TIF Plan Review

Streets of West Prior Redevelopment Plan

Prepared for:

LEE'S SUMMIT
MISSOURI

Prepared by:

PiperJaffray.

REALIZE THE POWER OF PARTNERSHIP.

OVERVIEW

Piper Jaffray has been retained by the City of Lee's Summit (the "City") to prepare a report analyzing the Streets of West Prior Tax Increment Financing Plan (the "TIF Plan"), submitted to the City on October 16, 2018 by Streets of West Pryor, LLC (the "Developer"). The proposed TIF Plan will authorize Tax Increment Financing in accordance with Missouri Statutes 99.800 et. seq., as amended, (the "Act") for a term of up to 23 years to provide for the reimbursement of eligible project costs. Eligible project costs under the Act include, but are not limited to:

- Costs of surveys, plans, and specifications,
- Professional service costs, including, but not limited to, architectural, engineering, legal, marketing, financial, planning, or special services
- Property assembly costs, including, but not limited to, acquisition of land and other property, real or personal, or rights or interests therein, demolition of buildings, and the clearing and grading of land
- Costs of rehabilitation, reconstruction, or repair or remodeling of existing buildings and fixtures
- Costs of construction of public works or improvements

The Act states that before a project plan is approved, a determination must be made that the proposed project within the proposed TIF Redevelopment Plan would not reasonably be anticipated to be developed without adoption of Tax Increment Financing. Within the TIF Plan, the Developer provided a "But-For" determination report. Piper Jaffray has been tasked by the City with analyzing the reasonableness of the Developer's but-for conclusion.

To make this determination, we have compared the Developer's projected rate of return against an estimated rate of return range that would be required by developers to undertake the proposed project without incentives. For cost and revenue projections, we have used the Developer's budgeted development costs and expected revenues as provided in the TIF Plan and discussions with the Developer's consultants and City staff, checking them against third party sources as necessary to verify that the budgeted costs and revenues are based on reasonable expectations.

In addition, the report discusses the Plan's sufficiency to pay for the redevelopment reimbursement of $29.95 million out of TIF revenues, which include Economic Activity Taxes ("EATS") and Payments in Lieu of Taxes ("PILOTS"), a Community Improvement District ("CID") sales tax, a Transportation Development District ("TDD") sales tax, and remittance from the City's 1.00% general sales tax for hotel sales ("Hotel STR"). We also examine alternatives to the proposed Chapter 100 sales tax exemption for obtaining the $6,048,066 that the Developer estimates from that funding source.

We have not made a determination of the existence or nonexistence of blight in the development area, nor the appropriateness or lack thereof of the Plan to the City's overall plan of development. Also, we looked at the Project on a stand-alone basis, and have not assessed the impact of the Project on other grocery stores, hotels, restaurants, retailers, and apartment complexes in the City and surrounding area. We also have addressed only the impact of PILOTS, EATS, TDD Sales Tax, CID Sales Tax, and Chapter 100 and Hotel STR revenues projected to be generated by the project, and not the impact of jobs potentially created or displaced by the project or any economic multipliers or other "ripple effects" of the project.

This report is designed as a tool for use by the TIF Commission and City Council when evaluating the proposed plan delivered by the developer.

PROJECT DESCRIPTION

The TIF Redevelopment Area consists of approximately 73 acres of real property within the City of Lee's Summit, approximately bounded by Interstate 470 on the north, Northwest Chapman Road on the south, Northwest Pryor Road on the east, and Lowenstein Drive on the west. The Developer proposes a mixed use development consisting of the following:

- One senior apartment complex (the "Senior Apartments") with 165 units constructed by the Developer
- One market rate apartment complex (the "Apartments") with 250 units and a 15,000 sqft commercial space constructed and operated by a third party
- One grocery store totaling approximately 63,119 sqft constructed and operated by a third party
- One hotel with 165 rooms constructed and operated by a third party
- Approximately ten restaurant, retail, and service spaces, totaling approximately 65,207 sqft
- Single family housing, which will not be subject to the incentives under the TIF Plan but is included within the TIF Redevelopment Area since the area is also being developed by the Developer as master developer of the entire project

As discussed in the Blight Analysis created by Valbridge Property Advisors contained within the TIF Plan, the site has multiple factors deterring development, including poor access and street layout, 12 separate land parcels, elevation changes, soil conditions and topography, and overhead electric transmission lines that cut across the area.

