



LEE'S SUMMIT

LAW DEPARTMENT
OFFICE OF THE CITY ATTORNEY

August 26, 2020

TO: Lee's Summit City Council

FROM: David Bushek

RE: Summary of First Amendment to Paragon Star TIF Plan

The Developer has submitted a proposed First Amendment to the Paragon Star Tax Increment Financing Plan to (1) update the TIF Plan to reflect the scope of development set forth on the Preliminary Development Plans that have been approved by the City Council, and (2) facilitate a revenue bond financing for the Sports Complex portion of the project and the other TIF-reimbursable costs of the project.

TIF Commission action: On August 5, 2020, the Lee's Summit Tax Increment Financing Commission approved Resolution 2020-2 by a 8-1 vote, which makes the following recommendations to the City Council:

1. make and re-affirm the statutory findings which are required by the TIF Act to approve and implement the TIF Plan as amended by the First Amendment, and approve the First Amendment;
2. the TIF Agreement should be amended simultaneously with approval of the First Amendment to address the following:
 - (a) The terms and conditions upon which the City will consider the issuance of revenue bonds for Project 1;
 - (b) The terms and conditions under which the City property transaction with Developer shall be completed prior to or simultaneously with the issuance of revenue bonds for Project 1;
 - (c) The updated project data and information set forth in the First Amendment;
3. City staff should to continue to review of the feasibility, advisability and structure of a revenue bond issuance with the City's financial advisor and bond counsel prior to the issuance of revenue bonds. The goal of this condition is to complete the following prior to a revenue bond issuance: (a) an update of the 2013 market studies that were conducted for Project 1, (b) ongoing evaluation of the retail, restaurant, office and sports markets as the Covid health situation continues to evolve, (c) ongoing evaluation of the debt markets for the requested revenue bond issuance, and (d) evaluation of the appropriate terms and conditions under which a revenue bond issuance should occur, including the appropriate costs of issuance associated with such issuance.

Background

A list of the ordinances and resolutions approved by the City Council for this project are attached. The original memoranda delivered to the City Council for the TIF Plan and the TIF Contract are also

attached for reference and background information. A few other key background items are useful to establish a framework for review of the proposed First Amendment:

- The approved TIF Plan funds public improvements: The approved TIF Plan provides \$13.1 million reimbursement for the Sports Complex portion of the project, site preparation costs for the Sports Complex, sewer and water improvements, and soft costs associated with these items. The approved TIF Plan funds does not fund private development in the Village.
- Revenue Sharing with the Taxing Districts: The approved TIF Plan includes an important “\$60 million revenue sharing” feature through a declaration of Surplus PILOTs. All real property tax revenues resulting from the County’s market valuation of the taxable property in Project 1, in excess of \$60 million in market value as determined by the County on an annual basis, is shared equally (on a 50/50% basis) between the TIF Plan and the Taxing Districts that impose real property taxes. This is projected by Developer to result in substantial real property tax revenues for the taxing districts promptly upon full build-out of the project as discussed below.
- Uncaptured Tax Revenues: Only 50% of the sales tax revenues can be captured under the TIF Act. None of the personal property taxes are captured by TIF. None of the merchants and manufacturers inventory replacement tax (distributed to all taxing districts) is captured by TIF. The real property taxes generated by the State Blind Pension Fund and the Jackson County Board of Disabled Services are not captured by TIF. All state taxes are not captured by a local TIF. All of the uncaptured tax revenues flow to the appropriate taxing districts as normal.

This memorandum focuses on a summary of changes to the TIF Plan that would be implemented through the proposed First Amendment, and a discussion of the financing plan proposed by Developer which would result in the issuance of revenue bonds to finance construction of the Sports Complex portion of the project.

Summary of Proposed Changes to the TIF Plan

The portions of the TIF Plan which are changed by the First Amendment are summarized as follows:

- Redevelopment Area and Project 3 Area – Approximately 23.9 acres of land at the intersection of I-470, Pryor Road and Quarry Park Road are proposed to be added to the Redevelopment Area and the Project 3 Area. Developer indicates that the parcels to be added will become a part of the overall development plan/strategy associated with Star Excavation's Land Reclamation project. Developer reports that it has reached a tacit agreement regarding acquisition of this land.
- Site Plan (Exhibit 3) and Development Schedule (Exhibit 5) – These exhibits are updated to match the approved Preliminary Development Plans and current scheduling.
- Cost Benefit Analysis – This is updated to show the increased benefit to the taxing districts from the updated project information. The \$60 million “revenue sharing” mechanism, summarized above on page 1, is maintained in the First Amendment and is projected by Developer to be an increased benefit to the taxing districts.
- The Project Budget (Exhibit 7) – The Budget is updated to reflect the new reimbursable amounts from all public sources and the increase private lending and equity contribution to Project 1.
- Sources of Funds (Exhibit 8) – The sources are updated to match the updated Project Budget.

- Evidence of Commitments to Finance (Exhibit 12) – The bank letters are updated to reflect the new private funding sources for \$119.5M in private debt and the \$51.2M equity contribution.

Comparison Tables

The following tables compare key data and information in the approved TIF Plan and the proposed First Amendment.

Redevelopment Area and Project Areas Summary of Changes		
Item	Approved TIF Plan	First Amendment
Redevelopment Area	309 acres	332.9 acres*
Project 1 Area	122.34 acres	Same
Project 2 Area	40.25 acres	Same
Project 3 Area	146.42 acres	170.32 acres*
* 23.9 acres at the intersection of I-470, Pryor Road and Quarry Road is proposed to be added to Project 3. This does not impact the analysis of Project 1 for the Paragon Star project.		

