license tax helps to fund the expansion of the City’s street system needed to support traffic generated by new development. Revenues collected by the License Tax can be spent on any road projects throughout the City.

Funding is not intended to benefit site specific improvements, but the overall street network in all areas of the community. The tax is paid when building permits are issued for residential construction or when the certificate of occupancy is issued for commercial and industrial development.

The tax has been used to fund road projects identified in the Thoroughfare Master Plan (TFMP). The master plan has been updated on a regular basis to adjust for changing development patterns, traffic conditions, and updated projections. The original projects proposed in 1997 were identified in the 1995 TFMP, and those projects were completed by 2011. The TFMP was updated in 2005 and 2017. TFMP updates, increasing License Tax fund balances, and increased traffic demands caused by new developments created a need to evaluate new projects to be funded from the License Tax program. New projects recommended by the License Tax Committee can be added as part of annual Capital Improvement Planning process so that projects can be vetted through the public hearing process at Planning Commission and funded through the City Council budgetary process. This was the process used to add SE Browning Street, NW Main Street, and US-50/M-291 North Interchange projects into the current Capital Improvement Plan. A detailed list of the projects funded using the License Tax is presented in Appendix A.

The current tax rates are shown in Table 1. The current rates are below the \$2,116.00 rate that was authorized by voters when the tax was adopted in 1997, so rate adjustments below that amount do not require voter approval. The current rates include a 3% rate increase adopted in 2007, a 5% rate increase in 2015 for all categories, a 10% rate increase on non-residential development in 2016, and a 5% rate increase on non-residential development in 2018. No rate adjustments were made this year.

Table 1: License Tax Rates for 2020-21 (FY21)

Land Use Category	License Tax
Residential	\$1,088 per new trip
Manufacturing / Industrial	\$1,000 per new trip
Commercial	\$ 750 per new trip

Current Status and Projections for Permitting Activity

The City issued 758 for residential living units in FY21, which was significantly less than the 1,498 permits issued in FY20. FY20 saw many permits issued for multi-family units. This relative surge in multifamily permits in FY19 and FY20 shows a high peak in residential permitting.

Going forward, projections are based on the population growth forecasts. So instead trying to differentiate among types of housing, and potential projects, City planning staff is basing future projections on population growth that would led to an increase demand for housing units. Based on this methodology, 700 to 800 residential permits per year were projected through 2030. This trend estimates 6,800 more residential units from FY2022 through 2030. Figure 1 shows the building permit projections for residential units.

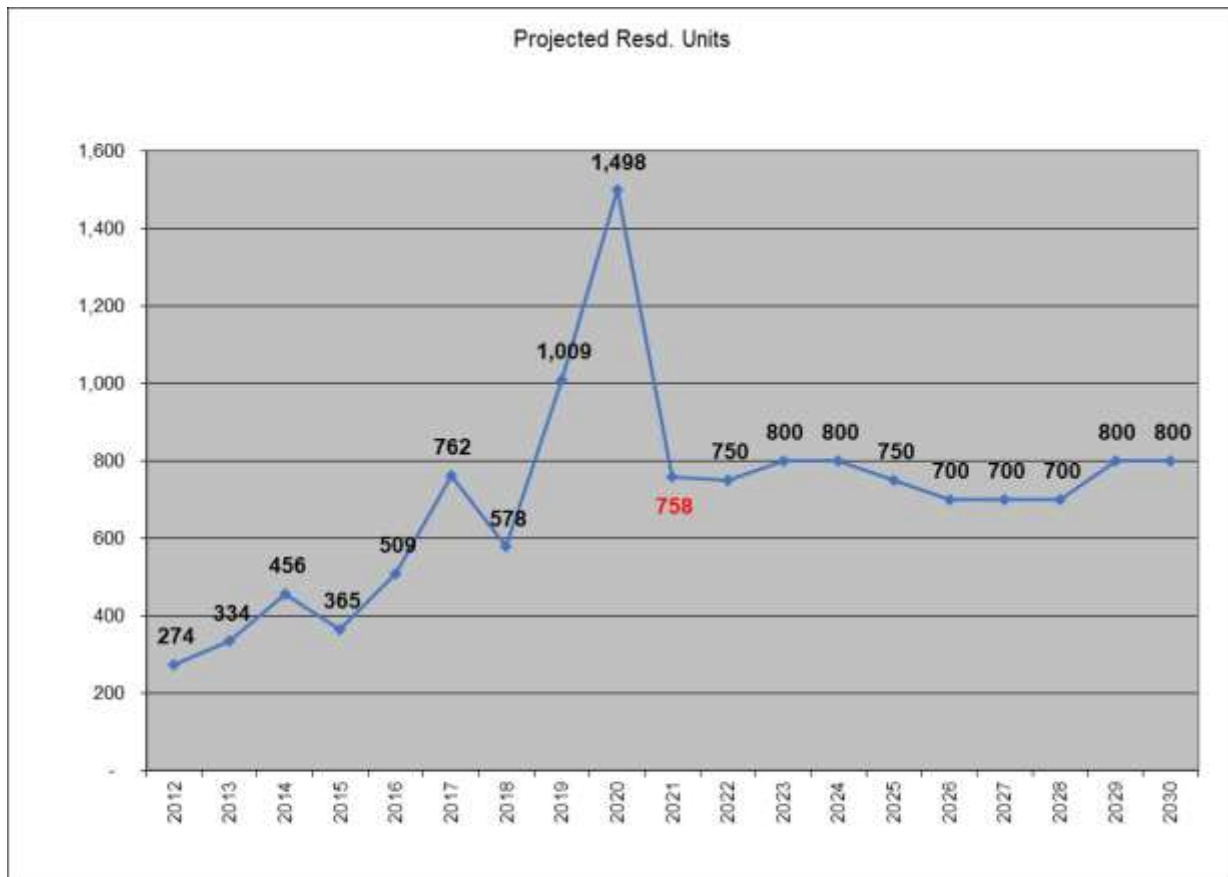


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City’s existing inventory. 89,897 square feet were permitted in 2021, which is less than the 533,076 square feet permitted in 2020. The total non-residential square footage permitted in FY2021 breaks down as follows: 3,885 square feet of office space, 58,914 square feet of retail, and 27,098 square feet of industrial space.

