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August 2, 2017

TO: Lee's Summit City Council  
FROM: Rich Wood  
RE: Summary of Village at View High TIF Plan

**Property:** The Redevelopment Plan land area is comprised of approximately 34 acres with frontage along View High Drive and frontage along 3<sup>rd</sup> Street, all within Jackson County, Lee's Summit, Missouri. The property owners in the Redevelopment Area are included in Exhibit A to this memorandum.

**Developer:** Parrot Properties, LLC (the "Developer")

**Development:** The Developer proposes to construct within the Redevelopment Area the private development listed in Exhibit B to this memorandum. The development is shown on the Site Concept Plan attached to the TIF Plan as *Exhibit 3*. The development includes the construction of Kessler Street and related 3<sup>rd</sup> Street and View High intersection improvements, construction of a detention pond, and the extension of sanitary sewer and water improvements. The TIF Plan includes potential incidental second floor residential uses within the Redevelopment Area. However, if residential is developed the square footage and related real property taxes will not be captured by the TIF Plan, but will be distributed to the appropriate taxing districts.

**Sources and Uses:** A detailed budget is included in the TIF Plan as *Exhibit 7*. The Developer indicates that the following sources will fund the development costs:

Developer Debt	\$51,485,650
Developer Equity	\$7,200,000
TIF/Captured CID	\$7,975,797
Community Improvement District	<u>\$2,322,123</u>
	\$68,983,570

A more detailed sources and uses table is provided in *Exhibit 8* to the TIF Plan.

### **Property Investment and Valuation:**

- Current assessed valuation: \$48,532 to \$160,951
- Total Project Costs: \$68,983,570
- Projected assessed valuation after Project is constructed: \$4,744,870 to \$12,920,725

### **Ownership and Development Structure:**

- Developer or related entities own most parcels within the Redevelopment Area. A full list of parcels and property owners is attached as Exhibit A to this Summary.
- The Redevelopment Area includes six redevelopment project areas, but only Redevelopment Projects 1 through 5 are described in the Redevelopment Plan at this time. No data or projections are provided in the Plan for Project 6, as it will be presented to the City as an amendment to the Redevelopment Plan if and when that project is ready to move forward.

### **TIF Reimbursement and Financing Structure:**

- **PILOTS:** 50% of PILOTS will be captured and 50% of PILOTS will be declared surplus and returned to the taxing districts. The Developer projects that in the total time that tax increment financing is in place, the TIF within Redevelopment Project Areas 1 through 5 will generate \$11,800,199 in PILOTS. It is assumed in the Redevelopment Plan that property tax revenues will increase at a rate of 1.5% semi-annually.
- **EATs:** 50% of EATs will be captured. The Developer projects that in the total time that tax increment financing is in place, the TIF within Redevelopment Project Areas 1 through 5 will generate \$26,964,076 in EATs. It is assumed in the Redevelopment Plan that sales tax revenues will increase at a rate of 1.5% a year.
- **Reimbursable Project Costs:** TIF revenue is proposed to reimburse \$7,975,797 of project costs and CID sales tax revenue to reimburse \$2,322,123 of the project costs. The Developer projects that Redevelopment Projects 1 through 5 will each last 23 years to provide full reimbursement for the costs associated with Redevelopment Project Areas 1 through 5. However, the maximum project cost reimbursement from TIF revenues will be \$7,975,797, plus financing costs and advanced funds, and the maximum cost reimbursement from CID revenues will be \$2,322,123.
- **Super TIF:** No City “Super-TIF” contribution has been requested – 50% of all sales tax revenue will flow to the City as normal.
- **Obligations:** Obligations may be issued in the future, at the City’s discretion, to finance certain Redevelopment Project Costs.
- **Sales:** Annual sales after full build-out (year 6) are projected to be \$36.3 million, escalating to \$55.5 million in year 23.