Project Budget Summary of Changes		
Item	Approved TIF Plan	First Amendment
Developer Equity and Private Financing	\$151,289,240	\$170,000,000 (\$18.7M / 12.4% increase)
TIF Reimbursement	\$13,140,705	\$32,000,000 (\$18.9M / 2.44x increase)
CID Reimbursement	\$4,038,741	\$5,000,000 (\$961K / 23.8% increase)
TDD Reimbursement	\$21,904,476	\$32,000,000* (\$10.1M / 46% increase)
City GO Bond Issuance	\$1,000,000	\$1,000,000
State Funding	\$20,000,000	\$4,000,000
Total Project Costs	\$211,746,000	\$245,000,000 (\$33.4M / 15.7% increase)
* TDD Bond issuance already completed.		

Evaluation of TIF reimbursement under the City’s Economic Development Incentive Policy (last updated June 6, 2018):

- Total TIF Reimbursement: The City’s ED Policy expresses a preference for TIF reimbursement that does not exceed **25%** of the total project costs. The TIF reimbursement is **6.2%** under the approved TIF Plan and would be **13.1%** under the First Amendment.
- No City General Revenue Pledge: Under the approved TIF Plan, it was contemplated that private financing would be used to construct the Sports Complex, and revenue bonds repayable from TIF and CID revenues would be issued for permanent financing. Under the First Amendment, Developer is requesting that revenue bonds be issued in 2020 to finance the Sports Complex. Under either scenario, the bonds would be repayable only from TIF and CID revenues and the City would not pledge any general revenues for repayment of the revenue bonds.
- Revenue Sharing with Taxing Districts: The First Amendment retains the “\$60 million revenue sharing” feature as described on page 1, resulting in immediate benefit to the taxing districts when the Village is fully constructed.

TIF Reimbursable Project Costs		
Summary of Changes		
Item	Approved TIF Plan	First Amendment
Sports Complex	\$6,237,802	\$13,200,000
Site Work for Sports Complex	\$1,019,117	\$0
Wetlands Mitigation	\$0	\$1,200,000
Trail Head	\$0	\$700,000
Parking Garage	\$0	\$2,000,000
Utilities – Water, Sewer, Electric	\$562,091	\$2,300,000
Interchange, Roads, Parking Lots	\$0	\$4,441,157
Engineering	\$1,329,101	\$3,094,000
Contingency	\$1,172,736	\$1,820,000
Soft Costs	\$2,820,630	\$3,458,570
Total TIF Reimbursable Project Costs	\$13,140,706	\$32,213,727

Cost Benefit Analysis for Taxing Districts*
Summary of Changes

Item	Approved TIF Plan**	First Amendment**
City	\$4,552,739	\$7,286,446
School District	\$2,781,137	\$6,461,508
County	\$2,161,408	\$2,906,593
County Stadiums	\$2,603,152	\$1,884,743
Library District	\$132,698	\$420,814
Metro College	\$89,828	\$237,106
M&M Inventory Repl. Tax	\$2,364,636	\$3,567,186
Mental Health	\$50,532	\$155,698
Disabled Services	\$31,127	\$242,056
Zoo District	\$216,929	\$314,124
State of Missouri	\$14,664,422	\$21,234,767
State Blind Pension	\$78,104	\$117,124
Paragon Star CID	\$1,735,435	\$2,512,990
Total	\$31,471,147	\$47,323,155

** All data shows Developer's net present value calculations rather than actual total revenues over 23 years.*

** Data for the approved TIF Plan is from Exhibit 6, page 6. Data for the First Amendment is from Exhibit 6-B, pages 6 and 7.*

Sources of Funds Summary of Changes		
Item	Approved TIF Plan	First Amendment
Private Sources		
Developer Debt	\$105,770,000	\$119,470,000
Developer Equity	\$46,330,000	\$51,200,000
Public Sources		
TIF / CID Revenue Bonds	\$18,000,000	\$37,000,000
TDD	\$20,500,000	\$32,330,000
City GO Bonds	\$1,000,000	\$1,000,000
State Cost Share	\$0	\$4,000,000
State Stadium Funding	\$20,000,000	\$0
Total	\$211,600,000	\$245,000,000

Evidence of Commitments to Finance All Project Costs		
Summary of Changes		
Item	Approved TIF Plan	First Amendment
Sports Complex	First National Bank of Kansas	TIF / CID Revenue Bonds
Interchange, Roads, Parking	TDD Revenue Bonds	TDD Revenue Bonds TIF / CID Revenue Bonds
Hotel	Capital Management, Inc.	First National Bank of Kansas
Retail	First National Bank of Kansas	First National Bank of Kansas
Garage (300 spaces)	Van Trust Real Estate	First National Bank of Kansas
Entertainment Center	First National Bank of Kansas	First National Bank of Kansas
Office	Van Trust Real Estate	Paragon Star, LLC Community America Credit Union
Medical Office		Block Real Estate Services, LLC Academy Bank
Residential	Van Trust Real Estate	Gold Crown Properties Marcus & Millichap Capital Corp.
Clubhouse / Restaurant	First National Bank of Kansas	First National Bank of Kansas
Soft Costs	First National Bank of Kansas	First National Bank of Kansas
Contingencies	Central Bank of the Midwest	First National Bank of Kansas

Discussion of Financing Plan and Revenue Bond Issuance

Developer is requesting that revenue bonds be issued in 2020 to finance the Sports Complex portion of the project and the TIF- and CID-reimbursable costs of the project. This section discusses several of the primary factors that staff has evaluated for the proposed financing structure and the manner in which this review will continue until the proposed bond financing can be completed.

Timing of Revenue Bond Issuance

The approved TIF Plan contemplated that revenue bonds would be issued to finance the TIF-reimbursable and CID-reimbursable portions of the overall project as “take out” financing. The Developer would have been required to privately finance the construction of these items. The revenue bonds would be repayable from TIF and CID revenues. Under the approved TIF Plan, the potential underwriter that we were working with at the time that the TIF Plan was approved indicated that the project must have a proven revenue history before the revenue bonds could be issued. This meant that the project would need to be up

and running for approximately two years before revenue bonds could be taken to market to serve as “take out” financing.