The logistics center project currently in the planning application process is projected to permit of 400,000 square feet of industrial space in one project in FY22. The active projects for FY21 and FY22 for will average about 325,000 square feet per year, which is double the average amount projected last year.

Commercial and industrial permits are forecast to peak in FY22. 1,880,000 square feet of new commercial, industrial, and retail area estimated to be permitted from FY2022 through 2030. These projected activities are illustrated in Figure 2.

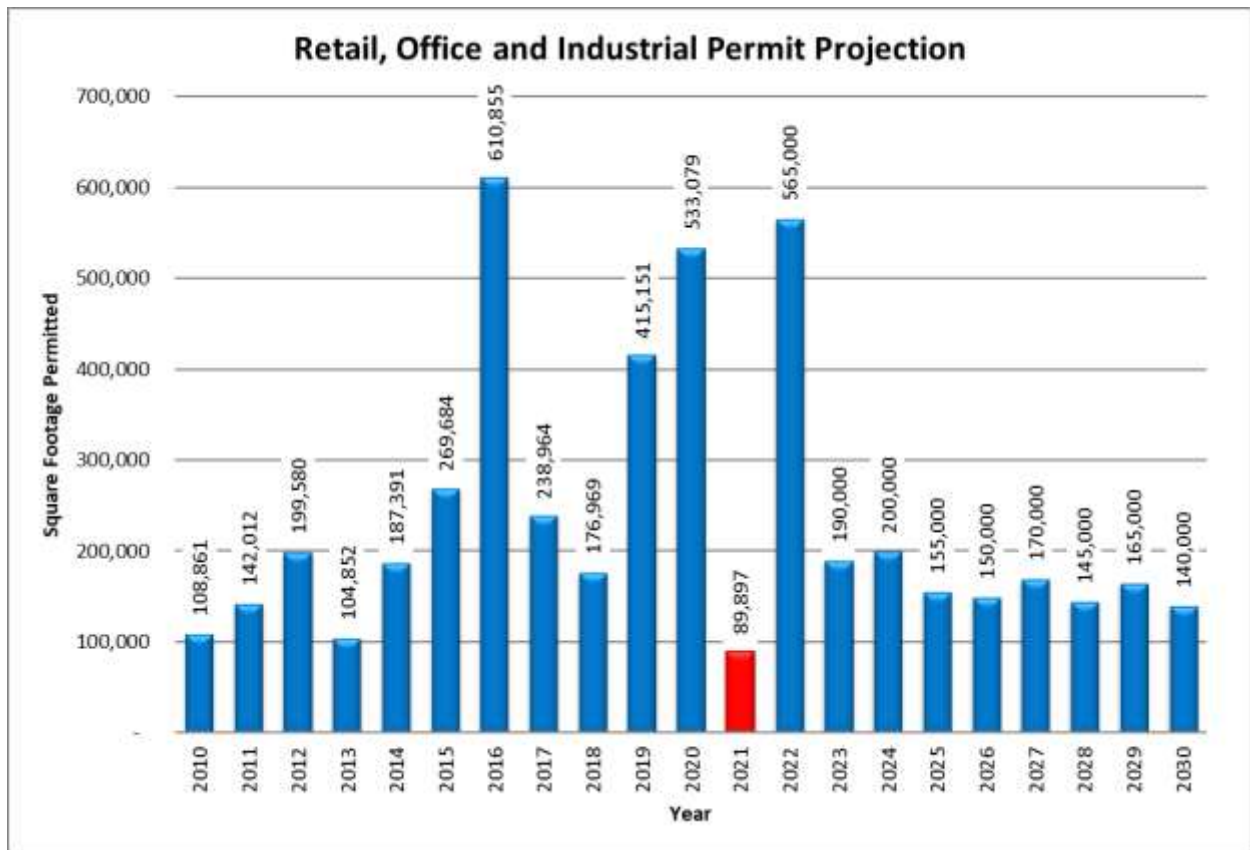


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

Current Status and Projections for License Tax Fund Balances

The license tax generated \$1,701,000 of revenue for FY 2021. The combination of expenses and funding commitment totaled \$4.370 million. The net FY21 reduction of -\$2.669 million yielded a year-end fund balance of \$4.535 million. Based on currently active development projects, FY 2022 license tax net revenues are forecast to be about \$687,000 of revenue by the end of this fiscal year for June 30, 2022.

\$6.207 million of license tax funding is currently programmed in the Capital Improvement Plan (CIP) to construct SE Browning Street, NW Main Street, and the M-291 North Interchange projects. The current balance, less expected revenues, and less the programmed money would create a projected available fund balance of about \$3.21 million available for programming in FY2023. These funds were shown as committed to the project though FY2026 in the capital improvement plan, so there is no funding available for new projects. Detailed revenue tables can be found in Appendix B.

The License Tax Committee forwarded a recommendation to program \$6M into the FY22 CIP for the M-291 North and US50 Interchange project. That recommendation was approved by City Council and Planning Commission as part of the CIP. The City's ability to show a committed source of local funds helped procure a \$9M state cost share grant for this project. Design work will begin in 2022.

Analysis

Based on conversation with the Committee in previous years, there was no desire to fund projects that correct transportation issues caused by past development. The Committee expressed a desire to prioritize spending to remove impediments to future development. SE Browning Street, NW Main Street, and the M291 North – US 50 Interchange are such projects that address roadway infrastructure that needs to be improved to facilitate development in commercial / industrial areas.

These projects were consistent with the committee's guidance to use this funding source to help remove impediments to development in areas that would benefit multiple sites. The committee also expressed the desire to focus in areas in which development and re-development would help generate new license tax revenues for the City, increase property tax base values, and potentially help increase sales tax revenues.

The fund itself does not generate enough annual revenue to complete a project every year. The Committee does not want to issue bonds backed by the license tax, so several years of funds should be accumulated to pay cash for eligible projects identified in the TFMP. Based on current tax rates and current project funding schedules, the license tax fund is projected to maintain a positive fund balance, with the lowest balance in FY2027 or \$374,000.

Contributing \$6.0M in License Tax funds towards the M-291 North interchange project will not impact the City's general operating budget. Spreading the License Tax Fund contribution over six years will support cash flowing expenditure from this.

