



LEE'S SUMMIT MISSOURI

License Tax Review Committee Annual Report for FY2024

May 13, 2025

EXECUTIVE SUMMARY

City staff presented the FY2024 update to the License Tax Review Committee on February 2, 2025. This report presents the discussion and recommendations from the Committee.

Current Status

- The License Tax is assessed for development or re-development activities that increase traffic
- The City must spend funds received on transportation projects
- The M-291 Interchange project is on schedule to be bid for Construction in May, 2025
- FY24 Revenue was \$1,022,571; Expenses were \$586,020
- The License Tax Fund balance was \$4.390 million as of June 30, 2024
- Maximum rate approved by voters in 1997 was \$2,116 per residential unit
- Current rates are: \$1,088 per Residential unit;
\$1,100 per trip for Manufacturing/Industrial; \$825 per trip for Commercial

Projections

- 590 residential building permits were issued in FY24; down from 793 units permitted in FY 23, and less than the peak of 1,498 units permitted in FY20
- 615,000 square feet of retail/office/industrial space was permitted in FY24; less than the 888,000 square feet permitted in FY23
- All categories for building permits are projected to show relatively flat growth rates through 2034 based on population growth forecasts
- Fund is projected to have \$550,000 in annual, average revenues through 2034
- Fund is projected to have a positive balance of \$5.240 million in FY 2034
- Future revenue would be about 16% commercial/industrial and 84% residential in FY33

Committee Guidance

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

Actions

- The Committee re-affirmed previous recommendations to use the license tax funds for the US 50 / M291 North Interchange improvements project
- The Committee recommended not changing the rates for FY2026

Background

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

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

The License Tax funded road projects identified in the Thoroughfare Master Plan (TFMP). The master plan is 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. Those projects were completed by 2011. The TFMP was updated again in 2005 and 2017.

TFMP updates and increased traffic demands caused by new developments create the need to evaluate new projects to be funded from the License Tax program. New projects recommended by the License Tax Committee would be added to the City's 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 the US-50/M-291 North Interchange, SE Browning Street, and NW Main Street projects into the Capital Improvement Plan. A list of projects that received funding from the License Tax program is presented in Appendix A.

Funding is not intended to benefit site specific improvements. Project should improve the overall street network, traffic operations, or traffic safety within 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 current tax rates are shown in Table 1. The current rates are below the \$2,116.00 rate that was authorized by voters when the tax was adopted in 1997, so rate adjustments below that amount do not require voter approval. The current rates include a 3% rate increase adopted in 2007, a 5% rate increase in 2015 for all categories, a 10% rate increase on non-residential development in 2016, a 5% rate increase on non-residential development in 2018, and a 10% rate increase on non-residential development starting on July 1, 2022. Starting the rate increases on July 1 coincides with the City's fiscal year and adopting an updated Fee Schedule as part of the City's annual budgeting process.

Table 1: License Tax Rates for from 1998 to Current Rates

Land Use Category	Original 1998 License Tax	FY24 (current) License Tax	% Change
Residential	\$1,001 per new trip	\$1,088 per new trip	+ 9%
Manufacturing / Industrial	\$ 801 per new trip	\$1,100 per new trip	+ 37%
Commercial	\$ 601 per new trip	\$ 825 per new trip	+37%

Current Status and Projections for Permitting Activity

The City issued 590 permits for residential living units in FY24, which was about 40% of the annual average over the past five years. The years 2019-2022 saw significantly higher residential permitting due to several multi-family projects coupled with strong national and regional economies.

Going forward, projections are based on the population growth forecasts. So instead of trying to differentiate among the various types of housing units, City planning staff is basing future projections on population growth that would lead to an increase demand for housing units. Based on this methodology, approximately 550 residential permits per year were projected through 2034. This trend shows continued growth at a consistent rate through 2034. Figure 1 shows the building permit projections for residential units.

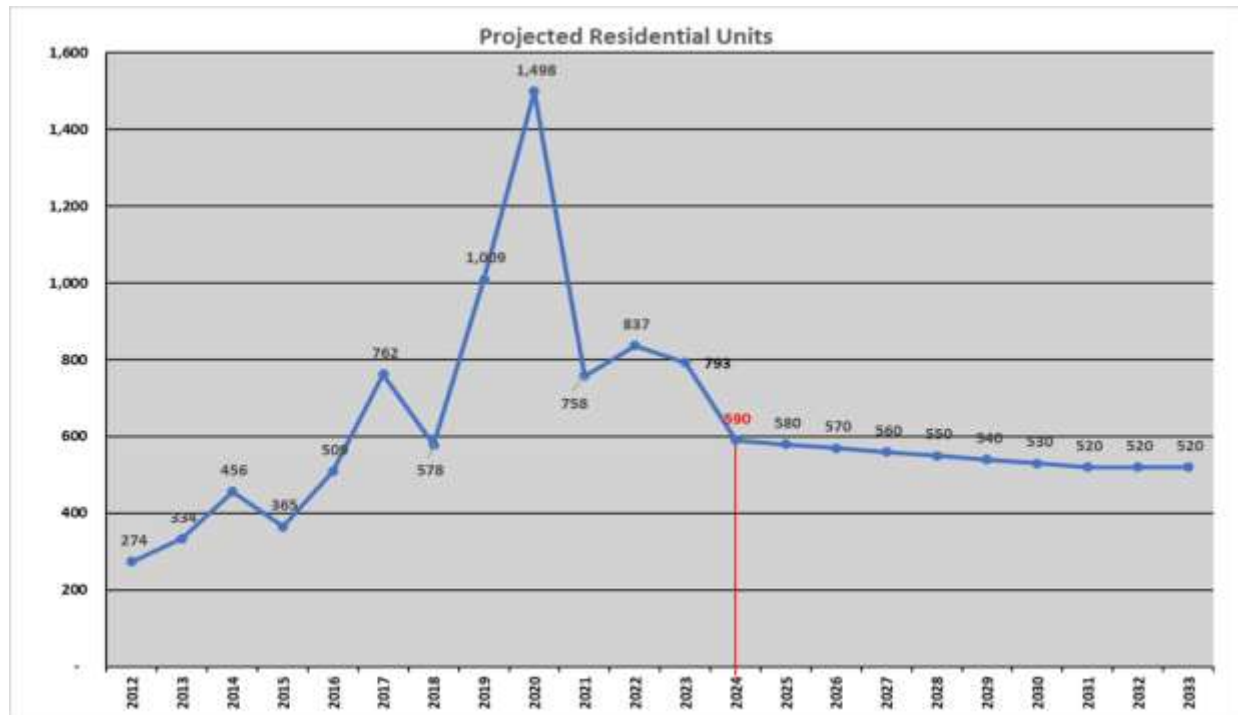


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City's existing inventory. 615,711 square feet were permitted in 2024. The total non-residential square

footage permitted in FY2024 was composed of 114,159 square feet of commercial space and 501,552 square feet of industrial space.

The year-to-year volatility in non-residential permitting is typical. The City still receives the revenue, but the timing may change depending on which fiscal receives payment of the License Tax. Averages are generally used for planning and forecasting. The City permitted an average of 570,000 square feet of building over the past five years. Longer term, the projected average permitting is closer to 150,000 square feet per year. The project non-residential permitting is shown in Figure 2.

