



LEE'S SUMMIT MISSOURI

License Tax Review Committee Annual Report for FY2018

January 22, 2019

EXECUTIVE SUMMARY

City staff presented the FY2018 update to the License Tax Review Committee on November 29, 2018. 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 a fee for new development or re-development activity that increases traffic
- The City must spend funds received on transportation projects
- The License Tax Fund current balance is \$4.630 million
- 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
- Several sections of the ordinance adopted in 1997 and 2010 are outdated and confusing
- The ordinance does not clearly define how to calculate fees for some land uses

Projections

- The analysis and presentation occurred before the PRI announcement to release large tracts of land for sale
- Building permit activity reached a peak in 2016-18
- Future years will see declining License Tax revenues due to declining development activity
- \$9.699 million is the projected fund balance in 15 years

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

- Committee voted unanimously to program into the FY20 CIP NW Main Street to connect from NW Chipman to NW Commerce
- Committee voted unanimously to revise the ordinance to remove outdated sections and to clarify the calculation of fees for all types of development

Background

The license tax, or sometimes called excise 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 fee 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. 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 to the FY 2019 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 across the board increases in 2007 and 2015 of 3% and 5%, respectively, a 10% rate increase on non-residential development in 2016, and a 5% rate increase on non-residential development in 2018.

Table 1: License Tax Rates for 2018-19 (FY19)

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 Future Revenues

The City issued 762 permits for residential dwelling units in 2017, which was significantly more than the 509 permits issued in 2016. 2017 is projected to be the peak activity based on land currently available for development. This peak is included multi-family units currently under construction.

2018 and 2019 projections estimate 500 to 600 residential permits. Starting in 2020-21, the residential construction activity is expected to gradually decline over the next 10 years. Activity is expected to be equal or greater than 400 residential units per year for the next 3 to 5 years.

Growth may flatten sometime after 2022 because new construction is expected to use most of the existing inventory of platted land or easily developable land. Work beyond those years will become more difficult to develop due to the increased infrastructure costs associated with more challenging land areas. Figure 1 shows the building permit projections for residential units.

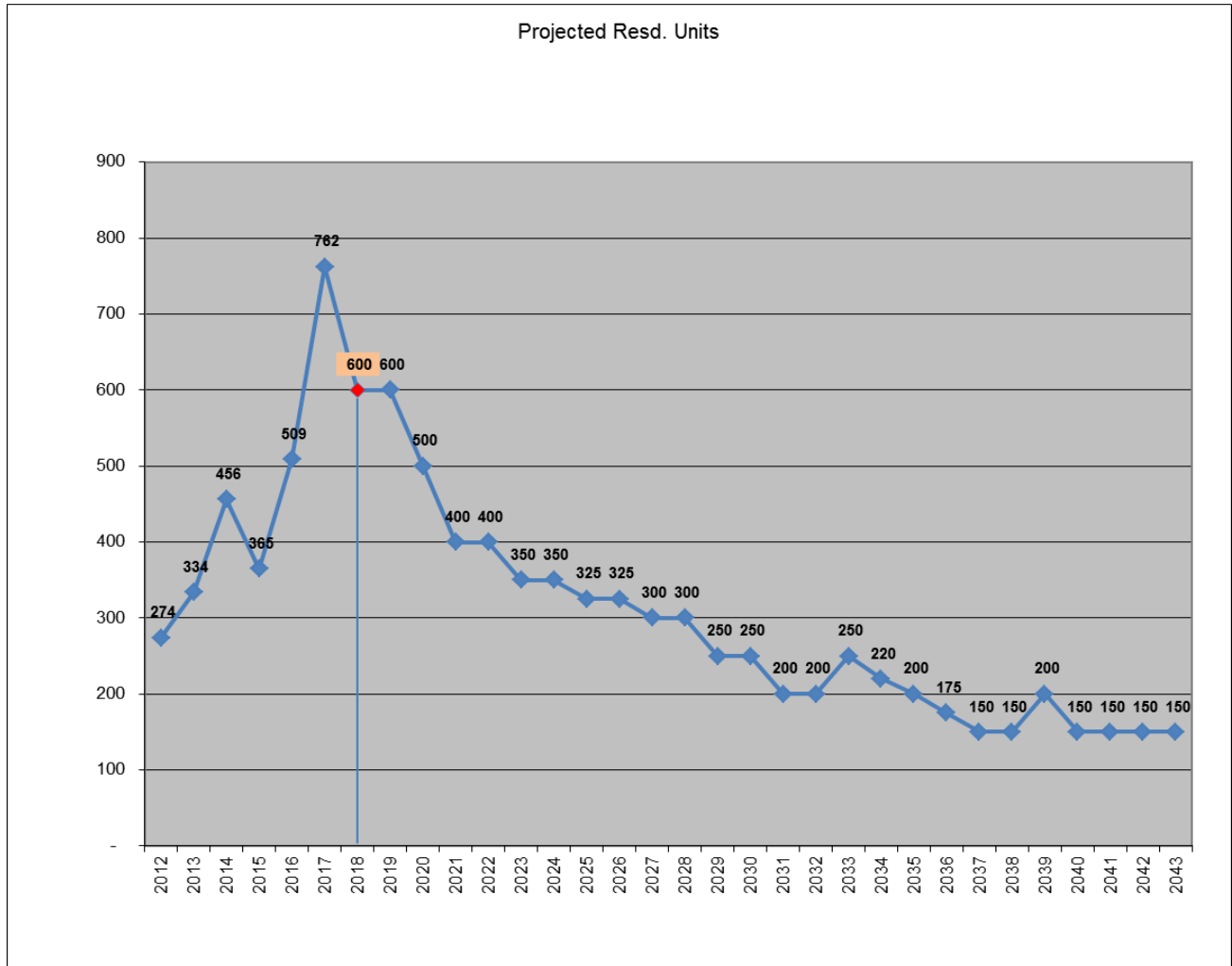


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City's existing inventory. 113,000 square feet were permitted in 2017, which is significantly less than the 610,855 square feet permitted in 2016. Office and Industrial permit volumes in 2017 were each about 80% of the square footage permitted in the previous year.