In addition to the TIF Redevelopment Area, there are three other defined areas that are part of the larger project.

- The CID runs on roughly the same boundary as the TIF Redevelopment Area, with the exception of encompassing a small amount of additional land containing infrastructure.
- The TDD runs on roughly the same boundary as the CID, with the exception that it excludes that part of the TIF Redevelopment Area that is proposed to hold a grocery store.
- The TIF Project Area runs on roughly the same boundary as the TIF Redevelopment Area, with the exception that it excludes that part of the TIF Redevelopment Area that is proposed to hold the Senior Apartments, the future single family housing development, and the non-commercial portion of the Apartments.

PROJECT COST

The Developer has estimated the costs of the project shown in the following table. The second table shows the percentage of total development costs after accounting for the Chapter 100 Sales Tax Exemption. Each category of expense is further described below the tables.

			TIF & Other	CID		TDD	
Development Costs	**Total Project Costs**	**Private**	**PILOTS / EATS and Hotel STR**	**Non-EATS**	**EATS**	**Non-EATS**	**EATS**
Acquisition of Land	$9,640,147	7,640,147			2,000,000		
Site Construction							
Grading, Retaining Walls, Site Preparation	6,291,113		5,862,020		429,093		
Sanitary Sewer	906,385	226,596	679,789				
Water	1,095,660	730,441	365,220				
Storm Water	2,907,007	1,938,006	969,001				
Roadway	4,359,751		2,572,110	826,515		961,126	
Surface Parking & Curbs	5,490,623	5,490,623					
Parking Structure	5,698,000	2,013,472	2,988,539				695,989
Site Utilities	1,362,972	908,648	454,323				
Hardscape / Landscape	2,508,449	2,508,449					
Signage / Monumentation	250,000	250,000					
Park Improvements	703,900				703,900		
Transmission Lines	3,500,000			3,500,000			
Building Construction	114,211,435	114,211,435					
General Conditions	1,476,396	984,265	492,132				
Soft Costs							
Professional Services	5,213,605	2,477,346	2,450,394	135,664	98,239	30,137	21,824
Commissions and Marketing	1,062,000	1,062,000					
Financing Costs (Interest Carry, Closing, Fees, Other)	5,336,986	2,535,974	2,508,384	138,874	100,564	30,851	22,340
Development Fee	1,739,554	826,583	817,591	45,265	32,778	10,056	7,282
Contingency (Developer)	4,805,560	4,805,560					
Total Projected Costs	**178,559,545**	**148,609,545**	**20,159,503**	**4,646,318**	**3,364,574**	**1,032,170**	**747,435**

Percentage of Total Development Costs after accounting for Chapter 100 Sales Tax Exemption

Source of Funds	***Dollar Amount***	***Percentage of Total Development Costs***
Private Capital	*142,561,479*	*79.84%*
PILOTS, EATS*, and Hotel STR	*20,159,503*	*11.29%*
CID – Non-EATS	*4,646,318*	*2.60%*
CID – EATS	*3,364,574*	*1.88%*
TDD – Non-EATS	*1,032,170*	*0.58%*
TDD –EATS	*747,435*	*0.42%*
Chapter 100 Sales Tax Exemption	*6,048,066*	*3.39%*
Total	***178,559,545***	***100.00%***
**excludes CID and TDD EATS, which are shown within their own categories*		

Acquisition of Land – 5.40% of Projected Development Costs

The Developer has estimated the cost of acquiring land at $9,640,147. This amount includes both the land that the Developer has already purchased, and the land that the Developer has yet to purchase. The Developer estimated this number based on actual sale prices for the parcels already purchased, and current negotiated amounts for the remaining parcels.

Site Development Costs – 20.47% of Projected Development Costs

Site development costs include all of the costs to bring the site up to standards to begin construction. These amounts are estimated to total $36,550,257. Major components include grading and retaining walls, roads and parking, and utility work. We have also included general conditions within the site development costs. The Developer based the costs of site development on analysis and discussions with its engineering and architect teams and a cost consultant.

Construction of Buildings – 63.96% of Projected Development Costs

At this point of the development process, the Developer has not provided a full breakdown of the costs of construction, but has indicated the following cost estimates for the buildings that the Developer plans to construct.

- $180 per sqft for the retail, restaurant, and service space
- $145,000 per unit for the Senior Apartments.