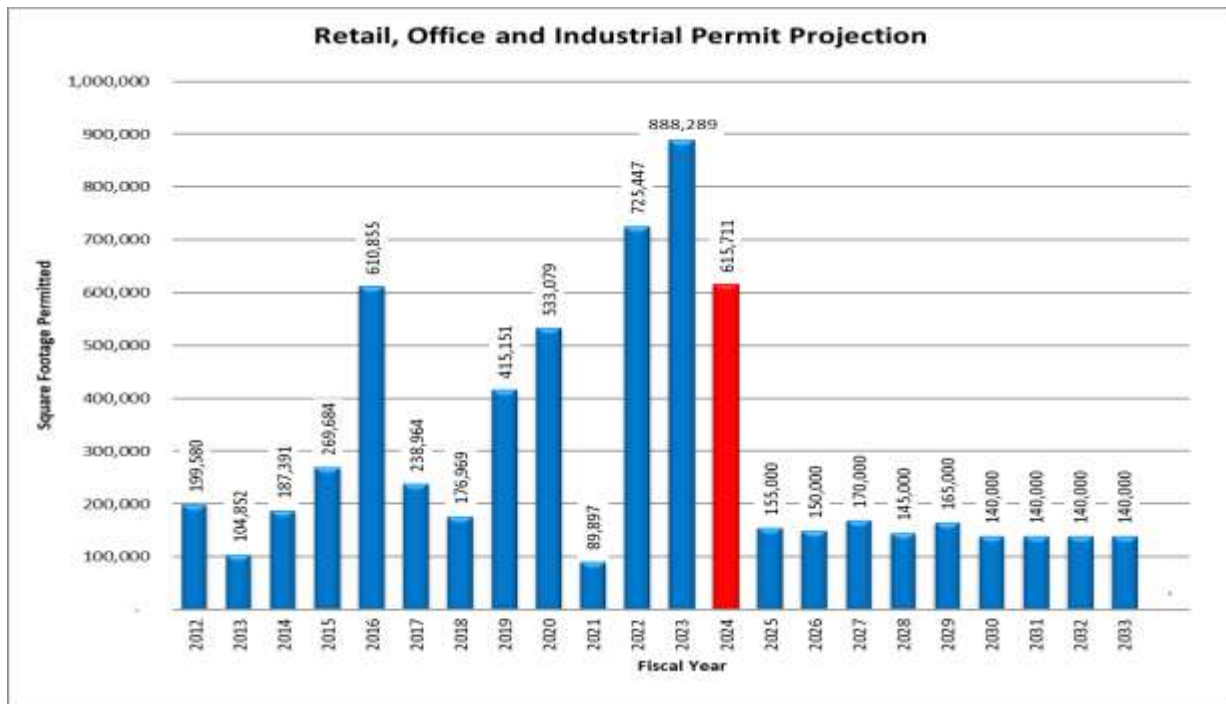


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

Current Status and Projections for License Tax Fund Balances

The excise taxes generated \$1,022,571 of revenue in FY24. Expenses in FY24 went towards the SE Browning Street project, and the US-50 and M-129 North Interchange projects. FY24 saw a net increase in the License Tax Cash balance of \$436,551 that yielded a year-end cash balance of \$4,390,141. Capital projects in FY25-26 CIP had programmed \$6,000,000 through the end of FY26. This funding is committed to the M-291 North Interchange projects.

Looking ahead, about \$600,000 could be added to the M129 Interchange project as of the date of this report, if needed, to offset inflationary costs. With no other projects currently recommended by the Committee, the license tax fund should start to rebuild a balance that would be sufficient to support projects in FY2033 and beyond. Detailed revenue tables can be found in Appendix B.

The M291 North interchange project is still working through design and right of way acquisition. As part of the project, Missouri Highway Patrol Troop A will be relocated to state-owned property near the MoDOT district office on Colbern Road. Construction is expected to begin in the spring/summer of 2025.

Analysis

Based on conversation with the Committee in previous years, there was not a strong desire to fund projects that correct transportation issues caused by existing development. The Committee expressed a desire to prioritize spending to remove impediments to future development. SE Browning Street, NW Main Street, and the M291 North – US 50 Interchange are such projects that address roadway infrastructure that needs to be improved to facilitate development in commercial / industrial areas.

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

The fund itself does not generate enough annual revenue to complete a project every year. The Committee does not want to issue bonds backed by the license tax, so several years of funds should be accumulated to pay cash for eligible projects identified in the TFMP. Based on current tax rates and current project funding schedules, the license tax fund is projected to maintain a positive fund balance, with the lowest balance in FY2025 of \$628,000.

CIP funding for the M-291 North Interchange project was spread out over 4 years in the CIP. Currently the License Tax Fund contributions are programmed over 5 years from FY22 through FY26.

Contributing \$6.0M in License Tax funds towards the M-291 North interchange project will not impact the City's general operating budget. Spreading the contribution over several years will cash flow the fund, so these options would support the Committee's guidance for not using debt financing as part of the License Tax Fund.

The excise tax rate changes since 1997 have been relatively low, so the real value of funds collected has been declining due to 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 1913 Construction Cost Index (CCI) published by Engineering News Record.

Inflation, based on the CPI, averaged 4.4% from 2022 to 2024. Thus far, the CPI has increased 2.6% in the Kansas City/Midwest region in 2024 compared to a year ago. The CCI has followed a similar pattern. The CCI averaged 3.3% from 2022 to 2024. The 2024 CCI is 1.2% lower than a year ago.

The forecasts for 2025 are uncertain at this time. **The CPI-U for the Midwest ranged from 2.5% to 2.8% in calendar year 2024.** Construction cost inflation is still prevalent in bids received by the City. City staff used a 4.2% inflation factor for budget estimates over the next 5 years when developing the current

Capital Improvement Plan. Most bids have aligned with the inflated estimates. The Construction industry is expected to see inflation further increased due to passage of the Infrastructure Investment and Jobs Act and increasing labor costs. The Missouri Constitutional Amendment to increase the minimum wage to \$15.00 per hour, and require annual cost of living increases, will cause increases in other labor markets such as the skilled construction labor market. As the pay for entry level jobs increases, employers will need to increase wages for skilled and advanced labor. The large amount of federal money pumped into the construction industry will need to be spent by the end of 2026, so the work may consume large portions of the supply of labor, equipment and materials. This indicates a continued upward pressure on construction costs, so the City will continue to add inflationary costs to project budget estimates. The Infrastructure bill also greatly expanded the number of items subject to the Buy America requirements. This will potentially further aggravate supply chain issues and will increase the cost of roadway projects.

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

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

Year	Current Residential License Tax Rate	Residential Rates Adjusted for CPI	Residential Rates Adjusted for CCI	Max. Rate Allowed by 1997 Election
2024	\$1,088.00	\$1,435.00	\$1,336.00	\$2,116.00

The current License Tax for residential rates lags 25% below the CPI and 19% below the CCI. Looking ahead, the Excise Tax rates could be adjusted annually by matching the CCI for about ten years before the rates meet or exceed the maximum amount approved by voters in 1997. This inflation scenario is illustrated in Figure 3 on the following page. Appendix C presents detailed license tax rates adjusted for CPI data and CCI data.