Under the First Amendment, Developer is requesting that revenue bonds be issued in 2020 to finance construction of the TIF and CID-reimbursable items, in lieu of private lending for this construction. The potential underwriter that we are talking with at this time has indicated that revenues bonds can be issued when Developer produces sufficient documentation to demonstrate the certainty of the private development that will serve as the TIF and CID repayment sources for the revenue bonds. The City is consulting with its financial advisor, Columbia Capital, to further evaluate this requested financing structure. This evaluation will continue until a revenue bond issuance can be approved by the City Council.

Financing Plan

To issue revenue bonds, Developer will need to present a complete financing plan showing details about all private and public sources of funds for the Sports Complex and the Village that are planned to be built at the time of the financing. This will include documentation of the initial users and tenants of the Village and the sources of lending for all private components of the Village that will serve as TIF and CID repayment sources for the revenue bonds. The underwriter may require evidence that the private lenders are committed close on the private financing. The potential underwriter has indicated that multiple tranches of bonds could be issued of the private development will occur in phases.

Risk Analysis

Under both the approved TIF Plan and the proposed First Amendment, the proposal is for the issuance of revenue bonds that would be repaid solely from the TIF and CID revenues generated by the project. The City is not being requested to pledge general revenues for repayment of the bonds under the First Amendment. Aside from other factors discussed below regarding the current market conditions and the associated impacts on any revenue bond issuance in the near future during the Covid period, the First Amendment does not change the revenue bond structure that was part of the approved TIF Plan.

Covid Health Situation and other Market Factors

The ongoing Covid health situation has dampened several economic sectors that are relevant to the Paragon Star project, including the youth sports market, retail shopping, restaurant operations and sales levels, the demand for office development and the foot traffic generated by office development. There is general uncertainty about the potential lasting impacts that the Covid situation may have on consumer habits in these markets. This is also impacting the bond market and the ability to take a project such as this to the market at this time.

These factors will need to be fully evaluated in order to arrange for a revenue bond issuance that relies on retail, restaurant and sports markets for revenue generation. A projection of when these markets will “return to normal,” and whether a “new normal” is created by the current Covid pandemic, will also need to be evaluated.

Updated Studies for Revenue Bond Issuance

The Paragon Star project was the subject of two markets studies in 2013. HVS completed a *Sports Complex Market Study* in August 2013 for this project, and RERC completed a study entitled *Estimates of Demand for Retail, Restaurant and Lodging, View High Green Project* in April 2013. Both the potential underwriter and the City’s financial advisor have indicated that these studies will be to be updated, or new studies will need to be performed, in order to market revenue bonds for the project. City staff will continue to work with the consultants as the project moves forward to update these studies or commission new studies.

TIF Contract

If the First Amendment is approved, the TIF Contract will need to be amended to adjust the terms and conditions of the TIF Contract to work under the First Amendment. Staff is recommending that the TIF Contract amendments include:

- terms and conditions upon which the City will consider the issuance of revenue bonds;
- new terms and conditions under which the City property transaction must be completed prior to or simultaneously with the issuance of revenue bonds for Project 1; and
- the updated project data and information and schedule as set forth in the First Amendment.

Schedule

Developer has revised the development schedule in the TIF Plan to reflect new completion dates, including all land acquisition by the end of this year:

Redevelopment Project Area 1			
	<u>Sports Complex and Village</u>	<u>Commence</u>	<u>Complete</u>
	- Acquisition	May 1, 2016	December 31, 2020
RPA 1	- Blight Removal	May 1, 2016	November 1, 2025
	- Construction	May 1, 2019	November 1, 2025

Required Findings and Plan Contents: All of the factual findings required by the TIF Act were made by the City Council when the TIF Plan was approved. This section reviews the required findings and TIF plan contents for the First Amendment.

- **Blight:** No change; re-affirmation of the original finding.
- **But-For Test:** No change; re-affirmation of the original finding.
- **Relocation Plan:** No change; re-affirmation of the original finding.
- **Cost-Benefit Analysis:** A revised cost-benefit analysis is included in the First Amendment and summarized above in this memorandum.
- **Financial Feasibility:** The financial feasibility of the First Amendment and the requested financing plan is discussed above in this memorandum. City staff will continue to work with Columbia Capital to evaluate the market factors that are in flux as a result of the Covid health situation. Our analysis of the financial feasibility is unique to this project and forces that are impacting bond market and the retail, restaurant, office and sports markets at this time. It is anticipated that future TIF plans will be analyzed in a more traditional manner with a full report from the City's financial advisor prior to the TIF Commission providing a recommendation to the City Council.