While the Developer will not be constructing the grocery store, hotel, and Apartments, estimates of $180 per sqft for the grocery store, $115,000 per key for the hotel, and $180,000 per unit for the Apartments (inclusive of the 15,000 sqft retail space within the Apartments) have been used by the Developer for the TIF Plan. The Developer has also included approximately $3.2 million for contingency and interest carry within this line item for the third parties that will be constructing the grocery store, hotel, and Apartments.

Soft Costs – 10.17% of Projected Development Costs

Soft costs include professional services, sales commissions and marketing, financing costs, a development fee, and project contingency. These costs total $18,157,706, which is just over 10% of the total estimated costs of development.

- $5,213,604, or 2.92% of the overall project costs, is allocated for professional services, including engineering, architecture, consultant work, legal work, project management, and other professional services.
- $1,062,000, or 0.59% of the overall project costs, is allocated for commissions and marketing.
- $5,336,987, or 2.99% of the overall project costs, is allocated for financing costs, including interest carry, closing costs, and other fees.
- $1,739,555, or 0.97% of the overall project costs, is allocated for the development fee
- $4,805,560, or 2.69% of the overall project costs and 3.19% of the building and site construction costs (including general conditions), is allocated for the Developer's contingency.

INCENTIVE REQUEST

The TIF Plan requests reimbursement to the Developer of $29,950,000 for acquisition, general conditions, site construction, professional services, financing costs, and development fees. The reimbursement would come from the following sources:

- One-half of EATS generated in the TIF Project Area, and from all incremental PILOTS, during the Plan period of 23 years. Incremental taxes are those taxes that are collected over and above the Base Year sales taxes (in the case of EATS) and property taxes (in the case of PILOTS). For this development, base property taxes are $147,139, and base sales taxes are nonexistent.
- The Hotel STR, under which the City's 1.00% general sales tax will be remitted to the Developer for sales tax collections on sales at the proposed hotel located within the TIF Project Area.
- Revenues generated by a 1.00% CID Sales Tax
- Revenues generated by a 0.50% TDD Sales Tax

TIF Revenues are estimated by the Developer at $40,875,505, consisting of $20,975,226 EATS and $19,900,279 PILOTS. For consistency with the TIF Plan, we have excluded the half of CID Sales Taxes and TDD Sales Taxes that will be captured by TIF from this number, and included them within the CID and TDD paragraphs below.

The Hotel STR is estimated at $1,257,838 over 30 years.

The CID would consist of all of the parcels on which the Developer plans to locate retail within the TIF Redevelopment Area, and would levy a 1.00% sales tax on sales within the CID. The Developer estimates that the CID would generate $19,560,544 of sales taxes over its 30 year life.

The TDD would consist of all of the parcels on which the Developer plans to locate retail within the TIF Redevelopment Area with the exception of the grocery store, and would levy a 0.50% sales tax on sales within the CID. The Developer estimates that the TDD would generate $4,402,293 of sales taxes over its 30 year life.

The total reimbursement being sought by the Developer is $29,950,000. $23,000,000 of the reimbursement is planned to be received up front from the issuance of revenue bonds, and the balance, $6,950,000, received after the project has matured, currently shown in year 10.

This $23,000,000 is $1,750,000 more than the maximum supported by the revenue stream of EATS, PILOTS, CID sales tax revenues, TDD sales tax revenues, and Hotel STR for up front financing. We estimate the maximum bondable amount at $21,250,000, using the following assumptions:

- 12/1/2020 closing date of financing
- 5.75% interest rate
- 1.35x debt service coverage
- 3 prong test debt service reserve fund (likely equal to 125% of average annual debt service)
- 6 months capitalized interest
- 4% estimated costs of issuance

If the Developer is in fact only able to finance $21,250,000 up front, the Developer will need to increase the planned equity in the project or find other outside financing to balance out the sources of capital versus the costs of development.

In addition to the TIF, CID, TDD, and Hotel STR, the Developer has requested a Chapter 100 sales tax exemption, with an estimated benefit of $6,048,066. The $6,048,066 represents the amount of sales taxes that the Developer and other builders within the Redevelopment Area would have to pay on construction materials if the Chapter 100 sales tax exemption did not exist. Since this assistance comes through a reduction of costs, the effect is up front and requires no outside financing.