Based on recent comments by the Committee, they desired to raise rates as one-time events in 2015, 2018, 2020 and 2022 in efforts to capture revenue associated with new non-residential development without adversely affecting development activity. As seen in Figures 1 and 2, development activity increased significantly, which would indicate the license tax rate increases did not have a negative impact on the overall development activity. Reduced rates in 2011 did not increase local development activity during the recession years. Based on those observations, City Staff's assessment is that (a) regional and national economies have a greater effect on development activity than the license tax rates, (b) small changes in those rates have not altered development activity, and (c) inflation could limit the City's ability to complete Capital Improvement projects over the next ten years.

Previous License Tax Committee conversations and votes have recommended changes to non-residential rates. The changes have increased the Manufacturing/Industrial and Commercial rate categories, while leaving residential unchanged.

Previously, staff presented funding scenarios that increased fees one-time for non-residential, one-time for all categories, and then annual inflation adjustments for all categories. Typical financial scenarios show very little increase in revenues over ten years. The difference between no change in rates versus one-time rate changes was less than 3% over ten years, or at most, a \$16,000 increase per year.

An alternative evaluated this year combines the Committee's desire to leave residential unchanged, make a one-time catchup change to non-residential, and then adjust non-residential rates for inflation for the next ten years. This scenario generates a 16% increase in revenue that averages and additional \$88,000 per year. In context, over ten years, the additional \$880,000 would pay for a traffic signal, 3 miles of sidewalks, or a quarter mile of a 2-lane roadway. The various funding scenarios are illustrated below in Figure 3.

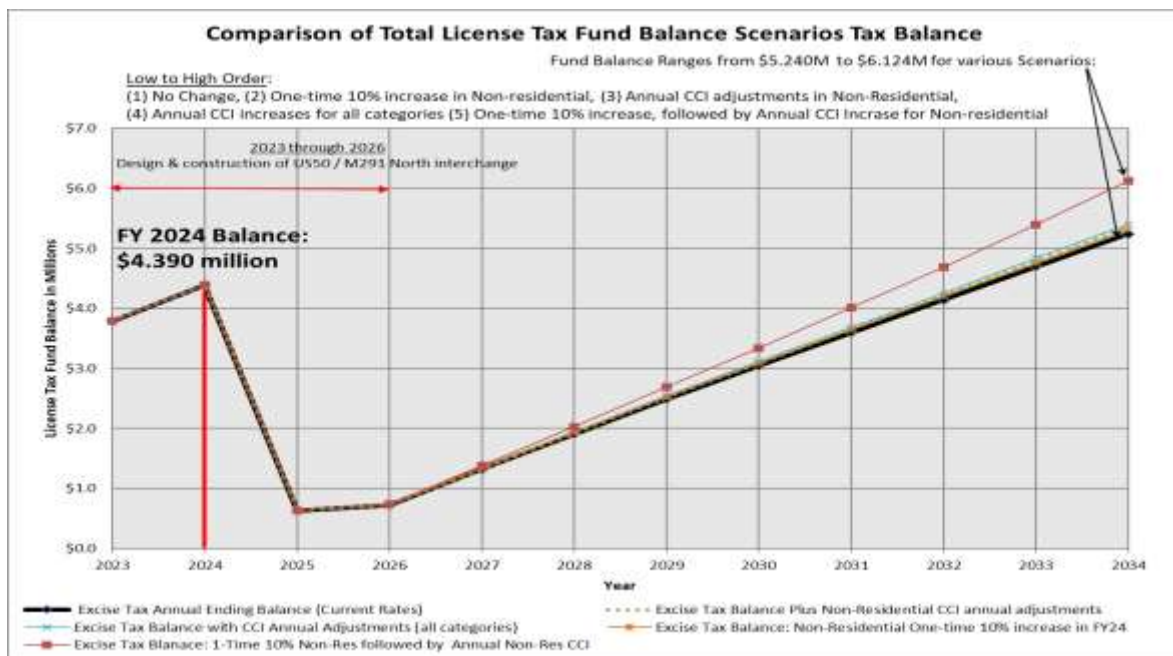


Figure 3: License Tax Fund Balance Illustrations Based on Potential Changes in Fee

Note that the greatest increase is generated by an initial one-time adjustment followed by annual increases in the fee that match construction cost inflation. The one-time adjustment would allow the rates to catch up with construction cost inflation. This change would be significantly higher if across-the-board adjustments were made to all rate categories. However, the Committee has historically held residential rates constant to reduce the impact on the cost of housing.

Over the next ten years, none of the funding scenarios would cause the License Tax rates to exceed the amount approved by voters in 1997. Thus, any changes recommended by the License Tax Committee could be made by City Council without having to go back to the community for a public vote. Figure 4 illustrates potential rates adjusted for inflation compared to the voter authorized limits.



Figure 4: Future License Tax Rates Using a 3-year Average Inflation Rate

Lower Revenues per permit Due to Traffic Generation Standards

When considering adjusting rates, the actual amount of License Tax paid per project in 2024 is less than what was paid in 1998. The nature of traffic has changed since 1998 when the License Tax was first implemented. This has mostly been the result of changes in the volume of traffic at drive-through windows, types of businesses using drive-through windows, how people bank, etc. Many of the changes in banking have stemmed from the growth of online banking, so fewer people drive to the bank. Coffee and donut shop kiosks were rare in 1998, but now have become quite common, and popular. Sit down downing at fast food places is less frequent due to online ordering.

These changes in business types, business models, and consumer activity are regularly updated in the Institute of Traffic Engineers (ITE) Traffic Generation Manual. In 2024, the ITE manual has fewer trips generated by a single home than in 1998. As a result of fewer trips, residential units currently generate lower license taxes per permit in 2024 when compared to 1998, as shown in Figure 4. There have been no changes in the residential permit fees since 1998.



Figure 4: Less License Tax Paid Per Residential Permit in 2024 Compared to Initial License Tax in 1998

A similar pattern of lower fees per permit also shows in the industrial category. This lower cost per project includes several increases in the industrial rate since 1998. This decline is shown in Figure 5.