Commercial and industrial is forecast to be lower this year, move up for two to four years, and then decline gradually starting in 2023. Commercial square footage construction is expected to be less than 150,000 square feet per year starting in 2023. The peaks and downward trends are shown in Figure 2.

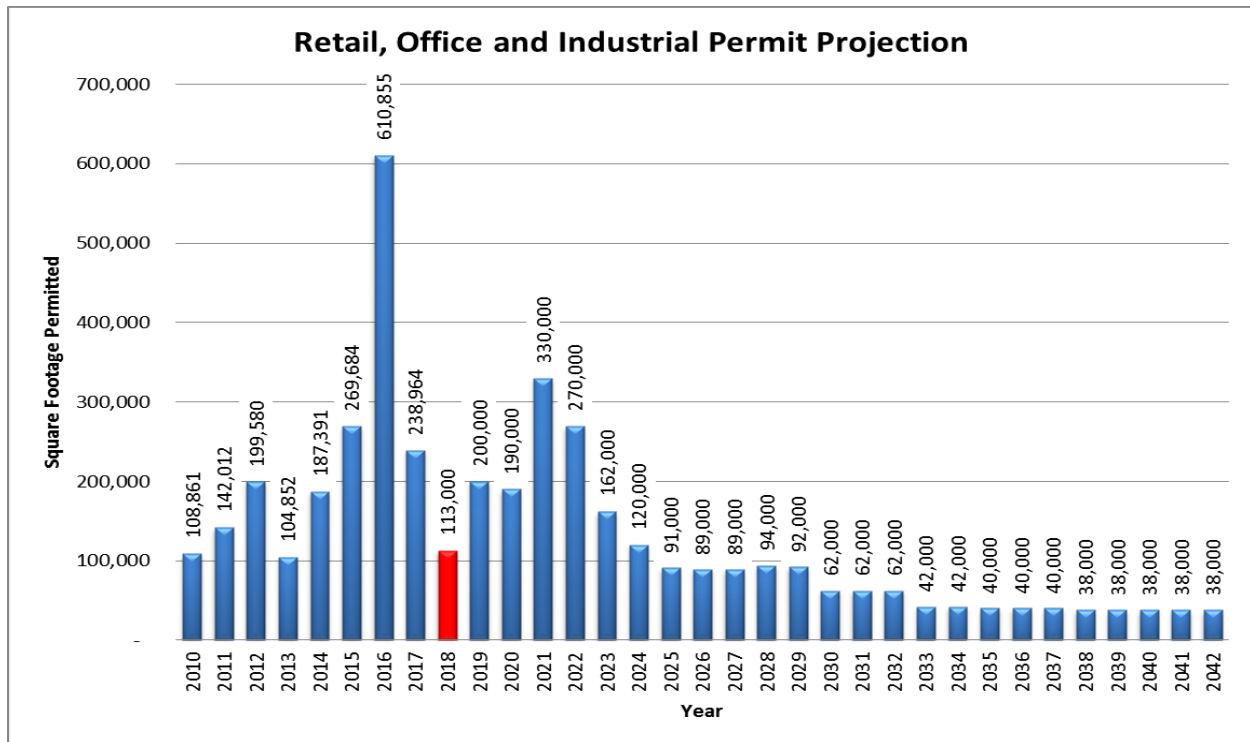


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

The total number of permits forecast is expected to be achieved because permit estimates are based on land area. The actual timing of the permit activity is more difficult to forecast. For example, a project development expected to start in 2018 may be delayed a few months, which would push the permit, and thus the revenues, into 2019. The City still receives the revenues, but the timing will change. City staff has conservatively projected permits. The unpredictable timing and changes in projects may change the building footprint or use of a site, and thus change the license tax fee. Only known projects were considered for the next 2 to 4 years. Additional projects are likely to occur, but no such hypothetical projects were counted in the forecast.

The license tax generated \$1,106,761 of revenue for FY 2018 to yield a year-end balance of \$4.630 million. Based on currently active development projects, FY 2019 license tax revenues are forecast to be about \$700,633 by the end of this fiscal year for June 30, 2019. \$1.430 million of license tax funding is currently programmed in the Capital Improvement Plan (CIP) to construct SE Browning Street. The current balance, plus expected revenues, less the programmed money would create a projected available fund balance of about \$3.900 million available for spending in FY2020. Detailed revenue tables can be found in Appendix C. Based on current tax rates, revenues are expected to create a fund balance exceeding \$6.216 million in 2023.

Administrative Issues

The current ordinance includes language that is either outdated or confusing to applicants. City staff recommends modifying the ordinance to delete the outdated or expired sections of the ordinance. For example, several paragraphs outline tax exemptions for work initiated before December 31, 1997 would be deleted.