The total incentive request, including the sales tax exemption on materials created by the Chapter 100 plan, is approximately 20.16% of the total projected project costs. This does not include any benefit provided by the Chapter 100 property tax fixed PILOTS schedule on the Senior Apartments and Apartments, which is outside the scope of this document.

Examination of Revenues Generated by Development for Bond Payments

We have examined the EATS, PILOTS, CID, TDD, and Hotel STR revenue assumptions created by the Developer and believe that they are reasonable. These five revenue sources would be the sources from which principal and interest payments on project revenue bonds issued to reimburse the Developer would be made.

EATS will be generated by sales taxes within the approximately ten projected restaurant and retail spaces, the grocery store, and the 15,000 sqft commercial space within the apartment complex. The Developer has estimated sales per sqft of $318 in the restaurant, retail, and service spaces and $350 per sqft in the retail area within the Apartment complex. Based on our research, restaurant spaces often generate higher sales per sqft than these amounts, and retail and services businesses, while they vary widely by operator, often generate near or less than that level. The Developer's consultant has indicated that the plans for the retail and restaurant spaces are still being developed and will vary based on potential tenant interest. Due to the uncertain mix between restaurant spaces, retail spaces, and service spaces (including one projected medical space that will generate few taxable sales), we believe the sales per sqft used within the TIF Plan are a fair estimate. The Developer has estimated the sales per square foot of the grocery store at $509 per sqft, which is in line with the $511 per sqft national average for supermarkets based on information from the Food Marketing Institute, an American food marketing organization that serves food retailers and wholesalers.

The Developer projects taxable sales will inflate at 1.50% per year for the full thirty year period.

PILOTS will be generated in lieu of property taxes on the improvements within the TIF Project Area (there are separate Chapter 100 PILOTS under the proposed Chapter 100 agreement with the apartment complexes. PILOTS related to the Chapter 100 agreement do not fall under the scope of this report, and will not be security for any TIF revenue bonds issued to reimburse the Developer for project costs). To estimate PILOTS, the Developer has assumed an appraised value of $220 per sqft for the restaurant/retail buildings and the Apartment commercial space, and $84 per sqft for the grocery store, and $70,000 per key for the Hotel. While it is difficult to pinpoint the levels at which the properties will be appraised, we believe that the estimated appraised values used by the Developer are reasonable.

The developer projects property values to grow 2.00% biennially.

CID and TDD Sales Taxes – Sales tax collections for the CID and TDD depend upon the same assumptions as the EATS described above, with the exception that the grocery store is not included within the TDD. As noted above, we believe that the sales tax assumptions are a fair estimate given the current uncertainty as to tenant mix.

Hotel STR – The revenues generated by the Hotel STR depend upon three factors:

- *Number of Rooms* – the revenue estimates are based on 165 rooms being constructed.
- *Average Daily Rate* – the Developer estimates $105 per night as the average daily rate. Various publications show Missouri and Kansas City average daily rates ranging from the upper $90 per night to $106 per night, so we believe that the average daily rate assumption is fair for a new hotel in this location.
- *Occupancy* – Occupancy rates in the Kansas City metropolitan area have been as high as 78% in recent years, but given the recent new hotel rooms hitting the market and under construction and regional and national averages in the 60-68% range, we believe the Developer's assumption of 60% occupancy is a reasonable estimate.

As with the other retail sales, the Developer has assumed a 1.50% growth in annual Hotel STR revenues.

If TIF, TDD, CID, and Hotel STR come in at or above the Developer's projections, the financing for the initial Project Reimbursement should pay off early. If it comes in significantly below the Developer's projections, the full financing amount will likely take the full term to be repaid, or not repaid in entirety.

Sales Tax Cannibalization

It is likely that the addition of a grocery store will generate some portion of its sales from existing grocery stores located within the City. This effect should be somewhat offset by the Apartments and Senior Apartments adding new residents to the area; however, the cannibalization effect will still likely be present. This issue is beyond the scope of this report, but Piper Jaffray and City staff can conduct additional investigation if the City believes the issue is significant.

RETURN ANALYSIS

Within the TIF Plan, the Developer has provided a proforma unleveraged Internal Rate of Return (IRR) analysis.

A project's IRR is the discount rate that makes the net present value of all cash flows, both costs and revenues, equal to zero. As a present value calculation, the IRR takes the time at which costs and revenues are incurred into account. A project's IRR can be affected by debt financing, referred to as "leverage"; so, to compare rates of return across projects it is necessary to examine each project's unleveraged IRR, which assumes all project costs are paid with cash.