## **CID:**

- The CID is proposed to impose a sales tax not to exceed 1%. The boundaries of the CID will be coterminous with the boundaries of the Redevelopment Area.
- The TIF Plan will capture half of all CID sales tax revenues as EATs, which can then be expended on TIF-eligible Reimbursable Project Costs. The Developer projects that in the total time that tax increment financing is in place, the revenue from the CID sales tax accounted for as EATs will be \$5,456,807. The one-half of CID sales tax revenues that are not captured as EATs, which are projected to be \$5,456,807, will be pledged for the reimbursement of Redevelopment Project Costs which also qualify as eligible for reimbursement in accordance with the CID Act.
- Uncaptured CID sales tax revenue will reimburse a maximum of \$2,322,123 of the project costs.

## **Benefit to Taxing Districts:**

- The Cost-Benefit Analysis attached to the TIF Plan as *Exhibit 6* shows the projected tax revenues to be generated by the project for each taxing district if the project does not occur and if the project does occur with the use of TIF.
- 50% of PILOTs will be declared surplus and returned to the taxing districts.

## **Levels of Incentives:**

- The proposed levels of incentives, comparing overall project costs to those line items proposed to be funded by incentives are as follows:
  - TIF assistance would be 11.6%.
  - CID assistance would be 3.4%.
  - Overall assistance would be 15%.
- The City's Economic Incentive Policy provides in the section entitled "Use of Incentives" on page 4, that the value of an incentive is calculated by multiplying the cap amount and the total private development cost. Private development costs are items that will not have public ownership. The cap amount is the maximum reimbursement to be provided from public sources. In this case it is proposed that the TIF cap amount be \$7,975,797 and the CID cap amount be \$2,322,123, for a total cap amount of \$10,297,920.
- The Developer has provided information evidencing what it believes the portion of each budget line item which is attributable to a public or private cost to be. Based on the Developer's information, of the total of \$10,297,920 for which public incentives are sought, \$6,450,840 is attributable to public costs and \$4,935,587 is attributable to private costs. Under the methodology provided in the City's Incentive Policy (essentially backing the public costs out of the overall project cost number), the percentage of public incentives sought would be as follows:
  - TIF assistance would be 12.8%
  - CID assistance would be 3.7%
  - Total public assistance would be 16.5%

## **Key Staff Issues:**

### **• Value of Property**

- Real property costs are shown in the Project Budget, *Exhibit 7*, to be \$7,200,000. This equates to a value of \$4.88 per square foot.
- An appraisal was not conducted for purposes of considering this TIF Plan. Without an appraisal, it is difficult to determine the correct value of the real property included in the Redevelopment Area.
- The Developer has provided information confidentially regarding the most recent sale of property within the Redevelopment Area (Senior Living Use Land Sale – Lot 2, *Exhibit 9*) as well as private bank loan appraisals for Lots 7 and 9, as represented in *Exhibit 9*.
- After dialogue between the Developer and City staff, the Developer revised the estimated value for the property as stated in the TIF Plan from \$9,250,000 to \$7,200,000, or \$6.27 per square foot to \$4.88 per square foot.

### **• Rate of Return**

- The assumptions upon which the Developer's Rate of Return analysis is based are as follows: (1) property value of \$7,200,000, (2) infrastructure costs of \$12,263,000, (3) a public incentive amount of \$10,297,920, (4) construction interest rate of 5.5% throughout the entire ten year period of the analysis, (5) the sale of one-half of the property in year three, and (6) the sale of the remainder of the property in year ten.
- The Developer's Rate of Return analysis without incentives shows a loss of \$10,247,680.
- The Developer's Rate of Return analysis with incentives shows a gain of \$49,760.

### **• Water and Sewer Infrastructure**

- The Project Budget in *Exhibit 7* provides for a split between public and private costs for off-site sanitary sewer improvements of 80% public and 20% private. TIF assistance is requested for 80% of these costs.
- The Budget also provides for a split between public and private costs for off-site water improvements, based on upside costs only, of 8.8% public and 91.2% private. TIF assistance is requested for 8.8% of these costs.
- The Developer has stated that the Senior Living and Multi-Family developments located outside the Redevelopment Area will benefit from the off-site water and sewer improvements. In addition, there is approximately 80+ acres outside of the Redevelopment Area that will benefit from the off-site water and sewer improvements.