Analysis

The current fund balance is sufficient to fund projects currently identified in the Thoroughfare Master Plan (TFMP). Examples of projects that could be funded now are a traffic signal with turn lane improvements at SE Hamblen and Bailey Roads; SW Longview Boulevard from Longview Road to Scherer Road; NE Chipman Road between Todd George Parkway and Bristol Drive; NW Pryor Road from I-470 north to Colbern Road; SW Pryor Road from County Line Road to M-150; SW Hook Road City Limits to Ward Road. Allocation of funds could support a single arterial road project, multiple smaller projects, or augment other funding sources to supplement very large projects.

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.

Table 2 shows the historical license tax rates compared to values adjusted for inflation. 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 1993 Construction Cost Index (CCI) published by RS Means.

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

Year	Actual Residential License Tax Rate	Residential Rates Adjusted for CPI	Residential Rates Adjusted for CCI	Max. Rate Allowed by 1997 Election
2018	\$1,088.00	\$1,453.00	\$1,877.00	\$2,116.00

The current License Tax for residential rates lags 33% below the CPI and 73% below the CCI. The existing ordinance allows for increasing the License Tax rate to \$2,116.00, which would exceed the rates adjusted for inflation. So rate adjustments less than the voter-approved threshold can be approved by City Council without requiring a citywide public vote. Appendix C presents license tax rates adjusted for CPI data and CCI data in comparison with the actual license tax rates.

Based on recent comments by the Committee, they desired to raise rates as one-time events in 2015 and 2018 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, and (b) small changes in those rates have not altered development activity.

After funding SE Browning Street, the remaining accrued balances in FY19 will be sufficient to support additional transportation projects for which the combined costs are less than \$4.0 million. Funds would allow programming up to \$6.2 million into the CIP over the next five years.

Based on the current fund balance, and the projected multi-million dollar fund balance building over the next 5 to 10 years, consideration should be given to programming money so that a plan is in place to spend the money. The City should avoid building too large of an unallocated balance to avoid potential issues related to the Hancock Amendment which prohibits collecting excessive fees. Planning ahead would also reduce the risk of hastily choosing work that may be hard to fit the Committee’s general guidance for project selection. The project lists are also subject to annual reviews so projects programmed beyond the current fiscal year can easily be deferred, removed, replaced, change the scope, or other actions to adjust to future changes in the City.

An example list of projects potentially eligible for funding is shown below. City Staff would ask the Committee to consider discussion of road projects for inclusion in the City’s 5-year Capital Improvement Plan, similar to the process that authorized funding for SE Browning Street.

Potential Future Projects for Consideration			
Project	TFMP*	Multiple Developments?	Budget Estimate
Main Street: Chipman Road to Commerce Drive	Yes	8 Commercial plus undeveloped	\$1.1 M
SE Hamblen and Bailey Road Signal and Intersection	Yes	17 commercial 6 residential	\$850,000
SW Longview Boulevard from Longview Road to Scherer Road	Yes	11 residential plus undeveloped	\$2.8 M
NE Chipman Road between Todd George Parkway and Bristol Drive	Yes	7 residential plus undeveloped	\$3.1 M
NW Pryor Road from I-470 north to City Limits (interim road standard)	Yes	undeveloped	\$1.2 M
SW Pryor Road from County Line Road to M-150 (interim road standard)	Yes	3 residential plus undeveloped	\$3.0 M
SW Hook Road from City Limits to Ward Road (Can be phased; possible CIP Sales Tax candidate)	Yes	4 residential plus undeveloped	\$10.3 M

*TFMP = 2017 Thoroughfare Master Plan

Committee Comments, Questions and Discussion

The Committee asked several questions regarding prioritizing projects. City Staff presented the list of projects as illustrations of the types of projects that could be considered. Committee members generally discussed the concept of using transportation projects to set the stage for future development that could also generate additional revenue. The concept was future improvements by Developers would generate license tax fees that could partially offset the cost of construction. One of the main goals of a project should be to remove impediments to development. The priority of license tax funding should help open up land for commercial or industrial development. Multi-family housing could be second-tier priority for funding.

The Committee identified two types of projects that should not be funded from the license tax fees. New road construction should not be used to promote future single family housing developments, and then funds should not be used to retrofit existing sites to alleviate current traffic issues.

The Committee moved to fund a new project for design and construction based on the priorities discussed and available fund balance. That project is improving NW Main Street between Chipman and Commerce. That section of NW Main will be the only section of unimproved streets in an area zoned for planned industrial, commercial and office. This would help this area because significant infrastructure improvements along Douglas Street would be required. This project would intersect with the NW Commerce Drive extension from Main to Tudor that is currently under construction. The Commerce Drive project is installing the roadway and sewer main along Commerce to remove some of the impediments to development in this area. It should also be noted that these projects provide access to land currently owned by the City.

In regards to rates, the Committee and City Staff discussed the current fee structures. Significant changes in the retail market have changed how often people travel to certain locations. For example, online banking has significantly reduced the number of trips to a drive-through bank. Online shopping has reduced trips to the retail stores but increased delivery truck traffic. Stores such as QuikTrip, HyVee, etc. have changed from a C-store/grocery store to an all-encompassing one-stop shop. These changes in purchasing habits and retail cause the ITE to significantly change how the Trip Generation Manual calculates traffic. In most cases, the trips generated per type of land use have gone down, but ITE greatly expanded the types of land uses that can be used to calculate the number of vehicle trips and added alternate ways other than building area to calculate vehicular traffic for the site. For example, the C-store was split into many different types of C-stores, or movie theaters were subdivided into numbers of screens or amenities offered at the theater; can estimate bank traffic using the number of drive through lanes or building area; office traffic could use building area or number of employees; etc.