A project's IRR is influenced by two factors the cost to complete the project, and the revenues generated by the project. To examine the unleveraged IRR provided by the Developer, and to calculate the Developer's IRR without TIF assistance, it is necessary to examine the cost and revenue estimates provided by the Developer.

To determine if the Plan would proceed without assistance, we have calculated the IRR of the project without assistance, and compared the IRR without assistance to the IRR range that a developer would require to proceed with a similar project.

In this case, the projected IRR without TIF, TDD, CID, and Hotel STR assistance is 3.54%, and the projected IRR without TIF, TDD, CID, the Hotel STR, and the Chapter 100 sales tax exemption is 3.07%.

To estimate the IRR range that a developer might require to undertake a similar project without assistance, we have utilized the PriceWaterhouseCooper's Real Estate Investor Surveys produced for the third quarter of 2018.

<u>Costs</u>

The Developer's "But-For" analysis on Exhibit 10 of the TIF Plan shows that the Developer expects to incur $91,762,714 of the total project costs (net of the Chapter 100 sales tax exemption), with the balance paid by the third parties constructing the hotel, grocery store, and Apartments.

As detailed under "PROJECT COST" above, the Developer projects the cost of land acquisition at $9,640,147. Based on the Developer's consultant's representation of actual costs paid for already acquired parcels and its state of negotiations with owners of the remaining parcels, we do not expect the cost of acquisition to vary significantly from this amount.

Site Construction costs to be incurred by the Developer to prepare each pad for the construction of buildings and install infrastructure to each pad are estimated by the Developer at $29,575,582. The remaining Site Construction costs will be paid by the third parties constructing the hotel, grocery store, and Apartments. As detailed previously, the Developer based the costs of site development on analysis and discussion with its engineering and architect teams and a cost consultant.

Building Construction costs to be incurred by the Developer include the restaurant and retail spaces, the medical building, and the Senior Apartments. The preliminary breakdown of these costs is below, based on $180 per square foot for restaurant and retail, and $145,000 per unit for the Senior Apartments.

- $1,170,000 per building for two 6,500 sqft restaurant buildings
- $990,000 for a 5,500 sqft fast food restaurant building
- $1,170,000 for a 6,500 sqft medical building
- $127,260 for a 707 sqft drive through restaurant
- $1,350,000 per building for four 7,500 sqft restaurant or retail/restaurant buildings
- $1,710,000 for a 9,500 sqft restaurant building
- $145,000 per unit for the 165 unit Senior Apartments, or $23,925,000

To examine the reasonableness of the costs for the restaurant, retail, and service buildings, we have used the RSMeans Square Foot Costs estimating tool calibrated for the Kansas City region. While there are many variables that will influence the final cost of constructing each building, we used RSMeans to provide a rough estimate to help determine if the building construction amount provided by the developer is reasonable. Using the RSMeans tool and assuming generic brick veneer buildings with wood frames, we came up with the following rough estimates for building types and sizes that the Developer is considering.

- $194 per sqft for 6,500 sqft restaurant buildings (2 unit)
- $192 per sqft for 5,500 sqft fast food restaurant building (1 unit)
- $148 per sqft for 6,500 retail building (1 unit)
- $244 per sqft for 707 drive-through restaurant building (1 unit)
- $191 per sqft for 7,500 sqft restaurant buildings (4 units)
- $187 per sqft for 9,500 sqft restaurant buildings (1 unit)

We calculate a weighted average of $187 per sqft, which is within $7 per sqft, or 3.9%, of the building cost of construction per square foot provided by the Developer. Based on this data, we conclude that the construction costs provided by the Developer for the restaurant, retail, and service buildings are reasonable.

To examine the reasonableness of the costs for the Senior Apartments, we have examined the cost per unit of other apartment complexes in the Kansas City area. While every complex is different and final costs can vary widely across complexes, we believe that the Developer's estimated $145,000 per unit is a reasonable building cost estimate for the Senior Apartments. In addition, we utilized RSMeans Square Foot Costs to estimate the cost of constructing a generic 180,000 sqft four story multifamily building in the Kansas City metropolitan area. The generic rough estimate utilizing RSMeans data is approximately $157 per sqft. This is 18% higher than the Developer's estimate of approximately $133 per sqft, but within a plausible range as multifamily construction costs can vary widely based on specific project details. Based on the review of this information, it seems the Developer's cost estimates are reasonable.