### **• Stormwater Infrastructure**

- The Developer has requested that 50% of the regional storm drainage and detention pond improvements be reimbursed from TIF revenues on the basis that 50% of the improvements will serve the Redevelopment Area and 50% of the improvements will serve the Senior Living and Multi-Family developments outside of the Redevelopment Area.

- **Transportation / Roads**

- Kessler Drive, which is primarily an internal road, is proposed to be paid for with CID revenues and not TIF revenues.
- The other road improvements, which provide a regional benefit, are proposed to be funded with a combination of TIF and CID revenues.

- **Site Grading and Material Import**

- The Developer has provided information to City staff which shows that 67% of the costs in the Site Grading and Material Import categories are due to the construction of the public streets (right-of-way).
- The development pad sites abutting 3rd Street and View High Drive represent 33% of the entire Redevelopment Area.
- Based upon these assumptions, the applicant is seeking 67% TIF assistance for Site Grading and Material Import, to be reimbursed by the TIF and CID.
- Portions of land area beyond the right-of-way have been included in the 67% reimbursement request.

- **Construction Costs for Private Improvements**

- The Developer has provided information to City staff from a construction firm supporting the construction cost estimates for the private building costs for the 264,750 square feet of space (\$185.08 sf).
- The \$49,000,000 construction cost estimate includes tenant finish and soft costs for the private building improvements.
- It is the staff's intention to require a "performance-based" TIF agreement that requires minimum levels of private investment within agreed time frames.

- **Grocery Store Costs**

- The Developer is seeking a 100% development incentive to provide a "pad ready" site for a proposed grocery store.
- These proposed costs total \$3,072,080 in TIF and CID assistance. \$1,674,000 of these costs appear in the *Exhibit 7* Project Budget line item titled "Finish Grading, Utilities, Parking Lot, Landscaping."
- The City has not provided an incentive of this nature to attract a specific user or tenant.
- If the TIF Plan is approved with these costs as TIF reimbursable, the Developer has agreed that the TIF agreement may require that the Developer will not receive reimbursement of the TIF reimbursable grocery store costs until completion of construction of the grocery store.

**Required Findings:** The following is a list of the findings required to be made by the City Council, along with references to the pages in the TIF Plan where supporting information may be found:

- **Blight:** The Redevelopment Area must be a blighted area, as such term is defined in Section 99.805(1), RSMo, as follows:

an area which, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use.

The basis presented by the Developer in support of a blight finding is the presence of several blighting factors as set forth in the Blight Study prepared by the Developer (*Exhibit 4*). The Redevelopment Plan is also accompanied by an affidavit, signed by the developer, attesting to the blighting conditions of the Redevelopment Area (*Exhibit 11*). The following is an overview of the blighting factors noted in the Blight Study:

- Inadequate Street Layout
    - Poor vehicular access in and around the Redevelopment Area.
    - Lack of internal circulation.
    - Limited points of ingress and egress for general vehicular access.
    - Limited points of ingress and egress for emergency vehicles.
  - Unsanitary or Unsafe Condition
    - Unsecured farm pond.
    - Unsecured septic pond.
    - Unsecured swimming pool.
  - Deterioration of Site Improvements
    - Severely deteriorated roofing material.
    - Broken windows.
    - Unmaintained landscaping.
    - Scattered trash and debris.
    - Possible environmental hazards.
  - Existence of Conditions which Endanger Life or Property
    - Presence of the aforementioned farm pond which is presently unsecured, unmonitored and unsupervised.
    - Presence of suspect black mold within a vacant single-family residence.
    - Presence of the aforementioned unsecured septic pond and abandoned swimming pool.
- **But-For:** The proposed redevelopment must satisfy the “but for” test set forth in Section 99.810, RSMo, in that the Redevelopment Area 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, and the TIF Plan is accompanied by an affidavit, signed by the Developer, attesting to this statement (*Exhibit 11*). The Rate of Return analysis provided by Developer provides additional support for this finding.