City Staff and the Committee discussed the language in the ordinance. Several sections have specific dates, such as "... if submitted before March 31, 1999..." then the fees are calculated differently. Also, the method of calculating fees does not necessarily encompass all of the new land uses provided in the trip generation manual. For example, uses such as an open air market will generate a large amount of traffic, but have no building or a very small accessory building for storage or concessions that does not match the primary use of the site. These cases are rare exceptions, but adding language in the ordinance that references the ITE Trip Generation Manual would clarify how to calculate traffic for any and all types of land use that generate traffic.

The Committee did not express a desire to make changes in the current fees. One of the Committee statements was that fees should not be change for the sake of changing; there should be some goal or rationale behind adjusting fees. However, the topic of fees should continue to be discussed annually.

Summary of Committee Recommendations from FY 2018 Report

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 non-residential developments

Last year the Committee recommended the following and City Council Approved the following:

- Add SE Browning Street extension to connect Oldham Parkway to Hamblen Road
- Increased non-residential rates by 5%

This year the Committee recommended the following and City Council Approved the following:

- Add NW Main Street improvements between Chipman Road and Commerce Drive
- Make no changes to current fees
- Update the ordinance to remove outdated items and clarify how rates are calculated

Committee and City Staff Actions

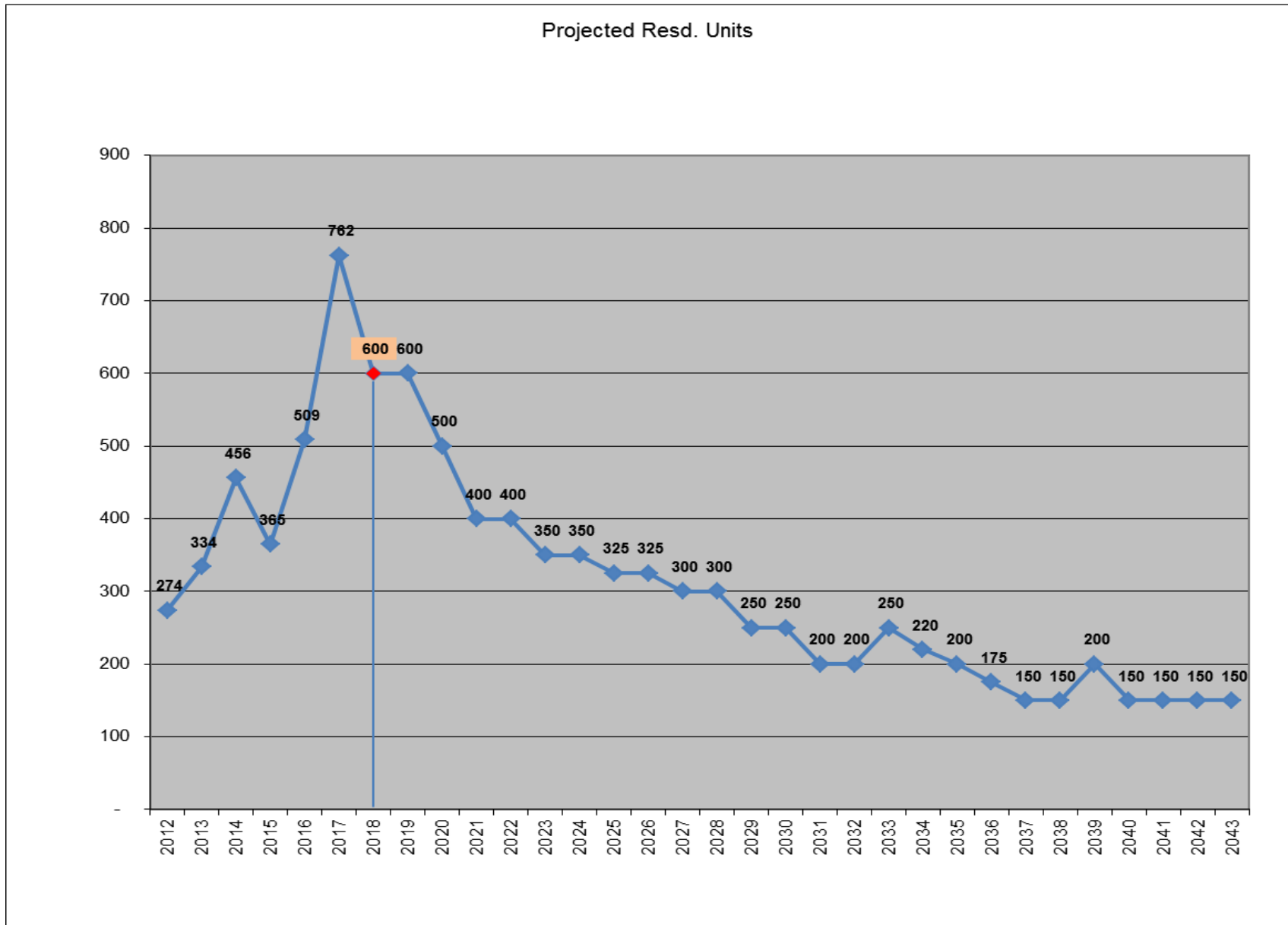
For reference, the November 29, 2019 action letter from the Committee is enclosed as Appendix D. The License Tax Review Committee voted unanimously to program NW Main Street into the FY2020 CIP, directed staff make administrative changes and clarifications to the ordinance. Based on that action, City staff will (a) programmed SE Browning into the FY2019 Capital Improvement Plan for review and adoption by Council; and (b) drafted a revised license tax ordinance for Council consideration that incorporates the recommended administrative changes.