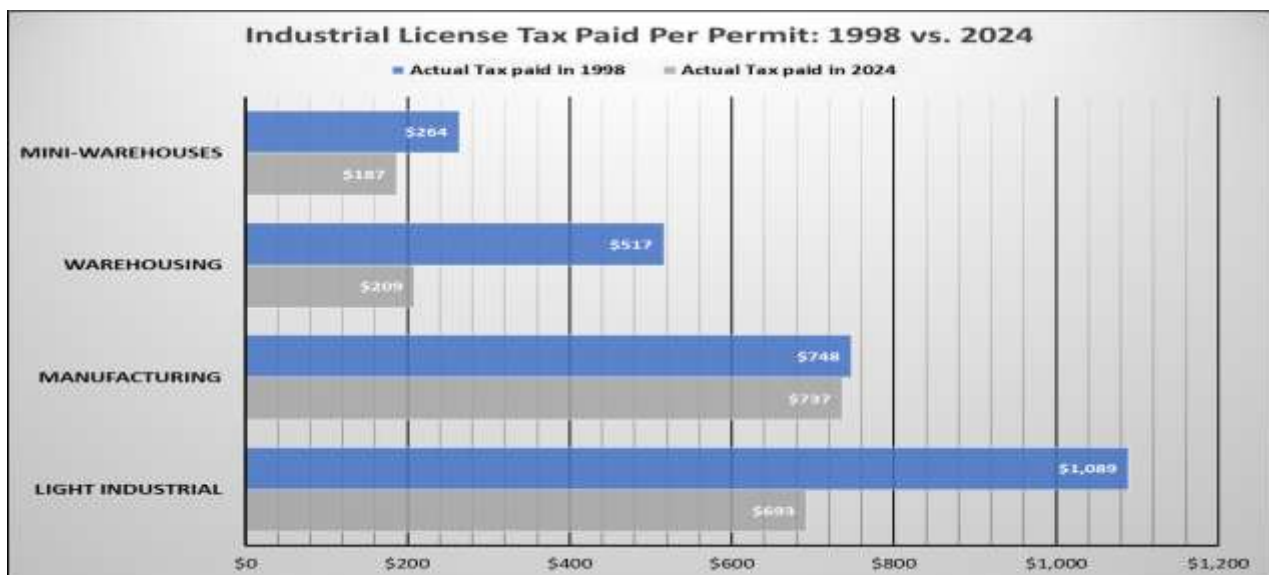


Figure 5: Less License Tax Paid Per Industrial Permit in 2024 Compared to Initial License Tax in 1998

Commercial projects generally pay higher fees per project based on the traffic generation models. The ITE Manual shows significant increases in the number of trips generated by commercial activities. The ITE Manual also added or modified many types of businesses. For example, banks were split into walk-in

banks, drive through only banks, walk-in with drive through, etc. New types of commercial uses were added such as the “coffee/donut shop with drive through.” When looking at the commercial chart, it should be noted that some of the smaller businesses, such as the coffee shops or day care, generate a much larger license tax than the big box stores because of the amount of new traffic generated by these smaller businesses. These commercial comparisons are shown in Figure 6.

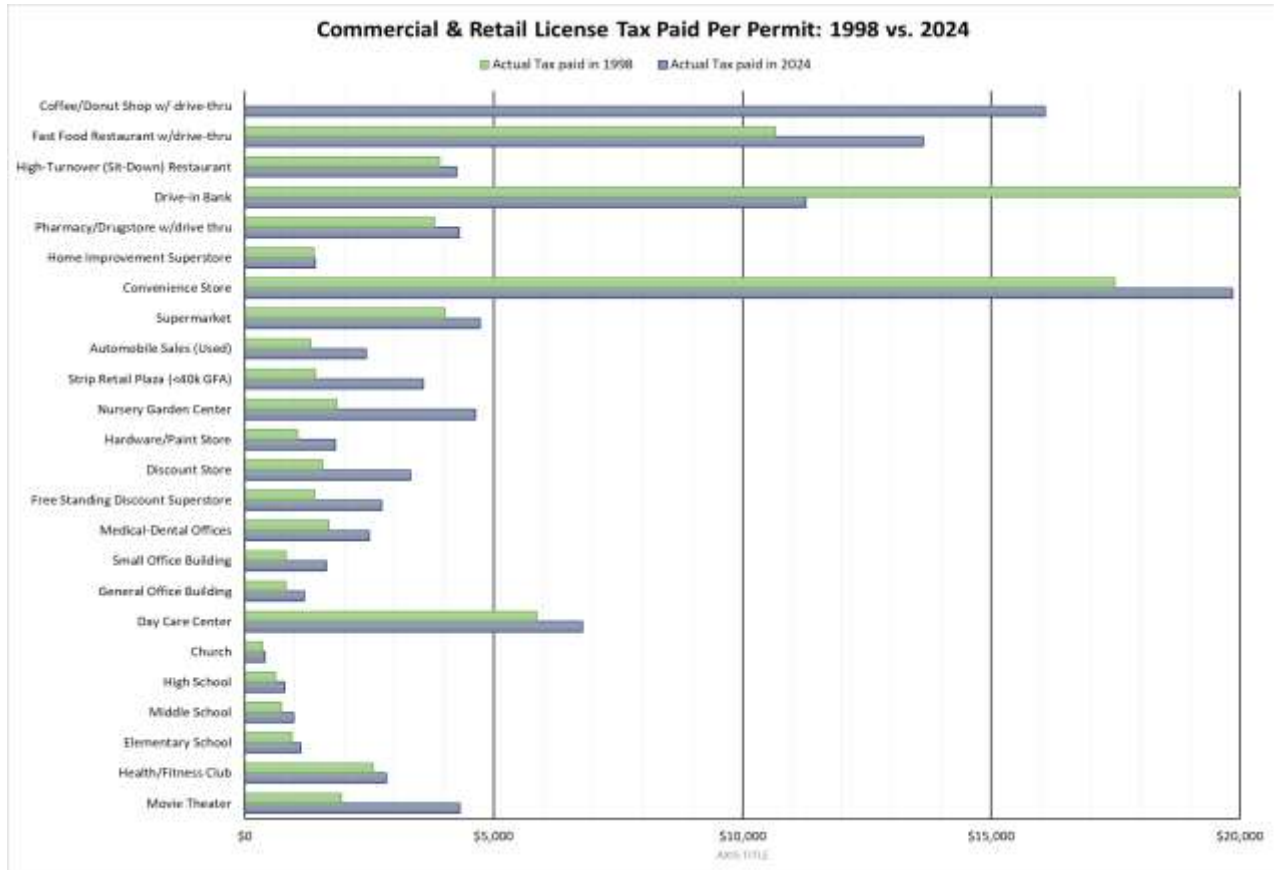


Figure 6: License Tax Paid Per Commercial Permit in 2024 Compared to Initial License Tax in 1998

Status of Committee Recommendations from 2023 Report

The Committee made no new recommendations in 2023. The Committee continued to support using License Tax funds to support the US-50/M-291 North Interchange projects.

The initial \$6 million programmed for this project by the License Tax Committee has been leveraged to obtain \$16 million in state and federal grants for this project. The interchange project is currently in design. Right of way acquisition is complete, the project is currently advertised for construction bids by MoDOT, and bids will open in mid-May after clearing the environmental permitting process and state-

caused delays in relocating the Highway patrol building. Currently, the design work is moving forward towards construction in 2025.

