



LEE'S SUMMIT

LAW DEPARTMENT
OFFICE OF THE CITY ATTORNEY

July 9, 2019

TO: Board of Commissioners for the
Lee's Summit Land Clearance for Redevelopment Authority

FROM: David Bushek

RE: Summary of Redevelopment Plan for the Princeton Redevelopment Area

LCRA Action: The LCRA Board of Commissioners adopted Resolution 2019-2 on June 26, 2019, which recommended that the City Council approve the Redevelopment Plan and provide the requested sales tax exemption for construction materials. The motion made by the Board to approve the resolution included this condition: "subject to a Development Agreement that will include a condition of approval to cure all bottlenecks and sewer improvements for the area and that the applicant will not ask for reimbursement." City staff will be separately negotiating this development agreement, as a condition of approval of the preliminary development plan, in which the sewer issues will be addressed.

Developer: Lee's Summit Senior Community, LLC (the "Developer"), a single purpose entity managed by O'Reilly Development Company, LLC, based in Springfield, Missouri

Current Property Owner: Metcalf Bank

Property: The proposed Redevelopment Area contains approximately 37 acres at the southeast quadrant of Ranson Road and Highway 50. The applicant is purchasing the eastern approximately 12 acres, and this is the only Redevelopment Project that is the subject of this application:



Redevelopment: The Redevelopment Project is proposed to include land acquisition, preparation of public improvements, site preparation, and the construction of private improvements consisting of “The Princeton” which will contain approximately 153 units which will consist of 91 independent living units, 44 assisted living units, and 18 memory care units. The project is projected to create 65 new jobs.

Property Investment and Valuation:

- Current County market valuation of Redevelopment Area: \$8,244
- Total Project Costs: about \$35 million
- Projected assessed valuation of project area after full build-out: about \$8.5 million

Sources of Funds: The project budget is set forth in *Exhibit 3* of the Plan which sets forth the source of funds to finance the Redevelopment Project. All funding will come from private sources, and the economic benefit of the Redevelopment Plan is highlighted:

THE PRINCETON			
Project Sources and Uses			
Project Cost	Total	Bank Loan	Investor Funding
Land Acquisition	876,000		876,000
Off-Site	734,390		734,390
Off-Site - City Public Impr Escrow - our project	321,000		321,000
Off-Site - City Public Impr Escrow - sewer other land	1,050,000		1,050,000
Less Chapter 99 Sales Tax Exemption	(752,082)	(752,082)	
Building Construction	21,548,517	21,548,517	
Construction Site & Amenities	3,650,970		3,650,970
Soft Costs/Other	8,103,559	7,625,919	477,640
TOTAL PROJECT COSTS	35,532,354	28,422,354	7,110,000

Ownership and Development Structure

- **Current Ownership:** Metcalf Bank and the Redevelopment Project area will be purchased by Developer for \$876,000.
- **Ownership and redevelopment process after Council approval:** If the City Council approves the incentive package including the LCRA Redevelopment Plan, then Developer will purchase the property and transfer ownership to the City. The City will own the property during the construction

period and lease the property to Developer during this time period. City ownership during the construction period allows for the sales tax exemption on construction materials as a result of the LCRA Redevelopment Plan.

- Payments under LCRA Arrangement: When the property is transferred to the City during the construction period, the property will become tax-exempt and Developer will make payments during the period of City ownership pursuant to the Redevelopment Plan in the amount of what the taxes would be if the property were privately owned and taxable during this period, based on the 2019 County market valuation of \$24,704. These payments during the construction period will be treated as rent payments under a lease between the City and Developer pursuant to the Redevelopment Plan.

Reimbursement and Financing Structure:

Developer is requesting an incentive in the form of sales tax exemption on the construction materials. The total construction material purchases are projected to be about \$9.85 million and the sales tax exemption is projected to be approximately \$752,000. No additional reimbursement of project costs will be provided to Developer under this Plan, and the sales tax exemption is the only economic incentive provided pursuant to the Plan.

Comparison to City’s Economic Development Policy: This is the second LCRA redevelopment plan that the City has considered, and the City’s Economic Development Policy does not contain any particular guidelines regarding an LCRA redevelopment plan that requests only sales tax exemption on construction materials. This Plan will provide an incentive that is approximately **2.1%** of the total project costs.

Required Findings: The following findings are required to be made by the City Council with a recommendation from the LCRA:

1. **Blight:** The Redevelopment Area must be a blighted area, as such term is defined in Section 99.320(3), 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 City Council found that the Redevelopment Area, as a parcel in the East US 50 Highway Corridor Tax Increment Financing Plan (the “**TIF Plan**”), is a blighted area pursuant to the Real Property Tax Increment Redevelopment Act (“**TIF Act**”) through the adoption of Ordinance No. 6551 on December 13, 2007. This blight finding was supported by the Blight Study for the TIF Plan dated August 24, 2007. Developer is submitting the 2007 Blight Study as the evidence of blight, based on the fact that the property remains in the same state as in 2007, and the costs of developer have increased since that time. Developer has stated that the reaffirmation of the finding of blight is appropriate since the Redevelopment Area has not undergone development since 2007, the findings of blight contained in the earlier report are still applicable as the conditions of the Redevelopment Area and the impediments to development identified have not changed and remain applicable.

2. **Necessity:** The City Council must find that redevelopment of the Redevelopment Area is necessary and in the interests of the public health, safety, morals and welfare of the residents of the City. Section VII.B of the Plan states that the sales tax exemption that would be provided through the Plan is necessary because the property has remained vacant and undeveloped for an extensive period of time, and to make the project economically feasible to undertake.

Exhibit C contains a Return Analysis which shows that the rate of return over a 10-year period is about 9% if the sales tax exemption is provided. Staff agrees with the statement in the Plan that this is at the lower end of a range of return that would be expected for a project of this scope and size. The Plan states that without the sales tax exemption, the rate of return would be lower and Developer would need to provide additional capital in the amount of approximately \$710,000, which is 10% of the \$7.1 million in private capital that will be contributed by Developer.

Developer has also indicated that the greatest risk to the Developer is during the period of construction and the next four to five years of the Project where the Developer is stabilizing the operations of the Project, during which time the average cash-on-cash return with sales tax exemption is approximately 2%.

3. **Conformance with the Comprehensive Plan:** The City Council must find that the LCRA Plan is in conformance with the Comprehensive Plan for the City. The City Council must find that the proposed land uses and building requirements in the Redevelopment Area are designed with the general purpose of accomplishing, in conformance with the Comprehensive Plan, a coordinated, adjusted and harmonious development of the community and its environs which, in accordance with present and future needs, will promote health, safety, morals, order, convenience, prosperity and the general welfare, as well as efficiency and economy in the process of development.

The Comprehensive Plan currently recommends the proposed Redevelopment Area should be Retail. The current zoning of the Redevelopment Area is CP-2, which allows for a wide range of commercial uses including office. The City Council approved Ordinance No. 8612 on April 9, 2019, which approve the Preliminary Development Plan (“**PDP**”) for the proposed Redevelopment Project. As a component of this review, the City Council heard evidence and testimony from Development Center staff that the proposed Redevelopment Project is in conformance with the Comprehensive Plan. The Council’s approval of the PDP is equivalent to a finding that the proposed project is in conformance with the Comprehensive Plan. As a result, the City Council has already determined that the proposed project is in conformance with the Comprehensive Plan through its approval of the PDP for the project. This finding can be re-affirmed in an ordinance approving the Redevelopment Plan.

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