The excise tax rate changes since 1997 have been relatively low, so the real value of funds collected has been declining due to inflation. However, the combined License Tax, sales taxes dedicated to transportation, bond issues, and special assessment districts have been sufficient to improve the City's road networks in accordance with adopted goals and policies.

Consumer inflation is based on annual adjustments to the Consumer Price Index (CPI) published by the Department of Labor. Construction inflation is based on annual adjustment to the 1913 Construction Cost Index (CCI) published by Engineering News Record.

Inflation, based on the CPI, averaged 1.8% from 1997 through 2020. Thus far, the CPI has increased 10.0% in the Kansas City/Midwest region in 2021. The CCI has followed a similar pattern. The CCI averaged 3.1% from 1997 through 2020. The 2021 CCI is up 10.3%.

The forecasts for 2022 indicate inflation to remain high. The Construction industry is expected to see inflation further increased due to passage of the Infrastructure Investment and Jobs Act. The large amount of federal money pumped into the construction industry will consume large portions of the supply of labor, equipment and materials, so construction costs to the City are expected to increase significantly. Recent construction bids solicited by the City have seen at least a ten percent increase in costs, which is in with the industry forecasts and data.

Table 2 shows the historical license tax rates compared to values adjusted for inflation.

Table 2: Comparison of Actual License Tax Rates to Original 1998 Rate Adjusted for Consumer Price Inflation and Construction Cost Inflation

Year	Current Residential License Tax Rate	Residential Rates Adjusted for CPI	Residential Rates Adjusted for CCI	Max. Rate Allowed by 1997 Election
2020	\$1,088.00	\$1,632.00	\$2,138.00	\$2,116.00

The current License Tax for residential rates are 50% below the CPI and 96% below the CCI. If rates were adjusted to match the CCI from 1998 to present, rates would have exceeded the voter approved maximum.

Looking forward, increasing the current license annually to account for inflation would still yield a tax rate in 2030 that is below the voter approved limit. This forecast is based on increasing the tax rate the 5-year average of recent inflation. This inflation scenario is illustrated in Figure 3. Appendix C presents detailed license tax rates adjusted for CPI data and CCI data.

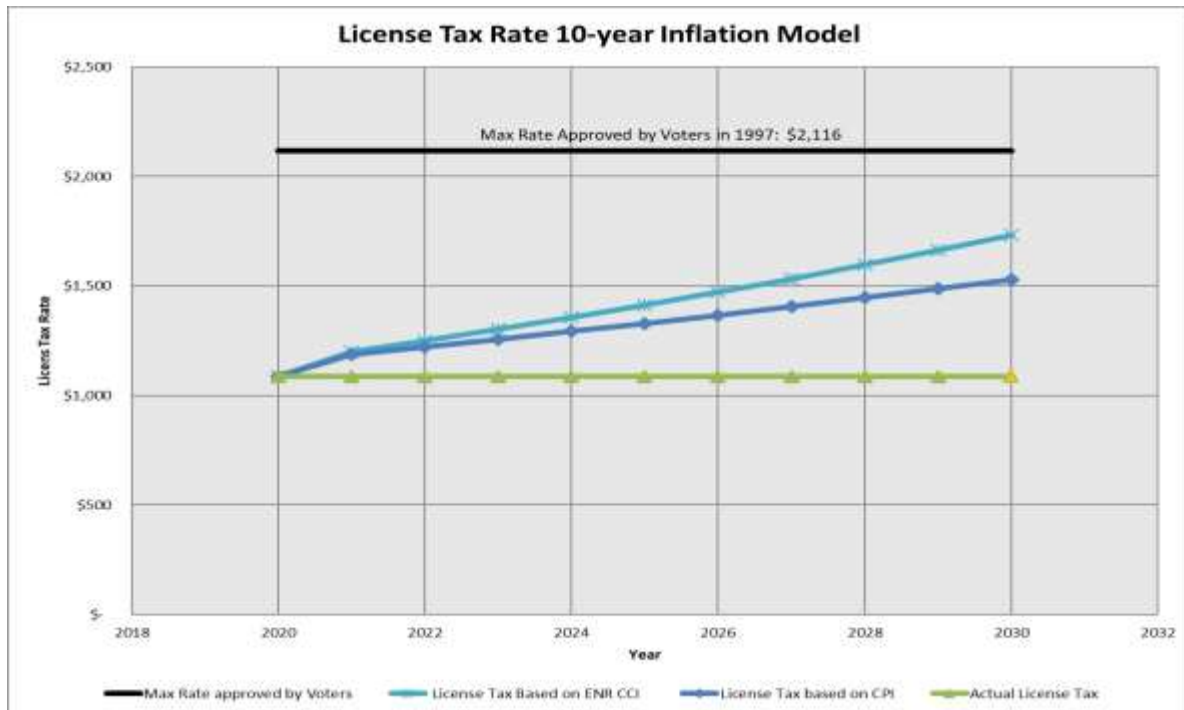


Figure 3: Future License Tax Rate Using a 5-year Average Inflation Rate

Based on recent comments by the Committee, they desired to raise rates as one-time events in 2015, 2018 and 2020 in efforts to capture revenue associated with new non-residential development without adversely affecting development activity. As seen in Figures 1 and 2, development activity increased significantly, which would indicate the license tax rate increases did not have a negative impact on the overall development activity. Reduced rates in 2011 did not increase local development activity during the recession years. Based on those observations, City Staff’s assessment is that (a) regional and national economies have a greater effect on development activity than the license tax rates, (b) small changes in those rates have not altered development activity, and (c) inflation could limit the City’s ability to complete Capital Improvement projects over the next ten years.

The City is starting to experience the effects of inflation. Project costs are increasing and projects are taking longer to complete is starting to affect construction costs. Raw material pricing, transportation costs, fuel prices, and labor shortages have affected projects under construction and bid prices. Passage of the federal infrastructure bill is expected to further aggravate these supply issues, and thus further inflate construction costs. The City encountered these inflationary pressures on the NW Main Street that will require adding \$510,000 to the project budget in the FY23 CIP.

Status of Committee Recommendations from 2020 Report

The Committee recommended using License Tax funds to support the SE Browning Street, NW Main Street and the US-50/M-291 North Interchange projects.