Summary of Committee Comments, Questions and Discussion for FY2024

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

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

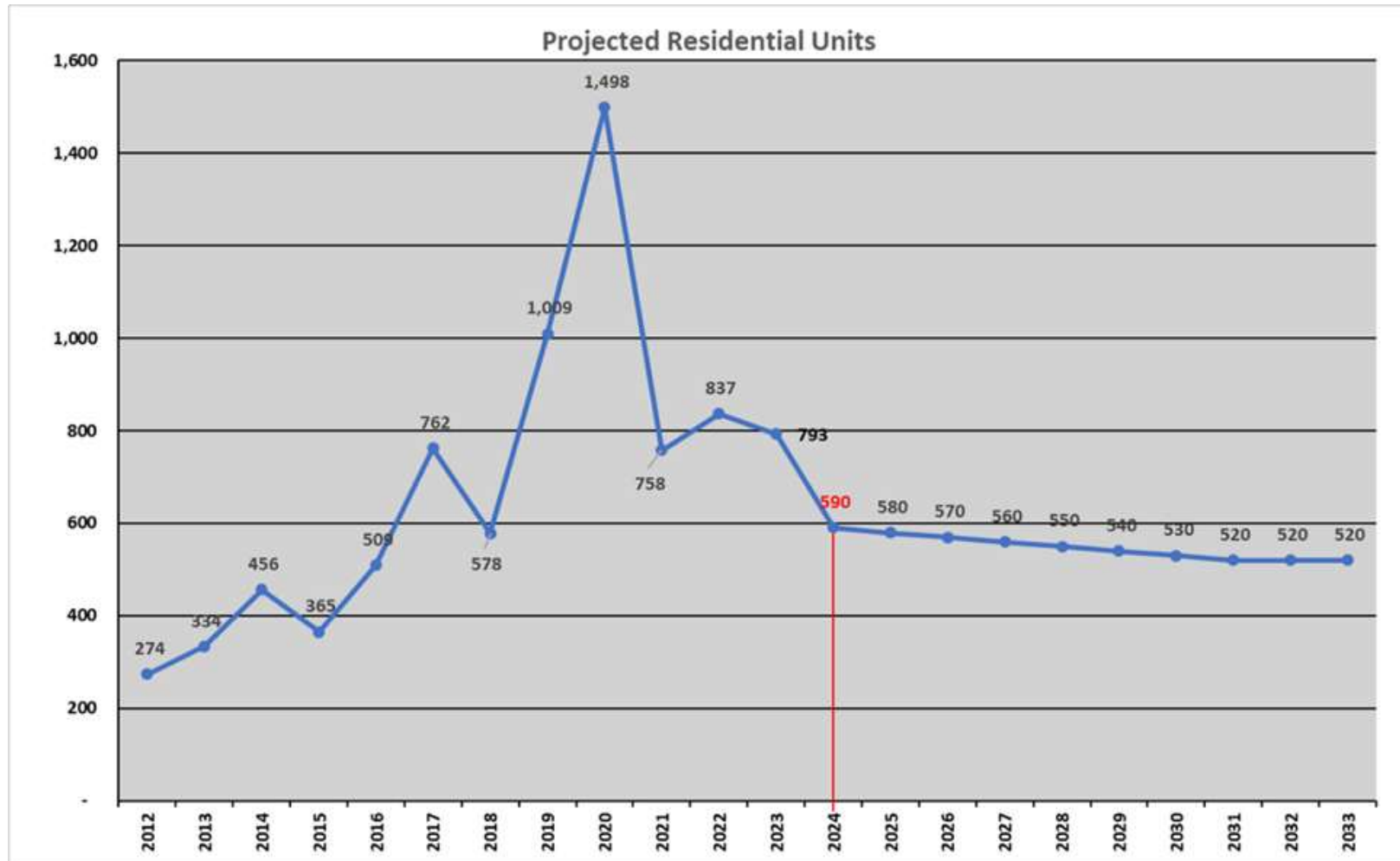
- A. Projects eligible for license tax funding should be limited to projects identified in the City's Thoroughfare Master Plan (TFMP)
- B. License tax funding should be managed on a cash-flow basis, and not used for debt financing
- C. Projects should exclude site specific projects required by one developer or landowner to complete a project
- D. Projects funded from the license tax funds should be prioritized to support new roads that remove impediments to development for commercial, industrial, or manufacturing projects because they can generate new jobs, sales tax revenues, property tax revenues, and license tax revenues.
- E. The license tax committee members recommended no changes to current rates.

APPENDIX A to FY2024 LICENSE TAX REPORT: Transportation Project Completed as Part of the License Tax Program Adopted in 1998

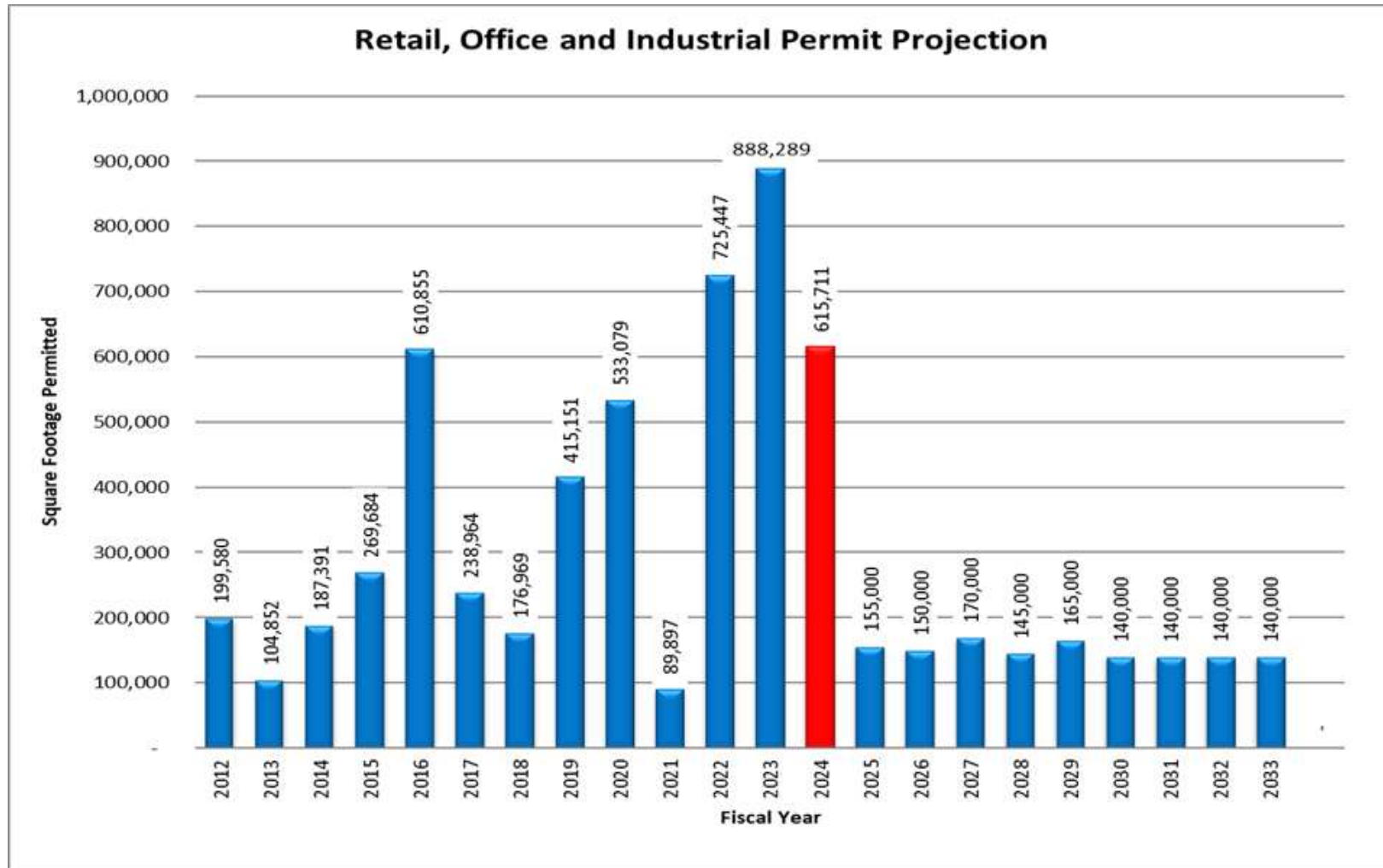
Transportation Projects Completed with Use of License Tax Funds	
Blackwell Pkwy (Langsford to Colbern	Pryor Rd (Longview to Chipman)
Chipman Rd (US 50 to M-291)	Scruggs Rd (M-291 to Blackwell)
Independence Ave (Tudor to Colbern)	Todd George Pkwy (McKee to Tudor)
Langsford Rd (Todd Geo. To Blackwell)	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)
NW Main Street (Chipman to Commerce)	SE Browning Street (Oldham to Hamblen)
License Tax Projects Currently Underway	
US-50 and M-291 North Interchange <ul style="list-style-type: none"> • Environmental permitting completed and approved; right of way acquisition underway • Highway Patrol Troop A relocation construction underway • CIP total project funding = \$29.6 million • Excise tax amount = \$6.0 million • Construction estimated to occur in 2025-2027 	

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.