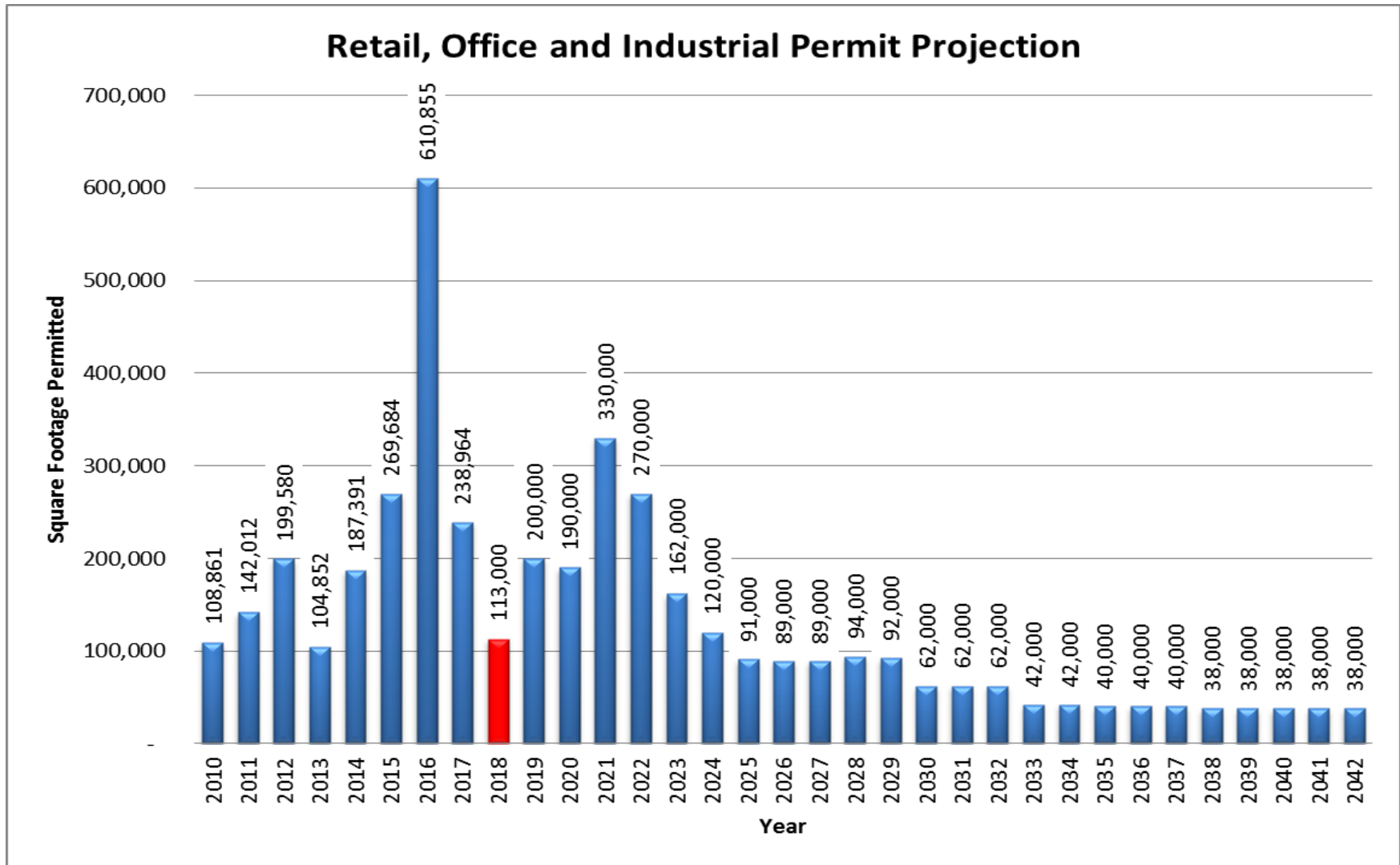
APPENDIX A to FY2018 LICENSE TAX REPORT: Transportation Project Completed as Part of the License Tax Program Adopted in 1998

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)
SE Browning Street (Oldham to Hamblen) <ul style="list-style-type: none"> • Added to CIP in FY 2019 • Design in 2019 • In process to select design consultant • Due required interaction with Union Pacific Railroad, construction likely in 2020-21 	