SE Browning street has final plans completed, but it still working with the Union Pacific Railroad to purchase right of way. City Council has authorized condemnation if needed. The NW Main Street construction contract was awarded to VF Anderson. Utility relocation work will take place through winter of 2021-22. Street construction will take place from March through October 2022.

The interchange project has completed preliminary work by negotiating agreements and plan concepts with the Lee's Summit R7 School District, Missouri State Highway Patrol, MoDOT, and the State cost share agreement. Design work will begin in 2022.

Summary of Committee Comments, Questions and Discussion for FY2022

The Committee's comments, discussion and action can be found in the meeting minutes attached to the Council packet as part of the presentation.

The Committee re-affirmed the following guidance for the License Tax Program:

- A. Projects eligible for license tax funding should be limited to projects identified in the City's Thoroughfare Master Plan (TFMP)
- B. License tax funding should be managed on a cash-flow basis, and not used for debt financing
- C. Projects should exclude site specific projects required by one developer or landowner to complete a project
- D. Projects funded from the license tax funds should be prioritized to support new roads that remove impediments to development for commercial, industrial, or manufacturing projects because they can generate new jobs, sales tax revenues, property tax revenues, and license tax revenues.
- E. The license tax committee members did not support increasing the tax on residential development because of the compounding effect of increasing several fees on new construction could make housing less affordable.

The Committee made a motion to increase the license tax fee 10% for commercial and manufacturing / industrial categories for FY2023 (effective July 1, 2022). The proposed changes are shown in Table 3.

Table 3: License Tax Rates Recommended by Committee for 2022-23 (FY23)

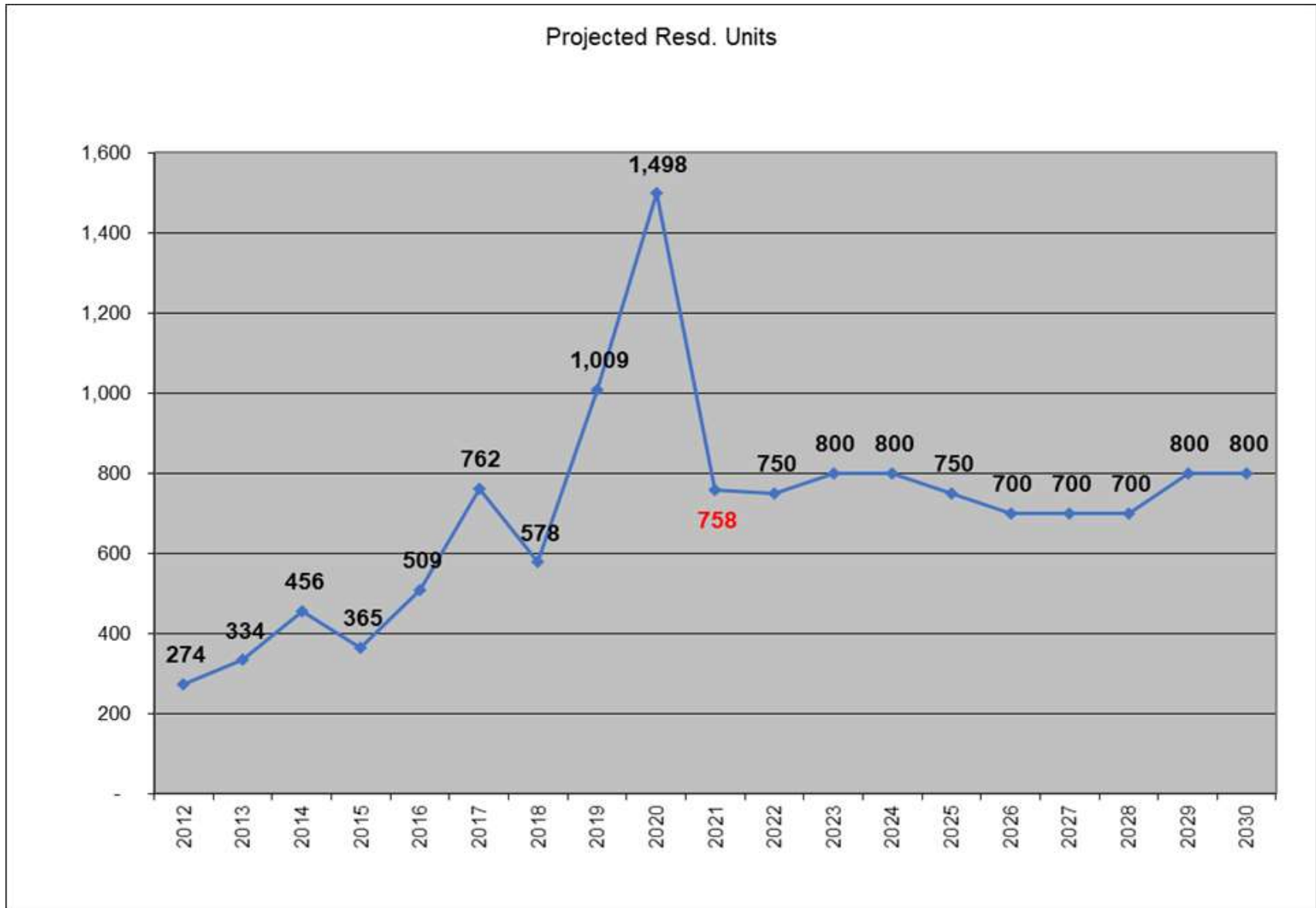
Land Use Category	Current License Tax	Recommended for FY23
Residential	\$1,088 per new trip	\$1,088 per new trip
Manufacturing / Industrial	\$1,000 per new trip	\$1,100 per new trip
Commercial	\$ 750 per new trip	\$ 825 per new trip