Paragon Star Ordinance & Resolution Log

7695	AN ORDINANCE APPROVING THE DEVELOPMENT STRUCTURE AGREEMENT BETWEEN PARAGON STAR, LLC, AND THE CITY OF LEE'S SUMMIT, MISSOURI, FOR THE SPORTS AND ENTERTAINMENT COMPLEX AT VIEW HIGH DRIVE AND I-470.	9/3/15
7762	AN ORDINANCE APPROVING THE PETITION FOR AND ESTABLISHING THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT	12/03/15
7833	AN ORDINANCE APPROVING THE I-470 AND VIEW HIGH TAX INCREMENT FINANCING PLAN, ESTABLISHING A REDEVELOPMENT AREA AND DESIGNATING THE REDEVELOPMENT AREA AS A BLIGHTED AREA.	3/10/16
16-07	A RESOLUTION OF SUPPORT TO THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT TO SUBMIT AN APPLICATION FOR FUNDING FROM THE STATE OF MISSOURI UNDER THE STATE AND LOCAL GOVERNMENT CONVENTION, SPORTS FACILITY, MEETING AND TOURISM ACT OF 1989 TO SUPPORT THE DEVELOPMENT OF PARAGON STAR	4/14/16
7961	AN ORDINANCE APPROVING THE COOPERATIVE AGREEMENT BETWEEN THE CITY OF LEE'S SUMMIT, THE I-470 AND 350 TRANSPORTATION DEVELOPMENT DISTRICT AND PARAGON STAR, LLC.	9/1/16
7987	AN ORDINANCE GRANTING A CHANGE IN ZONING CLASSIFICATION FROM AG AND CP-2 TO PMIX ON APPROXIMATELY 120 ACRES LOCATED AT THE NORTHEAST CORNER OF NE VIEW HIGH DRIVE AND I-470 AND APPROVING A PRELIMINARY DEVELOPMENT PLAN FOR PARAGON STAR, ALL IN ACCORDANCE WITH THE PROVISIONS OF UNIFIED DEVELOPMENT ORDINANCE NO. 5209 FOR THE CITY OF LEE'S SUMMIT, MISSOURI.	10/06/16
8003	AN ORDINANCE APPROVING THE TAX INCREMENT FINANCING REDEVELOPMENT AGREEMENT BETWEEN THE CITY OF LEE'S SUMMIT AND PARAGON STAR, LLC, FOR THE I-470 AND VIEW HIGH TAX INCREMENT FINANCING.	10/20/16
8004	AN ORDINANCE APPROVING REAL ESTATE AGREEMENTS FOR THE TRANSFER OF CITY PROPERTY FOR THE I-470 AND VIEW HIGH TAX INCREMENT FINANCING PLAN.	10/20/16
8042	AN ORDINANCE APPOINTING A MEMBER TO THE BOARD OF DIRECTORS OF THE SOUTHWEST I-470 TRANSPORTATION DEVELOPMENT DISTRICT.	12/08/16

8112	AN ORDINANCE APPROVING THE COOPERATIVE AGREEMENT BETWEEN THE CITY OF LEE'S SUMMIT, THE SOUTHWEST I-470 TRANSPORTATION DEVELOPMENT DISTRICT, THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT AND PARAGON STAR, LLC.	3/9/17
8113	AN ORDINANCE APPROVING THE COOPERATIVE AGREEMENT BETWEEN THE CITY OF LEE'S SUMMIT, THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT AND PARAGON STAR, LLC.	3/9/17
18-01	A RESOLUTION SUPPORTING THE FORMATION OF THE I-470 WESTERN GATEWAY TRANSPORTATION DEVELOPMENT DISTRICT.	1/18/18
18-07	A RESOLUTION AUTHORIZING THE MAYOR TO APPOINT SUCCESSOR DIRECTORS TO THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT.	5/17/18
18-13	A RESOLUTION APPROVING THE APPOINTMENT OF A DIRECTOR TO THE BOARD OF DIRECTORS OF THE I-470 WESTERN GATEWAY TRANSPORTATION DEVELOPMENT DISTRICT.	8/23/18
8454	AN ORDINANCE APPROVING A REAL ESTATE AGREEMENT FOR THE TRANSFER OF CITY PROPERTY FOR THE I-470 AND VIEW HIGH TAX INCREMENT FINANCING PLAN.	9/6/18
18-14	A RESOLUTION AUTHORIZING THE MAYOR TO APPOINT SUCCESSOR DIRECTORS TO THE I-470 AND VIEW HIGH COMMUNITY IMPROVEMENT DISTRICT	9/16/18
19-08	A RESOLUTION AUTHORIZING THE MAYOR TO APPOINT A MEMBER TO THE BOARD OF DIRECTORS OF THE SOUTHWEST I-470 TRANSPORTATION DEVELOPMENT DISTRICT TO REPLACE CONRAD LAMB.	6/4/19
8644	AN ORDINANCE APPROVING A PRELIMINARY DEVELOPMENT PLAN LOCATED GENERALLY AT THE NORTHEAST CORNER OF NW VIEW HIGH DR. AND I-470 HWY IN DISTRICT PMIX, PROPOSED PARAGON STAR VILLAGE IN ACCORDANCE WITH THE PROVISIONS OF CHAPTER 33, THE UNIFIED DEVELOPMENT ORDINANCE OF LEE'S SUMMIT CODE OF ORDINANCES, FOR THE CITY OF LEE'S SUMMIT, MISSOURI.	6/11/19

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March 3, 2016

TO: Lee's Summit City Council
FROM: David Bushek, Rich Wood
RE: Summary of I-470 and View High TIF Plan (the "**TIF Plan**")

Property: The Redevelopment Area contains approximately 309 acres generally located north of I-470, east of View High Drive and west of Pryor Road, and a portion located along the southeast corner of the intersection of I-40 and View High Drive, all within Jackson County, Lee's Summit, Missouri. The property owners in the Redevelopment Project Area are included in Exhibit A to this memorandum. Project Area 1 contains about 122.34 acres.

Developer: Paragon Star, LLC

Development: The Developer proposes to construct within the Project Area 1 the development listed in Exhibit B to this memorandum. The development in Project Area 1 is shown on the Preliminary Site Plan attached to the TIF Plan as Exhibit 3. This memo focuses on Project Area 1.

TIF Commission Recommendation: The Tax Increment Financing Commission voted 11-0 on February 17, 2016 to approve Resolution No. 2016-1, which recommends that the Council make required findings, approve the TIF Plan, designate the proposed property as the Redevelopment Area for the TIF Plan, approve Redevelopment Project 1 by ordinance and designate the applicant as the developer of record for the TIF Plan and the Redevelopment Projects and enter into a tax increment financing contract to implement the TIF Plan

Sources and Uses Summary: A detailed budget is included in the TIF Plan as Exhibit 7.