- **Cost-Benefit Analysis:** A cost-benefit analysis is required showing the economic impact of the TIF Plan on each taxing district and political subdivision within the Redevelopment Area if the project is built pursuant to the TIF Plan or is not built. A cost-benefit analysis has been provided in *Exhibit 6* to the TIF Plan.
- **Financial Feasibility:** There must be evidence that the proposed project is financially feasible for the Developer to construct with TIF assistance. The cost-benefit analysis included in *Exhibit 6* contains some information supporting this finding. The Rate of Return analysis provided by Developer provides additional support for this finding.
- **TIF Plan Contents:** The TIF Plan must contain the following information, and the page and exhibit references below indicate where the information may be found in the TIF Plan:
  - A general description of the program to be undertaken to accomplish its objectives (*Pages 6-8*).
  - The estimated redevelopment project costs (*Page 8 and Exhibit 7*).
  - The anticipated sources of funds to pay the costs (*Pages 8-10 and Exhibit 8*).
  - Evidence of the commitments to finance the project costs (*Exhibit 12*).
  - The anticipated type and term of the sources of funds to pay costs (*Pages 8-10*).
  - The anticipated type and terms of the obligations to be issued (*Page 10*).
  - The most recent equalized assessed valuation of the property within the Redevelopment Area which is to be subjected to payments in lieu of taxes and economic activity taxes pursuant to Section 99.845, RSMo (*Page 10 and Exhibit 6*).
  - An estimate as to the equalized assessed valuation after redevelopment (*Pages 10-11 and Exhibit 6*).
  - The general land uses to apply in the Redevelopment Area (*Page 11*).
  - Estimated dates for the retirement of obligations incurred to finance redevelopment project costs, and said dates are not more than twenty-three (23) years from the adoption of an ordinance approving a Redevelopment Project within the Redevelopment Area (*Page 12*).
  - Estimated dates of completion of the redevelopment project (*Exhibit 5*).
- **Plan Requirements:** The TIF Plan must also meet the following requirements, and the page and exhibit references below indicate where the information supporting these requirements may be found in the TIF Plan:
  - The TIF Plan is in conformance with the Comprehensive Plan for the development of the City as a whole (*Page 12*).
  - A Relocation Assistance Plan has been developed for relocation assistance for businesses and residences, and the relocation of any business or residents in the Redevelopment

Area, if necessary, will take place in accordance with the Relocation Assistance Plan (*Page 12 and Exhibit 13*).

- The TIF Plan does not include the initial development or redevelopment of any gambling establishment (*Page 12*).
- The areas selected for the Redevelopment Project include only those parcels of real property and improvements thereon which will be directly and substantially benefited by the Redevelopment Project improvements (*Exhibit 1*).



**EXHIBIT A**

**PROPERTY OWNERSHIP IN TIF REDEVELOPMENT AREA**

<b><u>Property Owner</u></b>	<b><u>Parcel Number</u></b>	<b><u>Project Area</u></b>	<b><u>Square Feet</u></b>
Parrot Properties, Inc.	62-330-99-98-01-0-00-000	1	1,086,569
Mikes Farm, Inc.	62-330-99-99-01-2-00-000	2	357,903
Mikes Farm, Inc.	62-330-99-98-02-1-00-000	1,2 & 4	485,985
Mikes Farm, Inc.	62-330-99-91-01-0-00-000	2,3,4 & 5	980,653
New Orleans, LLC	62-330-99-97-00-0-00-000	1 & 5	126,194
Mikes Farm, Inc.	62-330-99-96-00-0-00-000	5	44,503
Bondon, John R., Trustee	62-330-99-95-00-0-00-000	5	44,511
Faulkner, Richard H. & Robert G.	62-330-99-94-00-0-00-000	5	44,498
Bondon, John R., Trustee	62-330-99-93-00-0-00-000	5	61,296
Cochran, David Keith	62-330-99-92-00-0-00-000	6	51,399

**EXHIBIT B**

**PROPOSED LAND USES IN REDEVELOPMENT AREA**

<u>Use</u>	<u>Square Feet</u>
Medical office	21,600
Grocery	26,850
Bank	7,200
Office	97,840
Retail	59,710
Restaurant	27,550
Residential	24,000