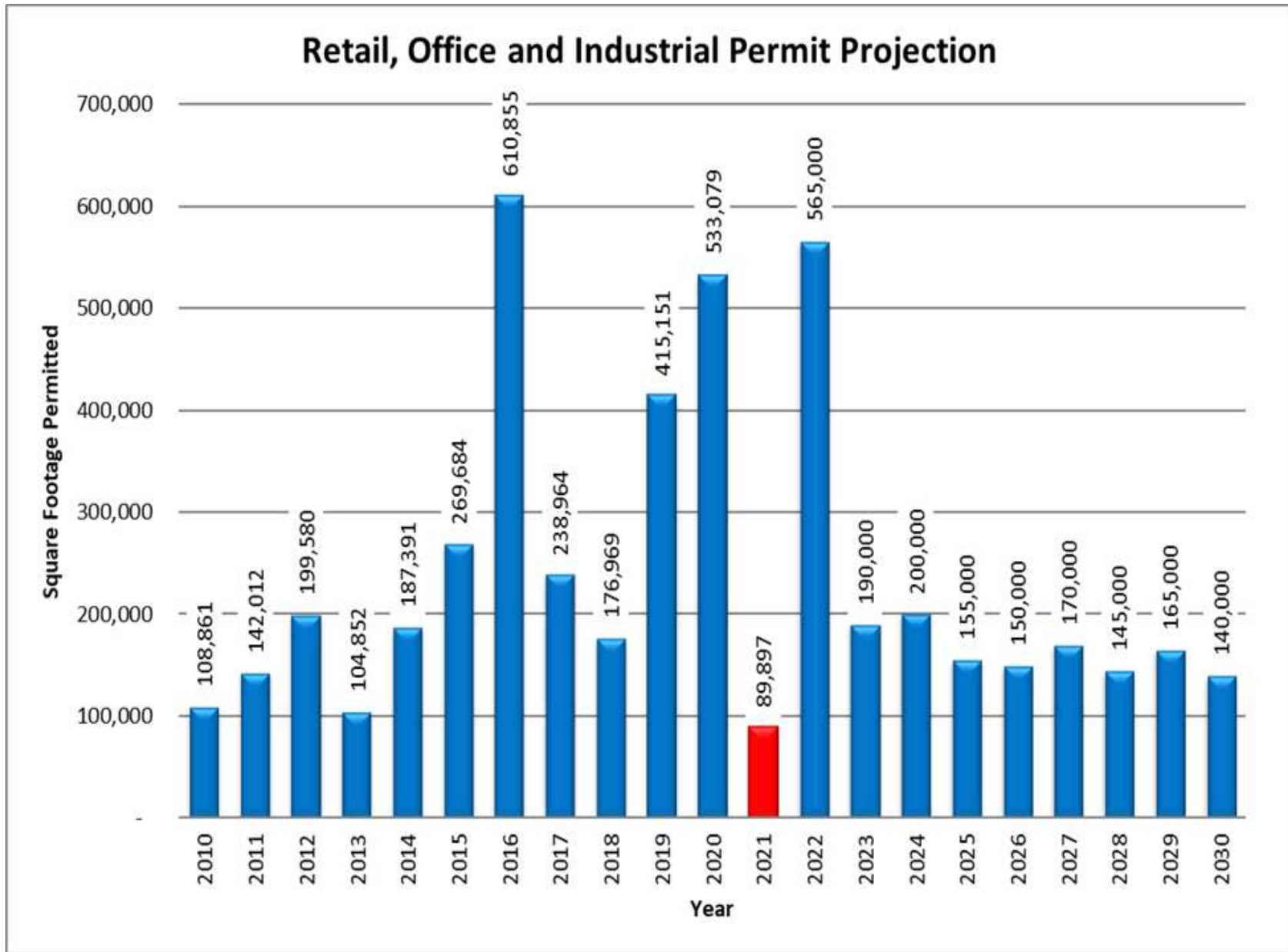
APPENDIX A to FY2021 LICENSE TAX REPORT: Transportation Project Completed as Part of the License Tax Program Adopted in 1998

Transportation Projects Completed with Use of License Tax Funds	
Blackwell Pkwy (Langsford to Colbern)	Pryor Rd (Longview to Chipman)
Chipman Rd (US 50 to M-291)	Scruggs Rd (M-291 to Blackwell)
Independence Ave (Tudor to Colbern)	Todd George Pkwy (McKee to Tudor)
Langsford Rd (Todd Geo. To Blackwell)	Ward Rd (M-150 to Scherer)
Longview Pkwy (Longview to 3 rd)	5 th Street (Grand to M-291)
Longview Rd (Sampson to Ward)	Woods Chapel Rd (1-470 to East City Limits)
License Tax Projects Currently Underway	
SE Browning Street (Oldham to Hamblen) <ul style="list-style-type: none"> • Added to CIP in FY 2019 • Design complete • Working Right of way acquisition with railroad • Construct in 2021 	NW Main Street (Chipman to Commerce) <ul style="list-style-type: none"> • Construction Contract Awarded (\$1.67M) • CIP funding = \$1.54M • Total required about \$2.05 • Add \$510,000 budget from fund 323 as part of the annual CIP process
US-50 and M-219 North Interchange: License tax funding programmed into Capital Improvement Plan for FY2022 – FY2027	