Financing Structure: The Plan, as amended through the TIF Commission hearing process, allows for a financing plan in which private lending sources will finance construction of the sports complex. When the project as a whole is completed, bonds can be issued by the City (or another issuer selected by the City) to provide for permanent financing of the sports complex. Only revenues bonds, repaid from TIF and CID revenues, are proposed to be issued. The City will not be requested to issue general obligation debt to finance construction of the sports complex, and City general revenues are not requested to fund the sports complex. The following is a summary of the funding sources for construction and then permanent financing of the project as a whole:

<u>Summary of Funding Sources</u>		
<u>Public Sources</u>	Construction Financing	Permanent Financing
Tax Increment Financing		\$13,141,000
Community Improvement District		\$4,038,000
Transportation Development District	\$20,500,000	\$20,500,000
State Funding		\$20,000,000
City General Obligation Bonds	\$1,000,000	\$1,000,000
Subtotal	\$21,500,000	\$58,679,000
<u>Private Sources</u>		
Paragon Star, LLC	\$16,608,000	\$16,608,000
Capital Management, Inc.	\$18,078,000	\$18,078,000
Van Trust Real Estate	\$81,500,000	\$81,500,000
First National Bank of Kansas	\$69,570,450	\$32,391,450
Central Bank of the Midwest	\$4,400,000	\$4,400,000
Subtotal	\$190,156,450	\$152,977,450
<u>Totals (rounded)</u>	\$211,660,000	\$211,660,000

Private Sources of Funding for Private Development: The Developer indicates that the following sources will initially fund the private project costs:

Developer Debt	\$105,770,000
Developer Equity	\$46,330,000
	<u>\$152,100,000</u>

Property Investment and Valuation:

- Current assessed valuation: \$80,885
- Total Project Costs: Approximately \$212 million
- Projected assessed valuation after Project is constructed: \$15,551,360

Ownership and Development Structure:

- City owns approximately 76 acres of property within the boundaries of Project Area 1. The City intends to enter into a Real Estate Agreement with the CID and Paragon Star to transfer ownership of the City-owned property to the CID for the portions that will become the sports complex, and transfer ownership to end users for the portions that will become privately developed areas of the project. Numerous conditions will need to be satisfied before any of the City-owned property is transferred to the CID or any other party, and those conditions are set forth below in this memorandum. These conditions serve as safeguards for the City to ensure that the project as a whole is ready to proceed, including all publicly-financed and privately-financed components, before the City transfers property to other parties.
- Jackson County, Missouri owns properties located within the boundaries of Redevelopment Project Area 1 and has expressed willingness to enter into an agreement with the Developer to use the property for shared parking and trail activities.
- The Redevelopment Area includes three redevelopment project areas, but only Project Area 1 is described in the Redevelopment Plan at this time. The Redevelopment Plan will consist of Project Area 1. No data or projections are provided in the Plan at this time for Projects 2 and 3, as they will be presented to the City as amendments to the Redevelopment Plan when those projects are ready to move forward. However, Project Area 2 is anticipated to contain office and commercial space, and Project Area 3 is anticipated to contain commercial space and possibly additional sports fields, hotel, retail and office spaces.

TIF Reimbursement and Financing Structure:

- PILOTs: 100% of PILOTs will be captured. The Developer projects that over the 23 year period that tax increment financing is in place, the TIF within Project Area 1 will generate \$35,678,435 in PILOTs.
- EATs: 50% of EATS will be captured. The Developer projects that over the 23 year period that tax increment financing is in place, the TIF within Project Area 1 will generate \$14,118,969 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 will reimburse \$13,140,705 of project costs, CID Sales Tax revenue will reimburse \$4,038,721 of the project costs and TDD Sales Tax revenue will reimburse \$21,904,476 of project costs.
- The Developer projects that Redevelopment Project 1 will last 23 years to provide full reimbursement for the costs associated with Project Area 1.
- No City “Super-TIF” contribution has been requested – 50% of all sales tax revenue will flow to the City as normal.
- Obligations are anticipated to be issued to finance the Redevelopment Project Costs according to the following chart:

Source	Net Bond Proceeds for Project	Developer's Projected Date
TDD Revenue Bonds	\$20,500,000	July 2016
City of Lee's Summit General Obligation Bonds for roads	\$1,000,000	--
City TIF and/or CID Revenue Bonds	\$17,179,000	2017

- The Redevelopment Plan proposes the City issue general obligation bonds in the amount of \$1,000,000 for the purpose of constructing road improvements at the intersection of I-470 and View High Drive, which the qualified voters of the City authorized in a past election.
- Annual sales after full build-out (year 2) are projected to be \$26.7 million, escalating to \$35.4 million in year 23.

CID:

- The CID is intended to be the owner of the Sports Complex component of Redevelopment Project 1 upon completion of construction of the Sports Complex. The CID will contract with third parties for the operation and maintenance of the Sports Complex.
- The CID is proposed to impose a 1.0% sales tax. The CID sales will be in effect in the retail portions of Redevelopment Project 1.
- 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 over the 23 year period the revenue from the CID sales tax accounted for as an EATs will be \$3,627,750.
- The Developer projects that over the 23 year period that tax increment financing is in place, the CID will generate \$3,627,750 in sales tax revenues that are not captured by TIF. The Redevelopment Plan proposes that the non-captured revenue will be pledged for the reimbursement of Redevelopment Project Costs.
- The CID will apply for capital improvement financing from the State of Missouri in the amount of \$20,000,000 to be allocated towards the Redevelopment Project Costs related to the Sports Complex and walking trails.

TDD Reimbursement:

- The proposed TDD is anticipated to impose a 1% sales tax. The TDD will include the Summit Woods shopping center and other properties outside of the Project Area 1.
- No portion of the TDD area overlaps with the retail portions of Project Area 1 and the TDD sales tax. Only the CID overlaps with the retail portions of Project Area 1. As a result, none of the TDD sales tax revenues will be captured as EATs within Project Area 1 under the TIF Plan

- The TDD revenue bonds payable from the TDD sales tax revenues are estimated to contribute \$20,000,000 to fund approved transportation project costs.