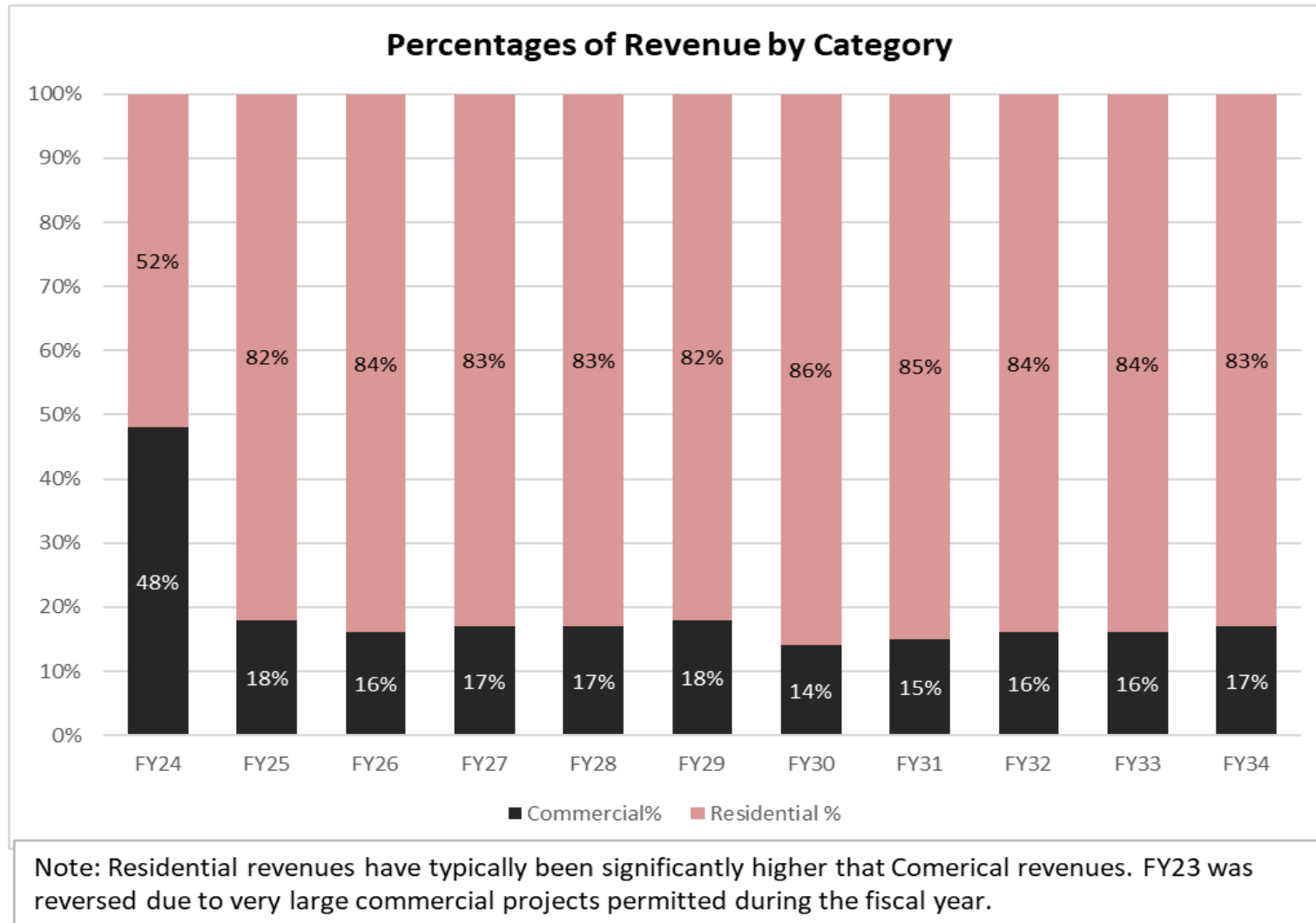
APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



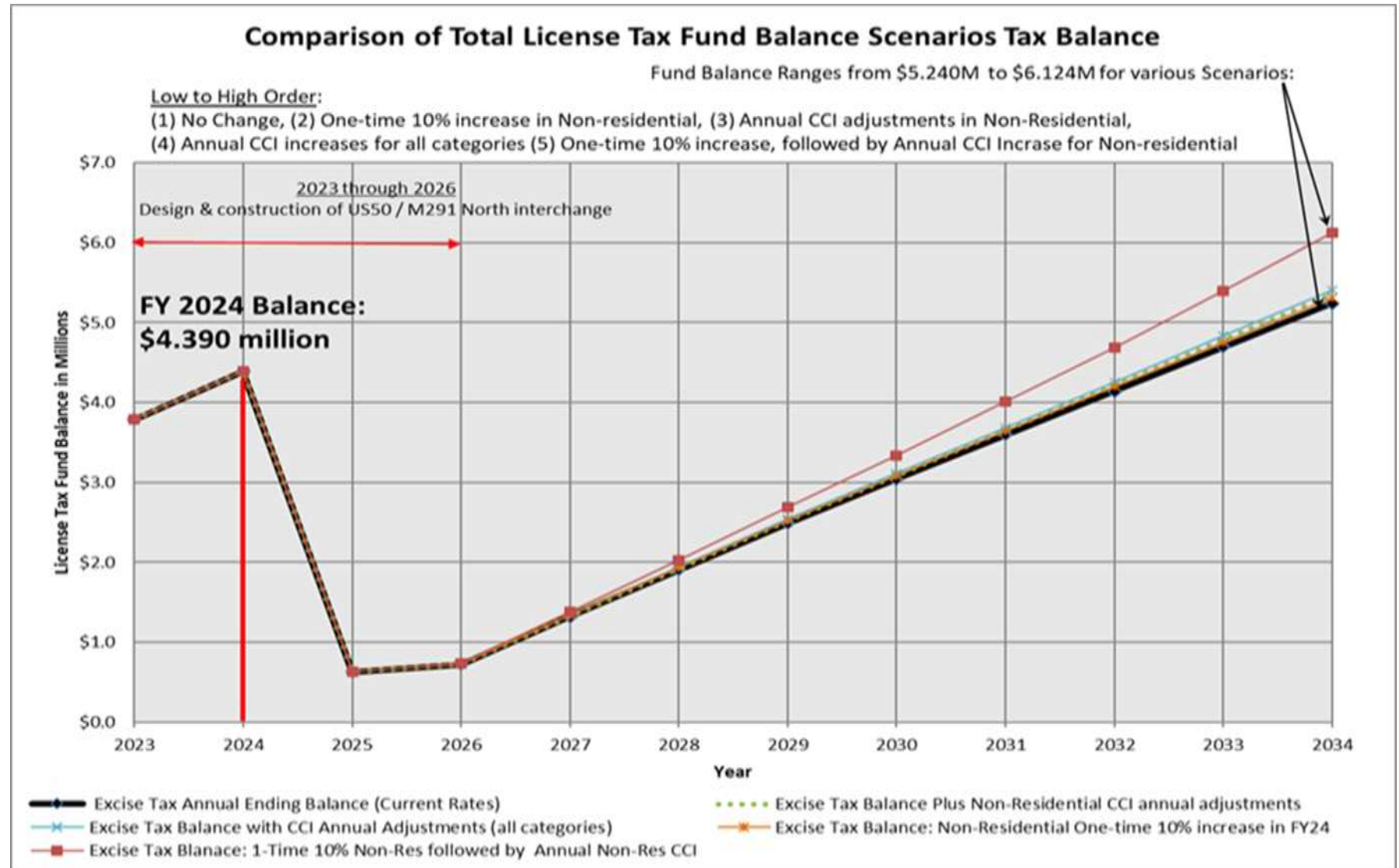
APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