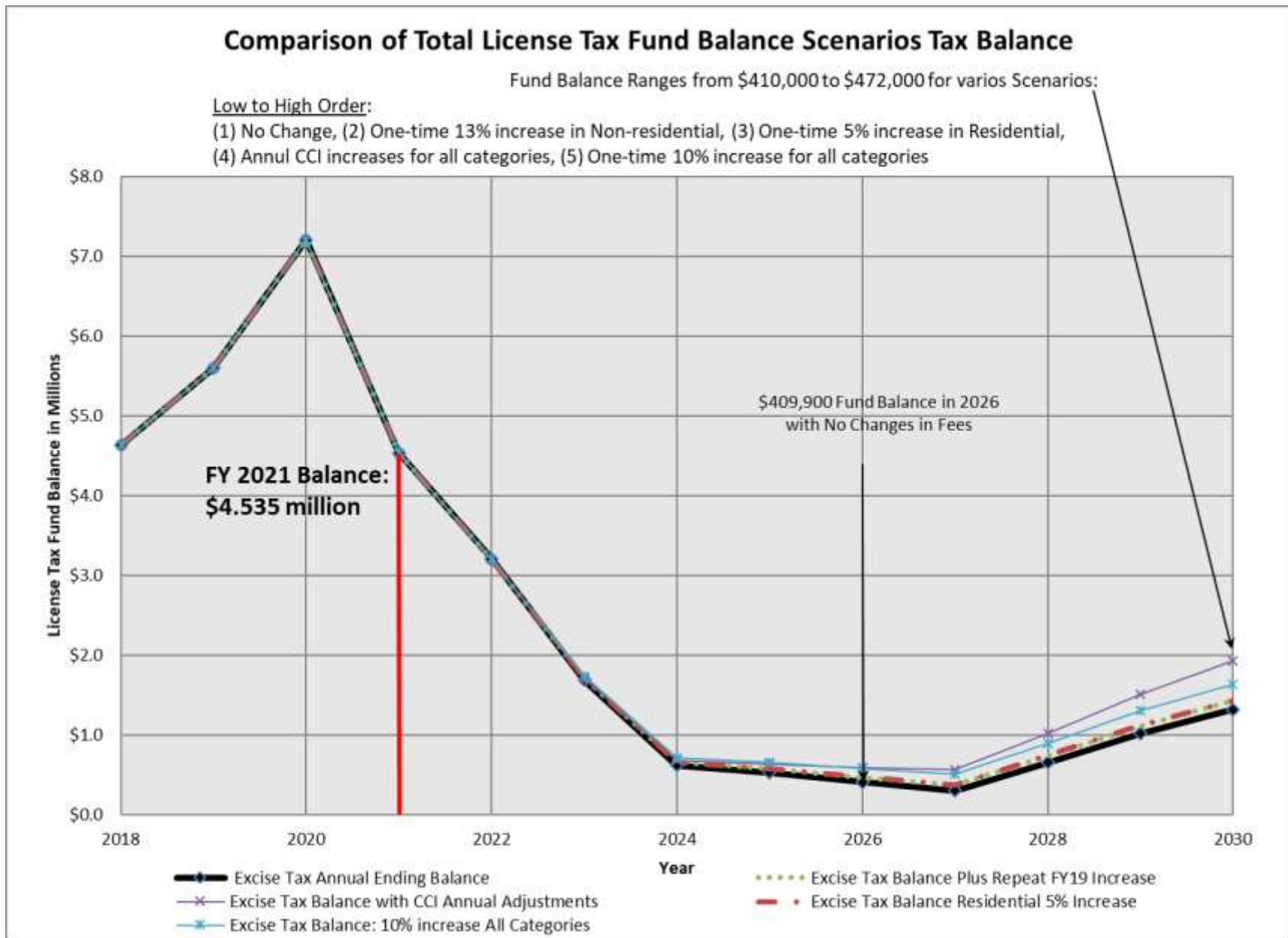
Note: The License Tax Committee recommended the Chipman Road Phase III project (from M-291 to Birchwood) be removed from the program so License Tax funds can be used for other projects in the Thoroughfare Master Plan. Chipman Road project will remain in the master plan, but funded from other sources in the future if the project is deemed necessary in context of the Thoroughfare Master Plan.

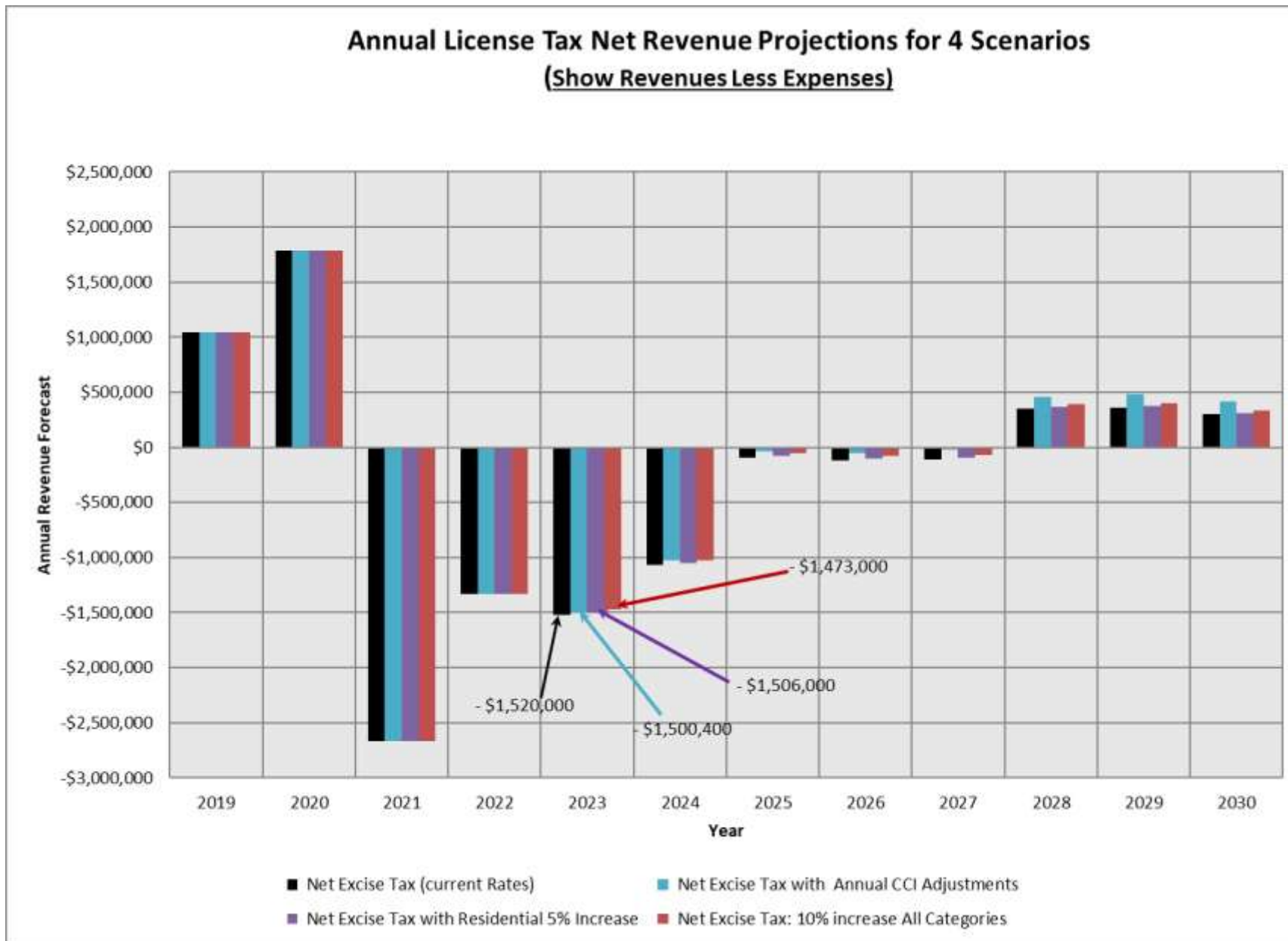
APPENDIX B to FY2021 LICENSE TAX REPORT: Building Permit Activity and Projections Through 2030