<u>Returns</u>

The Developer plans to obtain its return through a combination of selling fully prepared pad sites to other developer(s) and operating entities, and leasing space to operating entities.

Projected sales for the fully improved, construction-ready hotel site, apartment site, and grocery store site combine to an estimate of $11,737,536 in the year site work commences. The total acreage of the three sites is 18.2 acres, for a sales price of $644,920 per acre. Based on our research of pad site listings in the Kansas City metropolitan area, we believe this to be a reasonable assumption for fully improved pad sites.

Projected net operating income of the Senior Apartments, and the restaurant and retail spaces will be provided by rent received. The Developer has requested that the projected rents per sqft for these spaces be kept confidential. We have reviewed the assumed rents and believe them to be reasonable based on current market rents.

After ten years, the Developer has projected a sale of its ownership of the Senior Apartments and the restaurants, retail, and service buildings. The Developer assumed a 7.50% cap rate for this sale, with a 4.00% selling commission. While it is impossible to project what the cap rate requirements for real estate investors will be 10 years in the future, based on our review of current cap rates for apartment complexes and restaurant and retail spaces in the Kansas City Metropolitan Area and other metropolitan areas throughout the midwest, we believe that 7.50% is a reasonable cap rate estimate.

Developer Internal Rate of Return

A developer will not undertake a development project without a rate of return that compensates the developer for its time, work, and capital risk. To estimate the rate of return that a project of this nature would require for a developer to consider the project feasible, we utilized the *PwC Real Estate Investor Survey* published in the third quarter of 2018. Since there are multiple uses within this development, we have used an average of the development components. The rates of return below are national numbers, as the *Survey* does not break out the Kansas City or Midwest markets. According to the survey of developers conducted by PwC, the unleveraged return required to pursue a retail strip development ranges from 5.50% - 10.50%, with an average of 7.43%.

According to the survey of developers conducted by PwC, the unleveraged return required to pursue an apartment complex ranges from 5.25% - 10.00%, with an average of 7.20%.

According to the survey of developers conducted by PwC, the unleveraged return required to pursue full-service lodging ranges from 8.00% - 13.00%, with an average of 10.20%.

The project is expected to be 21% retail (including restaurants and the grocery store), 17% hotel, and 62% apartment. Blending the three purposes, we thus estimate that a developer would require a rate of return range between 5.77% and 10.62%, with an average of 7.76%. Given the risk involved with the large amount of site preparation required for this project to develop (31% of the Developer's total estimated costs), along with a significant portion of the Developer's return premised on sales of prepared pad sites rather than operating businesses, we would expect the rate of return required on this project to be at the high end of the range, and have used the developer's requested 10.01% IRR for the calculations below.

Assuming the costs and revenues provided by the Developer, the Developer's rate of return without any economic incentives would be 3.07%.

In order for the Developer to receive approximately a 10.01% return without incentives, revenues (including net operating income and site sales) would need to be 49% higher than the total projected by the Developer.

Alternatively, lower costs would increase the expected IRR. In order for the Developer to receive approximately a 10.01% return without incentive, costs would need to come in 33% lower than the total projected by the Developer. Based on our discussions with the Developer, the land acquisition cost of $9,640,147 is unlikely to change based on ownership of some lots and the current state of negotiations on the remaining lots, so the decrease to the remaining costs (building construction, site construction, and soft costs) would need to be 37% lower than projected for the Developer to receive a 10.01% return without incentive.

If both effects, an increase in revenues and a decrease in project costs, were to occur in tandem, costs would need come in 20% lower than projected and revenues come in 20% higher than projected for the Developer to receive approximately a 10.01% return.

Given the large increase in revenue or decrease in cost that it would take to make this project generate a market-level return, we agree with the Developer's conclusion that this project would not occur at this time and in this location but-for the TIF assistance requested.

With $29,950,000 TIF, TDD, CID, and Hotel STR assistance and $2,749,196 assistance from the Chapter 100 sales tax exemption (the Developer's portion of the $6,048,066 total sales tax exemption), the Developer's projected IRR is 10.01%. This is within the range estimated above, 5.77% to 10.62%, at which a developer would consider pursuing a project with these characteristics in the current investment market.