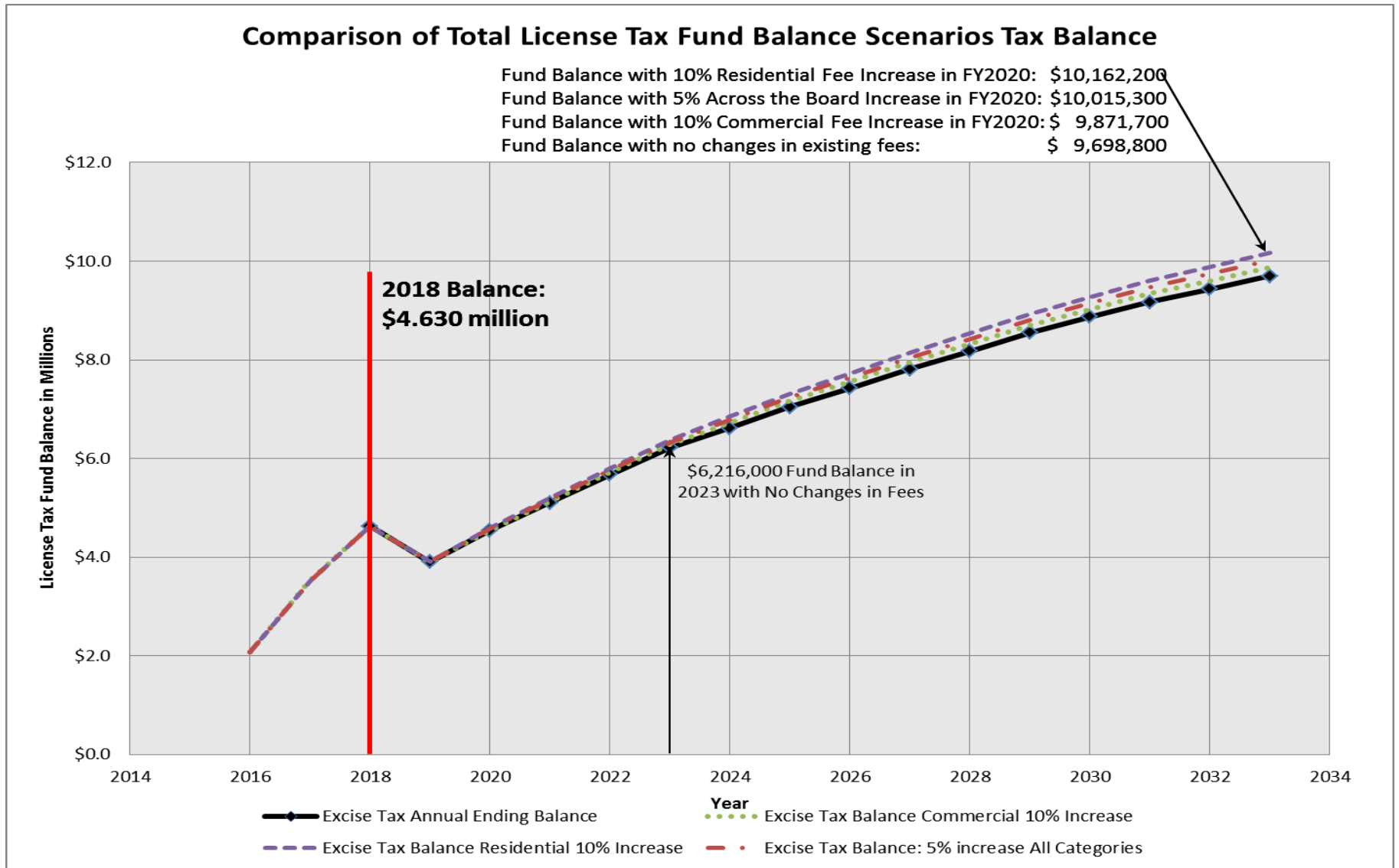
Note: The License Tax Committee recommended the Chipman Road Phase III project (from M-291 to Birchwood) be removed from the program so License Tax funds can be used for other projects in the Thoroughfare Master Plan. Chipman Road project will remain in the master plan, but funded from other sources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

APPENDIX B to FY2018 LICENSE TAX REPORT: Building Permit Activity and Projections Through 2043