Benefit to Taxing Districts: The Cost-Benefit Analysis attached to the TIF Plan as Exhibit 6 show the projected tax revenues to be generated by the Redevelopment Project for each taxing district if the project does not occur and if the project does occur with the use of TIF. Project Area 1 is divided between two school districts: Lee’s Summit School District and Hickman Mills School District. 27% of the land area of Project Areas 1 is within the Lee’s Summit School District and 73% of the land area of Project Areas 1 is within the Hickman Mills School District, if it is assumed that the railroad and highway rights-of-way areas are included, and 20% within the Lee’s Summit School District and 80% within the Hickman Mills School District, if it is assumed that railroad and highway rights-of-way areas are not included in the land area calculations.

Required Findings: The following is a list of the findings required to be made by the City Council with a recommendation from the TIF Commission, 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:

- Defective or Inadequate Street Layout
 - Poor vehicular access in and around the Redevelopment Area.
 - Continued lack of internal circulation within the Redevelopment Area.
 - Limited points of ingress and egress for vehicular access, particularly emergency vehicles.
 - On existed roads within the Redevelopment Area, conditions exist which limit sight lines and contribute to insufficient lighting and unsafe road conditions for vehicles and pedestrians.
- Deterioration of Site Improvements
 - Deteriorated sit improvements primarily revolve around the abandoned mine.
 - The mine facility is rapidly deteriorating due to groundwater infiltration, ceiling deterioration and antiquated design.
 - Utilities to the mine are non-existent rendering access and use extremely hazardous.

- Unsanitary or Unsafe Conditions and Conditions which Endanger Life or Property by Fire or Other Causes
 - Significant percentage of the Redevelopment Area is impacted by an abandoned, underground quarry.
 - Portions of the mine are unsecured and portions of the mine roof systems are collapsing.
- Economic Liability and Economic Underutilization
 - In existing condition, the Redevelopment Area annually generated \$32,200 in ad valorem taxes and upon completion of the Redevelopment Projects, the estimated increase is approximately \$3,056,428.
 - There are extraordinary land development costs associated with the topographical features and lack of basic infrastructure, such as roads and utilities, within the Redevelopment Area.
- **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*).
- **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 (*Exhibits 6*).
- **Financial Feasibility:** There must be evidence that the proposed project is financially feasible for the Developer to construct with TIF assistance (*Exhibit 11*).
- **TIF Plan Contents:** The TIF Plan must contain the following information:
 - A general description of the program to be undertaken to accomplish its objectives (*Pages 7-9*).
 - The estimated redevelopment project costs (*Page 9 and Exhibit 7*).
 - The anticipated sources of funds to pay the costs (*Page 9-12 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 9-12 and Exhibit 8*).
 - The anticipated type and terms of the obligations to be issued (*Page 12*).
 - 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 12 and Exhibit 6*).
 - An estimate as to the equalized assessed valuation after redevelopment (*Page 13 and Exhibit 6*).

- The general land uses to apply in the Redevelopment Area (*Page 13*).
- 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 (*Pages 9-12, 14*).
- Estimated dates of completion of the redevelopment project (*Page 14*).
- **Plan Requirements:** The TIF Plan meets the following requirements:
 - The TIF Plan is in conformance with the Comprehensive Plan for the development of the City as a whole (*Page 14*).
 - 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 25 and Exhibit 13*).
 - The TIF Plan does not include the initial development or redevelopment of any gambling establishment (*Page 15*).
 - 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 (*Pages 13-14*).

City Property: The real estate contract will be negotiated by the parties when the TIF contract is negotiated, after the TIF Plan has been approved. City staff has identified the following conditions that will need to be satisfied before the City’s approximately 76-acre parcel will be transferred to the CID (or other end users, as appropriate) –

- The TIF contract has been executed by the City and Developer.
- The real estate contract has been executed by the City, the CID and Developer.
- The TDD has been formed, the TDD cooperative agreement has been executed, the TDD sales tax has been imposed, the TDD has issued debt to construct road improvements, and contracts have been executed for the construction of the road improvements to be funded by the TDD.
- The expenditure of proceeds from City general obligation bonds in the amount of \$1 million have been approved by the City for road improvements that serve the project.
- A plat has been approved for the City property and a preliminary development plan has been approved for all development in the project.
- The CID has completed all steps necessary to impose the CID sales tax.

- The City, CID and Developer have entered into a cooperative agreement which provides for the terms and conditions under which the CID will operate, the use of CID revenues, the issuance of debt that is repaid from CID revenues, the process for identifying and selecting a sports complex manager, and a process for providing all other approvals that are necessary to manage and operate the sports complex.
- The City has documentation that Developer's investors/partners have approved project budgets for their respective components of the project, and the City has documentation of binding commitments from Developer's investors/partners that they are prepared to commence construction upon delivery of the pad sites for their respective portions of the project.
- The City has documentation that all steps necessary for closing on all private financing by all of Developer's investors/partners have been completed and the closing on all private financing sources for the entire project are subject only to transfer of the City property to the CID or other appropriate parties.
- Plans and specifications for the sports complex have been completed and a contract with a guaranteed maximum price for construction of the sports complex has been executed with the selected contractor.
- The City has documentation that all steps necessary for closing on the private financing for the sports complex, by the appropriate investor/partner, has been completed and such closing is subject only to transfer of the City property to the CID.
- Documentation that state funding has been approved by the appropriate state agency, or alternative private funding sources have been identified in lieu of such state funding and the City has received documentation that the closing of such alternative private funding sources is subject only to the transfer of the City property to the CID.
- Restrictive covenants which limits use of appropriate portions of the City property for a sports complex have been recorded.
- The parties have coordinated for the issuance of building permits for all development within Project Area 1.
- Documentation that all required wetlands permits have been issued to construct all improvements within Redevelopment Project Area 1.
- Jackson County has granted all necessary approvals to use all County-owned property within Project Area 1.
- The Missouri Highways and Transportation Commission has provided approvals or authorization to make improvements to the I-470 and View High interchange.