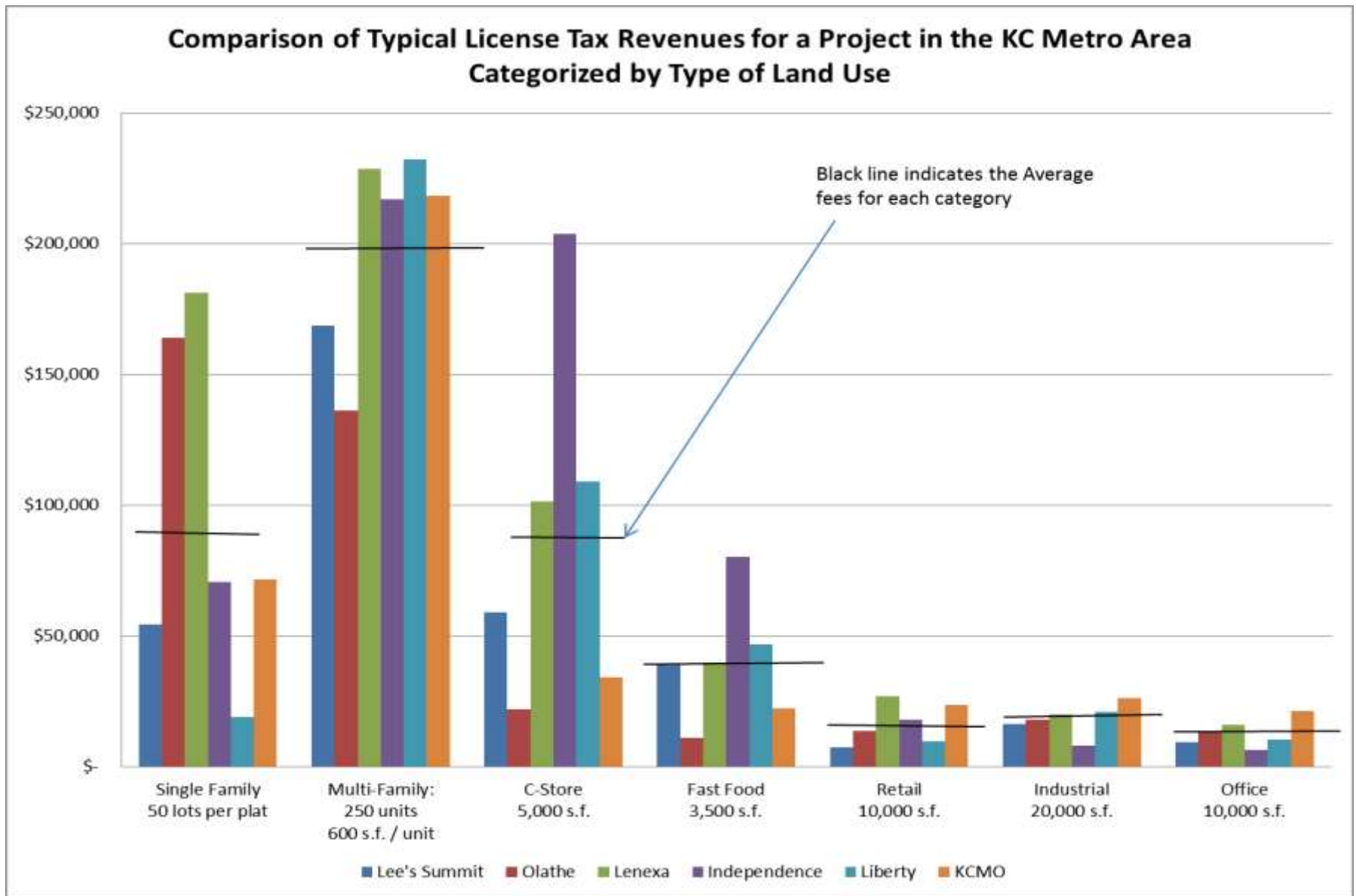


APPENDIX C to FY2021 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies





APPENDIX C to FY2021 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



LICENSE TAX REVIEW COMMITTEE

Action Letter

December 15, 2021

3:00 pm

City Hall
Council Committee Room
220 SE Green Street
Lee's Summit, MO 64063

Present at meeting:

Members: Chairman DeMoro, Glen Jones, Karl Blumenhorst, Cynda Rader, Michael Park
Staff Support: George Binger, Mike Weisenborn, Jennifer Thompson, Victoria Nelson, Lisa Azimi

A. Call to Order

Chairman DeMoro called the meeting to order at 3:05 p.m.

B. Roll Call

1. Approval of Agenda

A motion was made by Karl Blumenhorst, seconded by Glen Jones, to approve the agenda. The motion carried with a 4-0 vote, Michael Park absent until later in meeting.

2. Approval of Jan. 27, 2021 Action Letter

A motion was made by Cynda Rader, seconded by Glen Jones, to approve the action letter dated January 27, 2021. The motion carried with a 4-0 vote, Michael Park absent until later in meeting.

3. Public Comments

None

4. Items for Discussion

Presentation of FY2021 License Tax Report

Mr. Binger, Deputy Director of Public Works/City Engineer, introduced everyone present including City Staff. A Powerpoint was presented showing the license tax background and current status. This annual meeting is required by ordinance, which was adopted in 1997 with several amendments to the fees. In 2019 there was administrative cleanup in regards to how FY2021 License Tax Report

APPENDIX D to FY2021 LICENSE TAX REPORT: License Tax Review Committee Action Letter from meeting held on December 15, 2021

the trip generation is calculated. The tax is on new development activity when building permits are issued, based on the creation of additional traffic. This is a review of the annual report to discuss the planning perspective, give a public works status, then recommendations from the Committee regarding rates and potential projects.