Projected IRR Without Incentives and With Incentives – Developer's Revenue and Expense Numbers

Projected IRR Without Incentives

	Revenue	Expense	TIF Revenue	Net Revenue
year 0	11,737,536	(53,218,688)	-	(41,481,152)
year 1	2,089,090	(41,293,221)		(39,204,131)
year 2	4,178,180			4,178,180
year 3	4,261,744			4,261,744
year 4	4,346,978			4,346,978
year 5	4,433,918	(454,150)		3,979,768
year 6	4,522,596			4,522,596
year 7	4,613,048			4,613,048
year 8	4,705,309			4,705,309
year 9	4,799,415			4,799,415
year 10	67,102,422			67,102,422
Totals	116,790,236	(94,966,059)	-	21,824,177
			IRR	3.07%

Projected IRR With Incentives

	Revenue	Expense	Reimbursement from Project Revenue Bonds	Remaining Reimbursement	Accrued Interest on Remaining Reimbursement [1]	Net Revenue
year 0	11,737,536	(50,469,492)	23,000,000			(15,731,956)
year 1	2,089,090	(41,293,221)				(39,204,131)
year 2	4,178,180					4,178,180
year 3	4,261,744					4,261,744
year 4	4,346,978					4,346,978
year 5	4,433,918	(454,150)				3,979,768
year 6	4,522,596					4,522,596
year 7	4,613,048					4,613,048
year 8	4,705,309					4,705,309
year 9	4,799,415					4,799,415
year 10	67,102,422			6,950,000	4,170,000	78,222,422
Totals	116,790,236	(92,216,863)	23,000,000	6,950,000	4,170,000	58,693,373
					IRR	10.01%

[1] Assumes 6% simple interest (non-compounding) on the $6,950,000 not reimbursed by the first series of Project Revenue Bonds. This rate is an assumption only and will ultimately be as set forth in the TIF Contract.

Projected IRR Without Incentives – 49% Higher Than Developer's Projected Revenues

IRR Without Incentives

	Revenue	Expense	TIF Revenue	Net Revenue
year 0	17,488,929	(53,218,688)		(35,729,759)
year 1	3,112,744	(41,293,221)		(38,180,477)
year 2	6,225,488			6,225,488
year 3	6,349,999			6,349,999
year 4	6,476,997			6,476,997
year 5	6,606,538	(454,150)		6,152,388
year 6	6,738,668			6,738,668
year 7	6,873,442			6,873,442
year 8	7,010,910			7,010,910
year 9	7,151,128			7,151,128
year 10	99,982,609			99,982,609
Totals	174,017,452	(94,966,059)	-	79,051,393
			IRR	9.98%

Projected IRR Without Incentives – 33% Lower Than Developer's Projected Costs

IRR Without Incentives

	Revenue	Expense	TIF Revenue	Net Revenue
year 0	11,737,536	(35,656,521)		(23,918,985)
year 1	2,089,090	(27,666,458)		(25,577,368)
year 2	4,178,180			4,178,180
year 3	4,261,744			4,261,744
year 4	4,346,978			4,346,978
year 5	4,433,918	(304,281)		4,129,638
year 6	4,522,596			4,522,596
year 7	4,613,048			4,613,048
year 8	4,705,309			4,705,309
year 9	4,799,415			4,799,415
year 10	67,102,422			67,102,422
Totals	116,790,236	(63,627,260)	-	53,162,976
			IRR	10.01%

Projected IRR Without Incentives – 20% Higher Than Developer's Projected Revenues and 20% Lower Than Developer's Projected Costs

IRR Without Incentives

	Revenue	Expense	TIF Revenue	Net Revenue
year 0	14,085,043	(42,574,950)		(28,489,907)
year 1	2,506,908	(33,034,577)		(30,527,669)
year 2	5,013,816			5,013,816
year 3	5,114,093			5,114,093
year 4	5,216,374			5,216,374
year 5	5,320,702	(363,320)		4,957,382
year 6	5,427,115			5,427,115
year 7	5,535,658			5,535,658
year 8	5,646,371			5,646,371
year 9	5,759,298			5,759,298
year 10	80,522,906			80,522,906
Totals	140,148,283	(75,972,847)	-	64,175,436
			IRR	10.11%

CHAPTER 100 SALES TAX EXEMPTION DISCUSSION

It is anticipated that a Chapter 100 Plan will be approved for some or all of the property in the Redevelopment Area pursuant to which the Developer will be requesting (i) a fixed schedule of payments in lieu of taxes for the Senior Apartments and the Apartments, and (ii) a sales tax exemption on construction materials for all of the property subject to the Chapter 100 Plan.