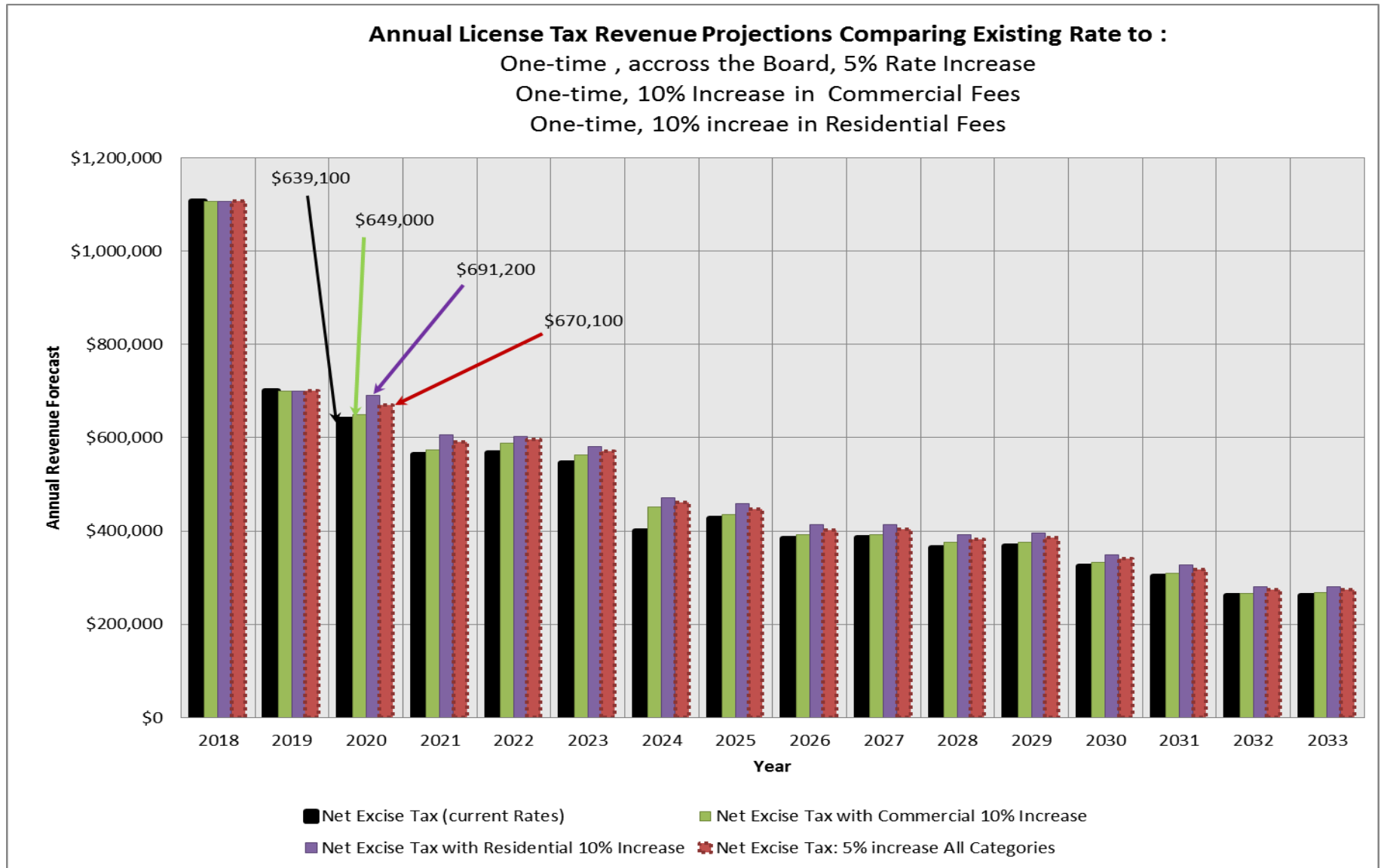


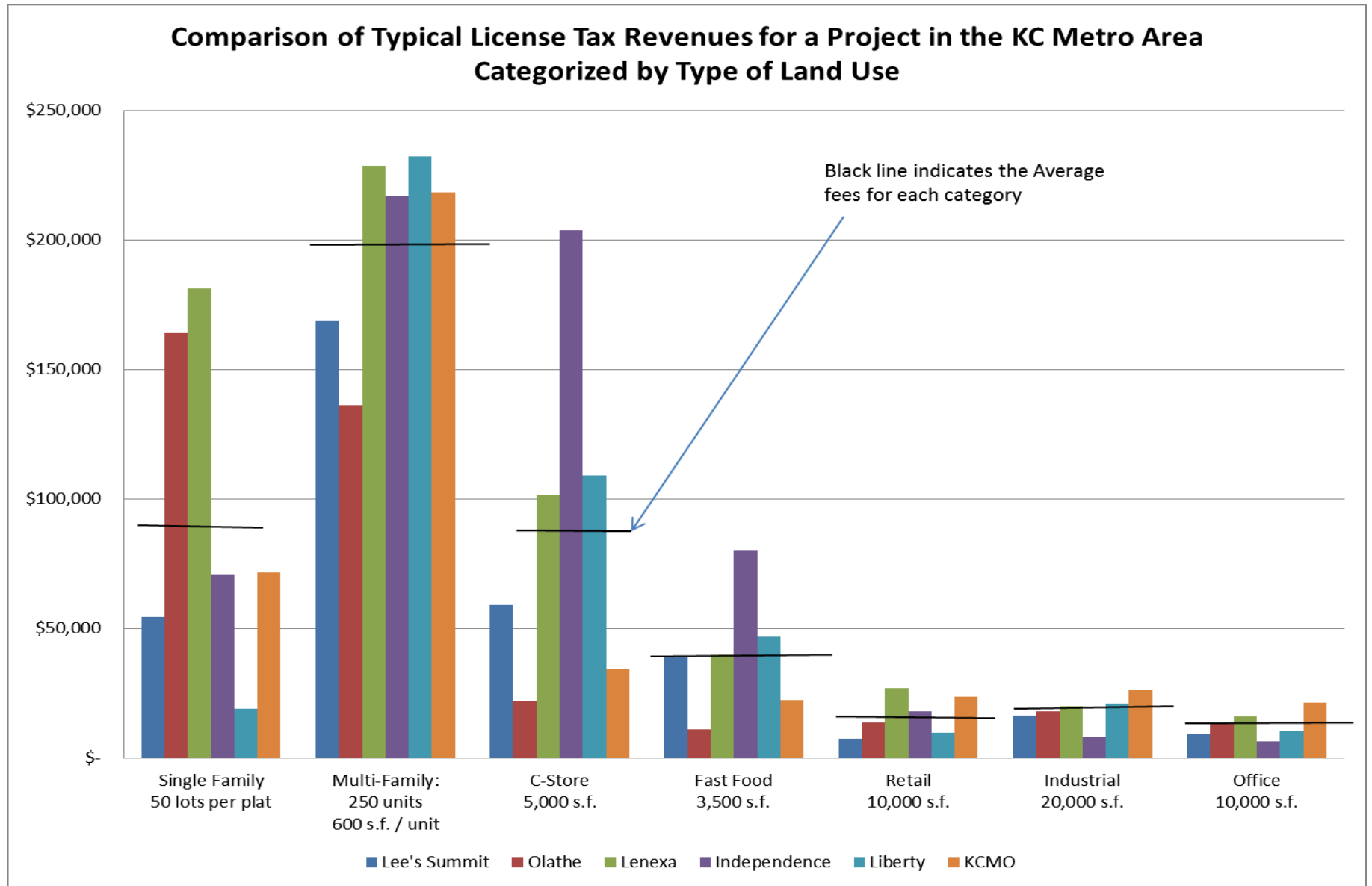


APPENDIX C to FY2017 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compartmented to Other Agencies



APPENDIX C to FY2017 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compartmented to Other Agencies





**LICENSE TAX REVIEW COMMITTEE
ACTION LETTER
CITY OF LEE'S SUMMIT**

Monday, November 29, 2018
4:30 p.m.

Present at the Meeting –

*George Binger
Mike Weisenborn
Michael Park
Lisa Azimi
Heping Zhan
Cynda Rader
Chairman Faith

*Dena Mezger
Darlene Pickett
Ryan Elam
Victoria Nelson
Karl Blumenhorst
Glen Jones*

All members were present.

1. CALL TO ORDER:

Committee members called the meeting to order at 4:37 p.m. Chairman Faith arrived late, so by consensus, committee members called meeting to order.

2. PUBLIC COMMENTS: *None*

3. BUSINESS:

A PowerPoint by Mr. Binger, Deputy Director of Public Works/City Engineer, was presented showing the license tax background and current status. This is the original city ordinance that was first adopted in March 1998, it has been amended four times for adjustments in rates. Mr. Binger explained the tax and the purpose behind it. The license tax administrator is the Director of Finance or a representative. The report of building permits showed construction activity reached a peak in 2017. From last year to this year, permits decreased.

The Annual Report of Revenue, permits and projects, current fund balance, and projected future fund balances were presented in the PowerPoint, as well as the City's current calendar year rates. Mr. Binger discussed the current tax rates which are relatively low compared to the KC Metro area. He next presented a graph of retail, office, and industrial permit projection for 2018 of 113,000 sq. ft. Heping Zhan, Assistant Director of Planning and Special Projects, explained projections and the tracking of building permits.

Completed projects were shown in the PowerPoint, as well as Staff Recommendations for 2018. The purpose is to show a use for funds in order to comply with Hancock Amendment. The Browning Street Project was reviewed, being the most recent project recommended by the committee and included in the CIP. Examples of potential future projects for consideration were discussed. The next project recommended is NW Main Street from Chipman Rd. to Tudor Rd. Some clarification was made regarding possible development to generate revenue from that area.

In the discussion of possible projects Glen Jones questioned which projects would have the highest

return in the shortest amount of time. It was determined that the Main St project opens up the most ground to potentially include commercial activity. A second preference for projects would be something that opens up multi-family development. Michael Park discussed Pryor Rd North of 470 was the next greatest safety project on the example list.