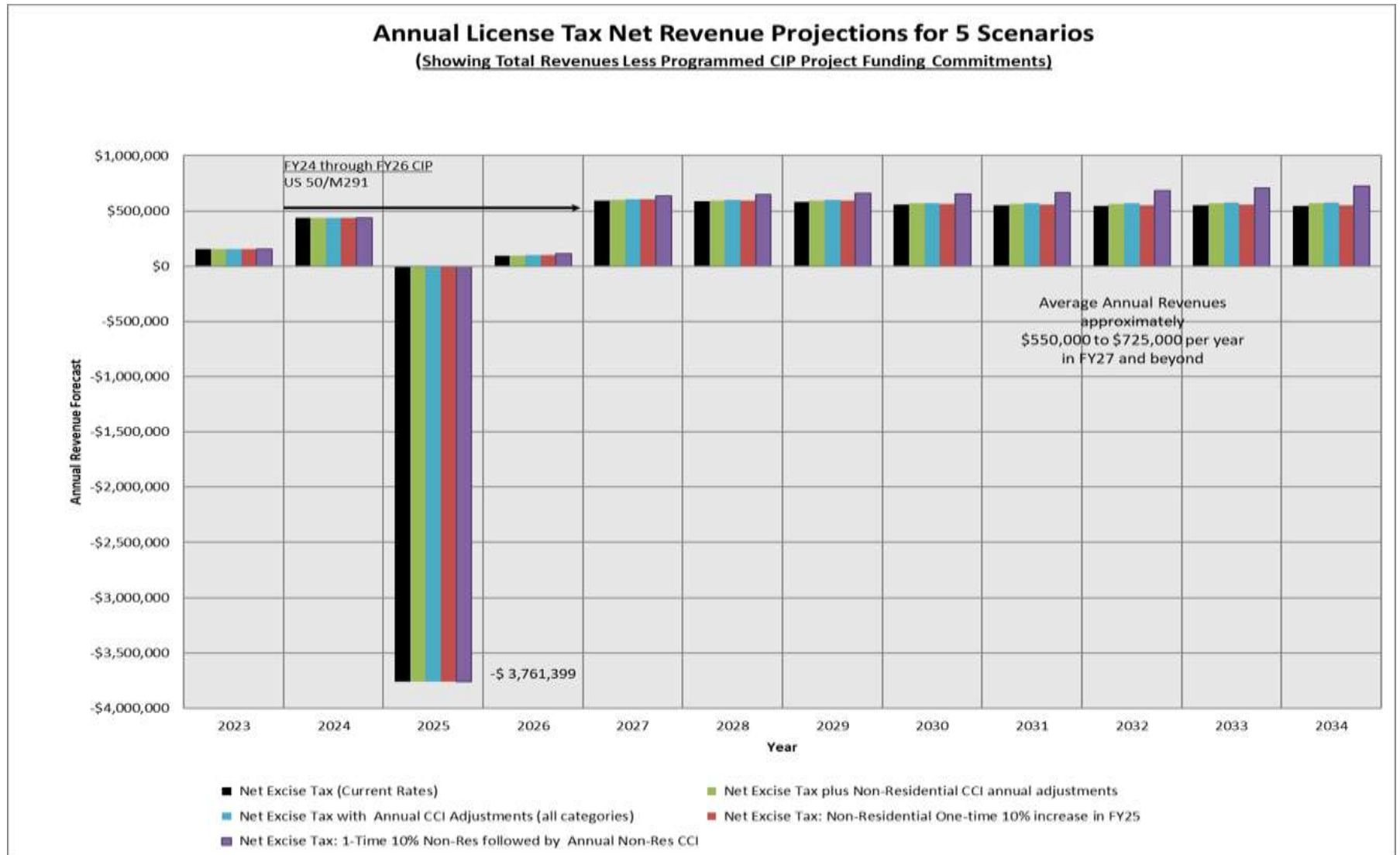
APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



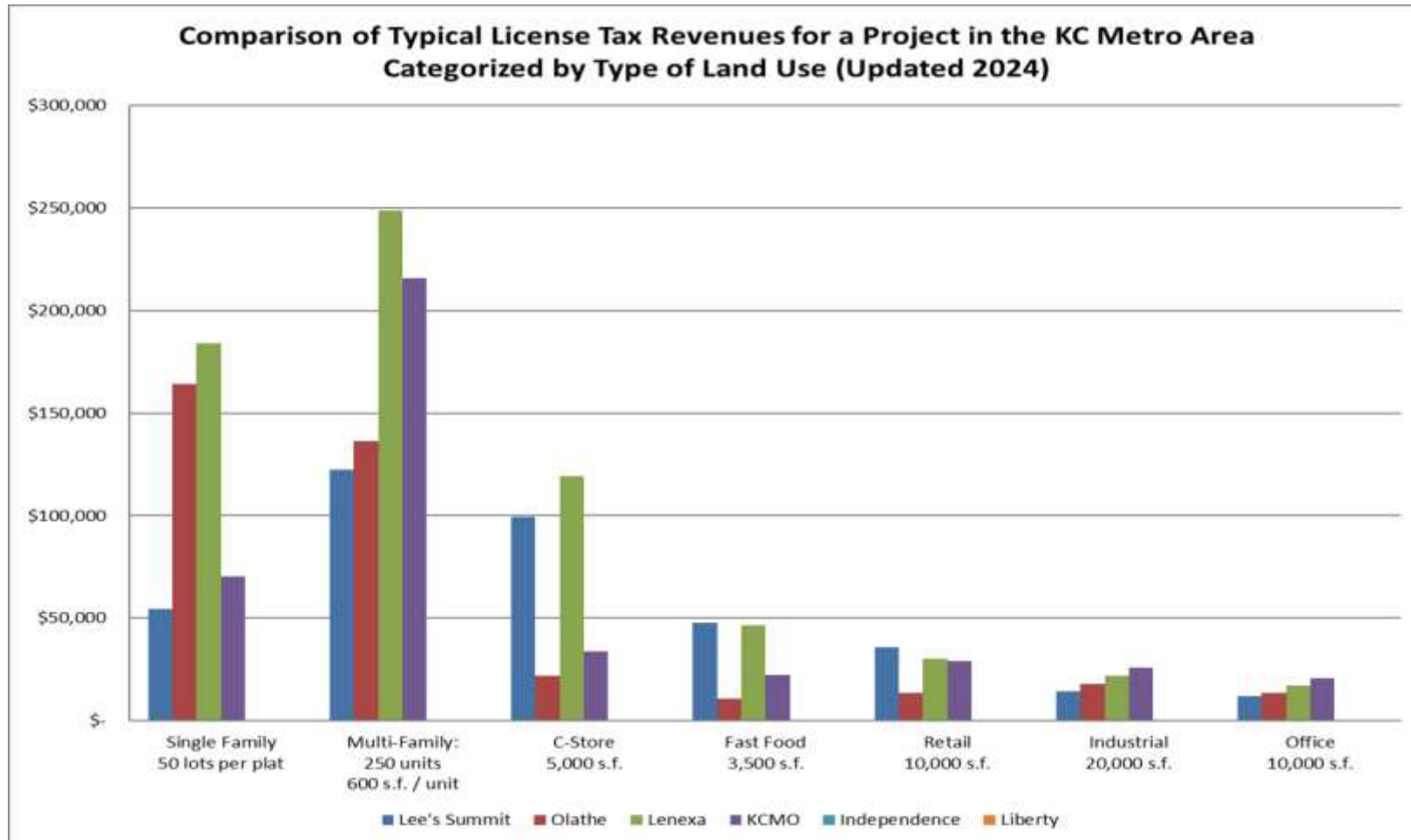
APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