With the exception of the Senior Apartments and the Apartments, the Developer intends that the parcels within the Redevelopment Project Area will be released from the Chapter 100 Plan as soon as construction of the private project improvements on those parcels have been completed.

The purpose for wrapping the parcels within a Chapter 100 Plan, and then releasing them when private improvements are completed, is to provide a sales tax exemption on construction materials. An estimated $6,048,066 of the public portion of the project financing will come from this Chapter 100 sales tax exemption.

As part of our engagement, Piper Jaffray has been tasked with exploring alternatives to the Chapter 100 sales tax exemption. These are summarized below.

Further Leverage Existing TIF Plan Revenues for More Upfront Dollars
One alternative would be to leverage the existing TIF, CID, TDD, and Hotel Sales Tax Remittance revenues to a larger degree than is already suggested within the TIF Plan. We have examined this projected revenue stream, however, and assuming the revenue stream is leveraged to its maximum under the existing TIF Plan, it could not generate an additional $6 million upfront reimbursement.

Increase Transportation Development District Sales Tax Rate
Under Missouri law, Transportation Development Districts are allowed to impose a sales tax up to a maximum of 1% of the receipts of from all retail sales (with certain exceptions). As it is currently drafted, the TIF Plan only imposes a 0.50% sales tax, and so an additional 0.50% could be added to the tax. Using the Developer's projections and assuming the additional tax causes no loss of sales due to leakage to other purchasing venues, this would create another $4.4 million of sales tax revenues (EATS and non-EATS combined) over the 30 year life of the tax, with a net present value of $1.8 million assuming a 5.75% discount rate. On its own, increasing the TDD sales tax to 1.00% would not generate enough upfront project dollars to eliminate the Chapter 100 Sales Tax Exemption from the plan of finance.

Extend Transportation Development District to Include Grocery Store
The TIF Plan as currently drafted excludes the grocery store from the TDD. Using the Developer's projections and assuming adding the grocery store into the TDD causes no loss of sales due to leakage to other grocery stores from the higher sales tax rate, this would create another $5.3 million of sales tax revenues (EATS and non-EATS combined) over the 30 year life of the tax, with a net present value of $2.47 million assuming a 5.75% discount rate. Both on its own and in conjunction with increasing the TDD sales tax rate as described in the paragraph above, adding the grocery store to the TDD would not generate enough upfront project dollars to eliminate the Chapter 100 sales tax exemption from the plan of finance.

Adding the Senior Apartments and the Apartments to the TIF Project Area

The TIF Plan as currently drafted excludes both the Senior Apartments and the Apartments from the TIF Project Area. Adding them to the TIF Project Area would increase PILOTS. While this idea is worth mentioning in a discussion about alternatives to the Chapter 100 sales tax exemption, we understand that this approach is unacceptable.

CONCLUSION

The Developer and its consultants have determined that the redevelopment area is blighted and has not been subject to growth and development through private investment. Additionally, the Developer signed an Affidavit on October 12, 2018, stating that the TIF Redevelopment Area is blighted and "has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing. In addition, the cost of curing the existing conditions and construction of improvements pursuant to the [TIF] Plan, are not economically viable if fully born by a Redeveloper."

For the sites on which it is constructing buildings, the Developer will bear all risk until the buildings are constructed. For the sites on which it is planning to provide site construction only, the Developer will bear all risk until the sites are sold to third parties, and those third parties will bear all risk until the its buildings are completed. The Developer and the third parties will face continued operating risk once the development is completed.

This level of risk to the Developer demands a return as high as 10.6%, based in information cited from the *PwC Real Estate Investor Survey* and given the risk involved with the large amount of site preparation required for this particular project to develop, along with a significant portion of the Developer's return premised on land sales rather than operating businesses. We believe that the Developer's proposed return of 10.01% is reasonable.

Using the Developer's cost and return assumptions, which we believe to be reasonable as described within this report, we calculate an internal rate of return of 3.07%, well below the return that we believe is required to make this project develop on this site. Therefore, we concur with the Developer's determination that this proposed project would not occur at this time, on this site, without public subsidy.