Mr. Binger provided a City map with locations of all the example projects and gave a summary of them. There was discussion on locations, the PRI property adjacent to and in between areas, and those that will most likely give higher return on investment through potential development. Preference was given to commercial and multi-family, as opposed to single family development. It was agreed upon to review from one year to the next and program the projects out a few years.

Glen Jones asked how the rate chart and trip generation has changed. Michael Park then mentioned trip generation manuals and how different businesses, such as banks, are experiencing less traffic. More people are working from home and travel is decreasing. There are new uses in trip generation manuals and they are dividing out more specific uses such as multi-family into high rise, low rise, etc.

Mr. Binger recommended showing a plan for the money and to amend the CIP to move projects forward. Guidance from the Committee was requested to consider projects in a five year plan. Two of the projects were specifically reviewed to utilize the funds. The projects mentioned were the Main Street project, being multi-family and commercial, and the traffic signal project on SE Hamblen at Bailey, which will help south development and address existing needs.

The Committee expressed concerns about the signal because it would not necessarily create new revenues by initiating development. The project was filling a need caused by previous development. City staff mentioned that other sources of revenue could be used for the signal project.

The current ordinance includes language that is outdated or confusing. Staff recommends modifying the ordinance to delete outdated or expired sections and address current trip generation options for basis of measure.

Chairman Faith made a motion to channel efforts to program Main Street Improvements Project into the FY2020 Capital Improvement plan for design and construction funded by the license tax. The motion was seconded by Karl Blumenhorst and it with a 4-0 vote.

Mr. Karl Blumenhorst made a motion to leave the license tax rates as status quo. Glen Jones seconded and the motion carried with a vote of 4-0.

Mr. Glen Jones made a motion to direct staff to change the ordinance language to delete outdated or expired sections to keep it current and calculate the trip generation based on the greater of available and applicable unit of measure in the trip generation manual. Ms. Cynda Rader seconded and the motion carried with a 4-0 vote.

4. **ROUNDTABLE:** No items discussed.
5. **NEXT MEETING:**
6. **ADJOURN:** Chairman Faith adjourned the meeting at 6:00 p.m.