The real estate contract will function like an "option contract" and will provide that Developer can market and arrange for the sale and mortgaging of appropriate portions of the property which are platted and intended to be developed with private uses, subject to satisfaction of the closing conditions listed above. The TIF contract and real estate contract will allow for grading and road construction to occur on the City-owned property prior to the date of transfer in order to facilitate the construction of road improvements according to the master schedule for the project.

Outstanding Issues: The following issues have been identified by City staff which will require further action or evaluation, as appropriate, for the project to move forward –

- **Regional TDD Formation:** The master schedule for the project called for the regional TDD to be formed before the TIF Plan is approved. The existing Summit Woods TDD needs to adopt a resolution of support for the regional TDD in order to file an action in circuit court to start the process to form the regional TDD. City staff is uncertain about the status of support for the regional TDD by the existing Summit Woods TDD Board of Directors. This issue has been raised with Developer by City staff.
- **Private Financing Commitments:** The letters submitted by Developer from several potential partners for the project are minimally sufficient for the Council to make a finding that the Plan is accompanied by evidence of commitments to finance the project, but City staff needs further explanation regarding these commitment letters and the arrangements under which partners will be involved with the project. The letters do not make clear what portion of each partner's investment is in the form of debt or equity funding. There is no supporting documentation from the partners indicating a willingness to make the equity investment listed on the spreadsheets that have been provided by Developer (Van Trust Real Estate, LLC, in the amount of \$24.3 million and Capital Management, LLC, in the amount of about \$5.4 million). City staff is not clear about the terms under which Paragon Star, LLC, will make an equity investment in the project in the amount of about \$16.6 million and what portion of the project costs are covered by this investment.
- **Project Cost Documentation for Private Development:** During the TIF Commission's consideration of the project, between the TIF Commission's two meeting dates in February, the total estimated project costs increased by about \$22 million. Developer indicated that the estimated project cost increases were related solely to the private components of the project based on information supplied by the Developer's partners, who will construct the various private components of the project (hotel, retail, office, residential, entertainment center, clubhouse, restaurant, parking garage). Developer has presented detail in the Plan regarding project cost estimates, but staff has not seen cost projections for the several private components of the project from the investors/partners that will construct those portions of the project.
- **MoDOT Evaluation:** The City has not seen documentation from MoDOT regarding MoDOT's evaluation of the road improvements on right-of-way within MoDOT's jurisdiction that must be constructed to serve the project.
- **Valuation for City-Owned Property:** Developer and City staff have not reached agreement on a valuation for the property owned by the City. This issue will need to be resolved for the terms of the real estate transfer to be completed. Developer has engaged an appraiser for the parties to evaluate this issue.
- **Master Developer coordination:** Developer has indicated that a consultant will be brought into the project to coordinate the planning, design and construction of the project, including coordination among the several investors/partners that will construct the private components of the project. The involvement of this consultant will be critical to the success of the project, but without knowledge of the company and persons that will perform this work, City staff cannot evaluate project coordination.

- **Retail Developer:** Developer has not identified a partner that will secure retail tenants for the project.

EXHIBIT A

PROPERTY OWNERSHIP IN TIF REDEVELOPMENT AREA

<u>Property Owner</u>	<u>Parcel Number</u>	<u>Project Area</u>	<u>Square Feet</u>
Jackson County, Missouri	51-900-02-02-01-0-00-000	1	98,405
Happy Valley Properties, LLC	51-900-02-07-00-0-00-000	1	405,354
Happy Valley Properties, LLC	51-900-02-10-00-0-00-000	1	73,465
Happy Valley Properties, LLC	51-900-02-09-00-0-00-000	1	81,258
Happy Valley Properties, LLC	51-900-02-08-00-0-00-000	1	108,639
Jackson County, Missouri	51-900-02-02-03-0-00-000	1	66,376
City of Lee's Summit, Missouri	51-900-02-01-00-0-00-000	1	3,412,490
Jackson County, Missouri	51-900-02-06-01-0-00-000	1	1,013,007
City of Lee's Summit, Missouri	51-900-02-06-02-0-00-000	1	81,182
Happy Valley Properties, LLC	51-900-03-06-00-0-00-000	2	232,165
Happy Valley Properties, LLC	51-900-03-02-00-0-00-000	2	1,427,991
Happy Valley Properties, LLC	51-900-02-05-00-0-00-000	2	93,180
Jackson County, Missouri	51-900-01-06-02-0-00-000	3	405,097
Jackson County, Missouri	51-900-01-03-00-0-00-000	3	1,315,102
Kenneth L. S. Kay Gerdts	51-900-01-06-01-0-00-000	3	515,598
The Family Ranch, LLC	51-900-01-11-00-0-00-000	3	839,993
Jerry D & Deia S Rank	51-900-01-09-00-0-00-000	3	127,839
George C. Brinton	51-900-01-10-00-0-00-000	3	155,968
The Family Ranch, LLC	51-800-02-06-00-0-00-000	3	1,180,113
The Family Ranch, LLC	51-800-02-21-00-0-00-000	3	1,602,813
The Family Ranch, LLC	51-800-01-03-00-0-00-000	3	235,381

EXHIBIT B

PROPOSED LAND USES IN PROJECT 1 AREA

<u>Use</u>	<u>Square Feet</u>	<u>Unit Size</u>
Multi-sport fields	--	10
Clubhouse	23,000	--
Sand Volleyball Courts	--	8
Multifamily residential project	--	220
Office Space	90,000	--
Hotel	--	120
Retail Space	79,000	--

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October 12, 2016

TO: Lee's Summit City Council
FROM: David Bushek
RE: Summary of Paragon Star TIF Agreement and Real Estate Agreements

This memorandum is a summary of some of the key features of the TIF Agreement and the Real Estate Agreements for transfer of the City-owned property in Redevelopment Project Area 1.

TIF Agreement

TIF Plan Implementation: This Agreement implements the TIF Plan as approved by the City Council. The budget attached to the TIF Agreement matches the budget as it appears in the TIF Plan. The financing structure that is described in the TIF Plan, and as previously discussed with the City Council when the TIF Plan was approved, will be carried out by this TIF Agreement.