APPENDIX C to FY2024 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



Note: Independence suspended license tax collections in 2018.

Liberty's 2001 Roadway Development Tax expired and has not been renewed.



The City of Lee's Summit
Action Letter
License Tax Review Committee

Monday, February 3, 2025

2:00 PM

Strother Conference Room

220 SE Green Street

Lee's Summit, MO 64063

1. Call to Order

The February 3, 2025, License Tax Review Committee meeting was called to order by Chairperson Prier, at 2:05 p.m. at City Hall, 220 SE Green Street, in the Strother Conference Room. Notice had been provided by posting the meeting notice with a tentative agenda, at least 24 hours in advance of the meeting, at both entrances to City Hall and online.

2. Roll Call

Members Present: Mia Prier (Chair), Michael Park, Glen Jones, Karl Blumenhorst
Staff Present: George Binger, Hector Soto, Shannon McGuire, Tiffany Morawiec, Susan Barry, and Carrie Craver

3. Approval of Agenda

A motion was made by Mr. Glen Jones, seconded by Mr. Michael Park, to approve the agenda as posted. The motion carried by a unanimous 4-0 vote.

4. Public Comments

None.

5. Business

- A. [2025-6738](#) Approval of the March 15, 2024, License Tax Review Committee Action Letter

A motion was made by Mr. Glen Jones, seconded by Mr. Karl Blumenhorst, to approve the License Tax Review Committee Action Letter dated March 15, 2024. The motion carried by a unanimous 4-0 vote.

- B. [2025-6715](#) Report: License Tax Review Committee Annual Report for FY2024

Mr. George Binger, Deputy Director/City Engineer, presented the FY2024 Annual License Tax Report to the Committee.

- C. [2025-6756](#) Discussion: License Tax Committee Recommendations

Mr. George Binger, Deputy Director/City Engineer, introduced each staff member present at the meeting. Mr. Binger directed attention to the License Tax Review Committee Annual Report for FY2024, noting it is very similar to previous reports over the past several years. A summary of the background and

origin of the license tax was provided. Fees have changed over the years due to economic and developmental activity. Mr. Binger displayed a comparison chart which reflected license tax revenues for typical projects in the KC Metro area. Lee's Summit is below average in license tax revenue resulting from residential development; above average in commercial developments such as convenience stores and fast food; and average in industrial/office revenue.

Mr. Hector Soto, Senior Planner, summarized Lee's Summit's residential permit activity. He advised that the City has traditionally taken a conservative approach with its projection of future building permits, noting a spike of activity experienced between 2018-2020. Since that spike, permit activity has leveled out, averaging around 500-590 residential permits annually. These figures do not include projected PRI (Property Reserve Inc.) development.

Retail, office, and industrial building permit activity was displayed on a separate chart, citing permit activity based on square footage. Mr. Soto explained the recent spike noted in 2023, mostly attributed to an increase in logistical activity related to the demand for warehouse and industrial buildings. This category of projections conservatively estimates averages ranging above 100,000 to 200,000 sf, in some cases nearing 300,000 sf.

Mr. Binger explained the connection between the permit activity and the license tax revenue. He provided a chart of license tax net revenue estimates. The 2025 net revenue shows -\$3,761,399 in expenses due to the current M-291 Hwy/US-50 Hwy Interchange project. These expenses somewhat depleted the overall fund balance; though, a gradual increase is projected to build the fund back up over the next 10 years; average annual net revenue being approximately \$500,000.

The final graph shown was for informational purposes, containing a model of rate adjustments for inflation. Mr. Binger noted that if there was an annual fee adjustment based on inflation, the rate increase over the next 10 years would remain below the approved maximum.

Next, Mr. Binger gave a status report on excise tax projects. He advised the Committee that the only project still active in this program is the M-291/US-50 Interchange. He summarized that 7 of 14 properties needed for right-of-way have been acquired. The goal is to advertise this project in April/May, 2025. Highway Patrol relocation is in progress, and construction is estimated to take place in 2025-2026. Mr. Binger briefed the Committee on other current roadway projects and potential roadway projects for future consideration. He answered general questions about the Scherer Parkway alignment study and

outlined the general process for such projects which originate in the City's Thoroughfare Master Plan and Comprehensive Plan.

The Committee was encouraged to think about future road projects for which to utilize license tax funds. An update was given on the sale and development of PRI properties, as well as other potential development needs and criteria for use of the license tax.

Mr. Blumenhorst questioned if the Committee might raise the license tax rates before the anticipated PRI properties are developed. Mr. Jones added that with some larger commercial projects upcoming, he felt that any rate increase should be applied to commercial/industrial developers. Mr. Park asked if the City has been receiving pushback about the license tax. Ms. Susan Barry, City Traffic Engineer, stated that complaints are mainly received from smaller businesses or from ones that don't fall neatly into an appropriate use category. She mentioned athletic training facilities as an example. Mr. Shannon McGuire, Planning Manager, added that the Parks fee for residential recently increased and will be implemented in July 2025. Mr. Park said he does not see a current need to raise rates on residential, adding that if any rates get increased it should be for industrial. After discussion, the Committee agreed to leave rates as they are.

Mr. Jones requested that a meeting be called if any significant development changes occur before the next regularly scheduled annual meeting.

A motion was made by Mr. Glen Jones, seconded by Mr. Karl Blumenhorst, to maintain the current license tax rates for commercial/industrial and residential unless new development activity creates a need to call another meeting. The motion carried by a unanimous 4-0 vote.

6. Roundtable

None.

7. Adjournment

The February 3, 2025, License Tax Review Committee meeting was adjourned by Chairperson Prier at 3:03 p.m. at City Hall, 220 SE Green Street, Strother Conference Room.

For your convenience, City Council agendas, as well as videos of City Council and Council Committee meetings, may be viewed on the City's Legislative Information Center website at "lsmo.legistar.com"