A summary of the current tax rates for residential and non-residential was then given. The ordinance approved a rate of up to \$2,160 and the rate is well below that at \$1,088 per residential unit. The next slide presented was the building permits showing a steep peak the last couple of years, related to permits for multifamily housing units. In talking with the Planning staff this year since completion of the Comprehensive Ignite plan they were looking at the land use tied to population growth. The population growth will drive development of residential units. Even though the forecast is flat, there will be an additional 700 to 800 residential units permitted each year in the community. In the near term there are known projects that are coming in so staff feels very comfortable in the forecasts for FY22 and FY23 fiscal years. The forecast for 2024 or 2030 are based on projected population growth.

The retail, office, and industrial permits graph illustrates how the timing of permits can influence one particular year. The permitted square footage dropped down significantly in fiscal 2021. The big jump in FY22 is attributed to the logistic center near Tudor and Commerce, since it will be permitted that fiscal budget year. The overall amount of commercial, residential and industrial square footage permitted over several years should be close to the aggregate total forecast. The longer-range projections from 2024 to 2030 estimate about 150,000 to 200,000 square feet permitted each year based on the anticipated population growth.

Mr. Binger then presented the annual revenue estimates. The negative revenue numbers from 2021 to 2027 are reflective of when project expenses were programmed into the Capital Improvement Plan (CIP). Project expenses each year are expected to exceed the annual revenue per year, but the City is able to spend this money because of the \$7M positive balance 2021.

The next graph illustrated the actual balance of the fund showing this year's balance of \$4.5 M. That balance is trending down due to committing funding for capital projects. The graph from the FY20 report showed the fund balance could possibly go negative. However, the increase in permitting this year was more than forecasted so the License Tax fund should maintain a positive cash balance. When forecasting last year, staff compressed the M 291 North Interchange project, but based on the Committee's guidance funding for this project was spread out over 6 years, helping to keep the balance positive. The different lines are scenarios for possible changes to fees, with the top line representative if fees are changed in accordance with construction cost index. This illustrates there is not a small difference in overall revenues of about \$1M over ten years.

APPENDIX D to FY2021 LICENSE TAX REPORT: License Tax Review Committee Action Letter from meeting held on December 15, 2021

Mr. Binger then discussed the projects currently funded through the program including SE Browning Street, NW Main Street, and the US-50 & M-291 North Interchange. The status of each project was given. SE Browning Street is still working right of acquisition with the Union Pacific Railroad. NW Main Street has complete design and awarded a construction contract to VF Anderson, with construction startup planned for March of 2022. The 50 Highway M291 North Interchange was discussed at length. Michael Park shared that the RFQ is being drafted for engineering services. He mentioned the different funding resources: TIF revenues, excise tax, land sales, CIP sales tax, school district, Quick Trip. This project should be under construction in 2023.

Mr. Blumenhorst asked about the PRI ground north on 291. Mr. Park stated there will be conversations with City Council to discuss a financing model to contemplate various options on how to fund infrastructure and handle development. Mr. Blumenhorst also asked how many currently platted residential lots are available right now to develop. Mr. Weisenborn responded that several plats are ready to come on line, listing several different locations and their time frames of construction. Mr. Binger mentioned both the Strategic and Ignite Comprehensive Plan and the how they help staff focus on those goals of infrastructure, quality of life, strong neighborhoods and other plan elements that help staff guide the development of the infrastructure master plans. When talking about PRI land, the Comprehensive Plan gives guidance of how that should be developed. Staff is committed to the projects identified in the thoroughfare master plan and those projects fit well within the overall City master plan.

Mr. Binger then showed a graph of inflation over the next ten years. Inflation has had more of an impact on construction costs. In 2021 the bids are now up 10% for the year. Several contractors, after construction starts, are being hit with shipping surcharges so the City is seeing that cost impact.

Mr. Binger then opened it up to questions, thoughts and guidance moving forward. Mr. Blumenhorst asked how inflation has affected the city. Mr. Binger stated that this is the first year this has affected the City. There are fewer bidders due to workload and demand, labor shortage, and companies going out of business. Mr. Blumenhorst commented that the inflation factor at some point will slow down activity. Mr. Weisenborn, Project Manager, advised the committee that raising the license tax will not have an effect on development and a 10% increase will not have a significant impact on the overall prices. Mr. Binger then explained how staff looks at budgeting and forecasting looking back three to five years with different scenarios of increase in fees and upon analysis changing the rates will not hurt the program.

Mr. Blumenhorst commented he was okay with changing the commercial rate since it will create jobs, more income, and that is needed to have more homes developed.

Ms. Rader asked to know on the commercial side what is healthy for the city that works together with what is needed. Mr. Park added that Lee's Summit has had healthy commercial growth but is lacking in the industrial sector. Chairman DeMoro stated Lee's Summit is behind the rest of the metro area in warehousing and is hopeful that once the first building is built it will open up that demand in the city.

License Tax Committee Recommendations

After lengthy discussion the Committee agreed that it would make sense to raise the rates on commercial and leave residential rates alone for a while. They also agreed that it would be adequate to look at it each year to make any needed adjustments. The Committee asked for staff's recommendation. Mr. Binger recommended to start looking at the inflation year in, and year out and increase fees to 10% as a one-time catch up. This increase in non-residential is consistent with factoring in the last 4 years of inflation. This is also in alignment with hearing the conversation and rationale for the commercials generating jobs and income, as well as the desire to have affordable housing options in Lee's Summit. Staff has heard that commentary from different bodies and different venues, Planning Commission, City Council, etc. Mr. Park mentioned that holding back on the residential helps our CEDC with their intentions of lowering entry home price points. Mr. Jones commented that next year we'll have more knowledge.

Increasing the non-residential rates by 10% would result in the following fees for FY2023: \$1,100 for Mfr./Ind., \$825 for Commercial, Residential unchanged at \$1,088.

Mr. Jones made a motion, seconded by Mr. Blumenhorst, to recommend to the City Council increasing the License Tax rates 10% for FY2023 for manufacturing/industrial and commercial categories. The motion carried unanimously with a 5-0 vote.

5. Roundtable

No items discussed

6. Adjournment

Chairman DeMoro adjourned the meeting at 4:10 p.m.