Financing Structure: Private lending sources will finance construction of the sports complex. When the project as a whole is completed, bonds can be issued to provide for permanent financing of the sports complex. Only revenues bonds, repaid from TIF and CID revenues, will be issued. City general revenues will not be used to fund the sports complex.

Uses of Funding: The TIF Agreement controls the reimbursement process for the TIF-funded portions of the project, including the sports complex construction, site work for the sports complex area, public improvements including water, sanitary sewer and storm sewer, engineering and professional fees for the sports complex, and a portion of the developer fee for the sports complex construction.

Administrative Costs: The City's administrative costs will be funded from an Advanced Funds Account that is funded and replenished by Developer. After bonds are issued, funds will be drawn from the Special Allocation Fund on an annual basis to cover the City's administrative costs.

Reimbursement Process: The Developer will be required to submit reimbursement requests with proof that eligible costs have actually been incurred. Reimbursement requests will be reviewed and approved by City staff. Reimbursement will not be provided until City staff verifies that costs are eligible and adequate documentation has been provided. Interest will not start to accrue on reimbursable costs until the City certifies such costs for reimbursement. If bonds are issued by the City, all costs which are funded from bond proceeds will require the same approvals by the City.

Limitation on Reimbursement: The TIF Plan included an estimate of all project costs, including the sports complex and public improvements that will be funded from TIF revenues. The TIF Plan budget

estimated that the TIF-reimbursable project costs would be about \$13.14 million. The TIF Plan budget is incorporated into the TIF contract. The TIF Agreement will allow for an adjustment of the total amount of TIF reimbursement to account for actual construction bids when received by developer, up to 105% of TIF-reimbursable costs as projected in the budget. Any reimbursement above 105% of the TIF budget will require a new TIF Commission hearing and then Council approval.

City Approval of Land Transfers: No sale, transfer or other conveyance of any fee interest in the Property in the Redevelopment Area may be made without the prior written consent of the City. The City shall be notified by Developer in writing of the proposed sale of property in the Redevelopment Area prior to the proposed effective date of the sale, along with a copy of the instrument affecting such sale. The rights, duties and obligations of Developer under the TIF Contract run with the land and are binding upon the successors and assigns of Developer.

Easements on City Land: The City will grant temporary grading and construction easements for work to commence on the City land for the scheduled road improvements. The construction process will follow all normally-applicable City requirements and procedures for the construction of public improvements.

Compliance with Laws for Public Projects: The public components of the project which are funded from public sources, including TIF reimbursement, will comply with all laws which are applicable to public improvements and public works projects, including the payment of prevailing wages and public bidding. The CID and Developer will use the City forms and documents to arrange for and contract for the design and construction of the Sports Complex and the Public Improvements, which shall include advertisements, bid documents and bidding manual, notice of award forms, performance bonds, payment bonds, applications for payment, certificates of completion, statements of general conditions, payroll affidavits, lien waivers, changes orders and other similar documents associated with the construction of public improvement projects.

Real Estate Agreements

Summary: The City owns about 78 acres of property in Redevelopment Project Area 1. There are two real estate agreements for (1) the transaction with the CID for the sports complex property (Lots 1, 3, 4 and Tract A) and (2) the transaction with the Developer for the private commercial development (Lot 2). A map attached to this memo illustrates the land areas for the transactions: the blue area is the City-owned property, the green area is Lot 4 which will initially remain in City ownership, and the red area is Lot 2 which will be transferred to Developer and combined with Lot 5 for commercial development. The purchase price for the sports complex property (Lots 1, 3, 4 and Tract A) will be \$288,644, and the purchase price for the Lot 2 property will be \$588,956. The Lot 4 property may be transferred to the CID at a later date for the purchase price of \$128,886 if the City later decides to release that lot for use as part of the soccer complex.

Conditions: All of the conditions discussed with the City Council in March 2016 have been incorporated into the real estate agreements. The City Land (both transactions discussed above) will not be transferred until all of the following conditions have been satisfied –

- **TIF Contract and Real Estate Contract** – Fully executed
- **TDD** – Formation complete, cooperative agreement executed, sales tax imposed, bonds issued, construction contracts executed for road construction
- **City GO Bonds for Roads** – Expenditure of \$1 million authorized by City

- **Plat and Preliminary Development Plan** – Fully approved by City to create parcels for transfer
- **Grading Permits** – City has granted easement for grading on City property and permits issued
- **Wetlands Permits** – Issued to construct all improvements in Redevelopment Project 1
- **MoDOT Approvals and Contracts** – Authorized improvements to I-470 & View High Interchange
- **CID** – Operating, sales tax approved, cooperative agreement executed
- **CID Cooperative Agreement** – Will cover use of CID revenues and issuance of debt, process for identifying and selecting sports complex manager, process to manage and operate sports complex
- **Investor/Partner Commitments** – Documentation that investors/partners have approved budgets and binding commitments to commence construction upon delivery of pad sites
- **Private Investment for Private Development** – All steps necessary for closing on all private financing completed and closing on all private financing subject only to transfer of City property
- **Sports Complex Construction** – Plans for the sports complex completed, all funds necessary for construction are on deposit with a trustee or escrow agent, competitive and complete bid has been received or construction contract has been executed
- **Private Investment for Sports Complex** – The City has documentation that all steps necessary for closing on the private financing for the sports complex, by the appropriate investor/partner, has been completed and such closing is subject only to transfer of the City property to the CID
- **State Funding** – State funding approved or alternative private funding arranged and closing subject only to transfer of property to CID for sports complex
- **Restrictive Covenants** – Covenants recorded which limit use of portions of City property for sports complex
- **Building Permits** – Parties have coordinated for issuance of building permits for all development in Redevelopment Project Area 1
- **Jackson County Approvals** – County granted all necessary approvals to use all County-owned property

