



Memorandum

City of Lee's Summit

To: [License Tax Review Committee]

From: [George Binger, City Engineer]

CC: [Bette Wordelman, Josh Johnson, Michael Park,
Ryan Elam, Assistant City Manager, Mark Dunning, City Manager]

Date: [February 8, 2023]

Re: [FY 2022 License Tax Report]

[City Staff submits the following the FY22 update to the License Tax Review to provide a brief history of the tax, report building permit activity from July 1, 2021 to June 30, 2022; update the status of road projects funded by the license tax; present projections for building permit activities and license tax revenue projections; and solicit guidance from the Committee regarding.

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 any road projects throughout the City.

Funding is not intended to benefit site specific improvements, but the overall street network in all areas of the community. The tax is paid when building permits are issued for residential construction or when the certificate of occupancy is issued for commercial and industrial development.

The tax has been used to fund road projects identified in the Thoroughfare Master Plan (TFMP). The master plan has been updated on a regular basis to adjust for changing development patterns, traffic conditions, and updated projections. The original projects proposed in 1997 were identified in the 1995 TFMP, and those projects were completed by 2011. The TFMP was updated in 2005 and 2017. TFMP updates, increasing License Tax fund balances, and increased traffic demands caused by new developments created a need to evaluate new projects to be funded from the License Tax program.

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New projects recommended by the License Tax Committee can be added as part of annual Capital Improvement Planning process so that projects can be vetted through the public hearing process at Planning Commission and funded through the City Council budgetary process. This was the process used to add SE Browning Street, NW Main Street, and US-50/M-291 North Interchange projects into the current Capital Improvement Plan. A detailed list of the projects funded using the License Tax is presented in Appendix A.

The current tax rates are shown in Table 1. The current rates are below the \$2,116.00 rate that was authorized by voters when the tax was adopted in 1997, so rate adjustments below that amount do not require voter approval. The current rates include 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. City Council, based on a recommendation from the License Tax Committee, approved a 10% rate increase on non-residential development starting July 1, 2022 (fiscal year 2023). 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 2021-2022 (FY22) and FY23

Land Use Category	FY 22 License Tax	FY23 (current) License Tax
Residential	\$1,088 per new trip	\$1,088 per new trip
Manufacturing / Industrial	\$1,000 per new trip	\$1,100 per new trip
Commercial	\$ 750 per new trip	\$ 825 per new trip

Other Administrative Changes

The City Council passed a series of ordinances re-organizing various boards, commissions and committees that are appointed by the Mayor and Council. Those organization changes did not change the License Tax Committee. However, several administrative rules will be applied to the License Tax Committee. These rules will be found in Chapter 2, Article V, Division 1 of the City's Code of Ordinances.

Section 2-251 of the Ordinances establishes term limits that will apply to this committee. Members will be limited to 3 successive terms. Terms served prior to January 1, 2023 will not count towards the term limits. Currently, the License Tax ordinance sets each term at 2 years. However, this can be reviewed and amended to 3-year terms to match the terms of other appointed committees.

The appointment process to the License Tax Committee will follow Sections 2-251 and 2-257 of the Code of Ordinances. These rules call for people to submit an application to the mayor's office requesting initial appointment. Those currently serving would also have to submit an application to be considered for re-appointment.

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The other boards and commissions have 3-year terms. If the License Tax Committee would like to change the term currently in the License Tax ordinance, then the License Tax Review Committee should submit a formal recommendation to the City Council Rules Committee for consideration.

Current Status and Projections for Permitting Activity

The City issued 837 for residential living units in FY22, which was slightly more than 758 permits issued in FY21. FY22 had 358 living units permitted as part of multi-family projects and 479 single family living units permitted.

Going forward, projections are based on the population growth forecasts. So instead trying to differentiate among types of housing, and potential projects, City planning staff is basing future projections on population growth that would led to an increase demand for housing units. Based on this methodology, 500 to 600 residential permits were projected through 2031. This trend shows continued growth at a consistent rate through 2032. Figure 1 shows the building permit projections for residential units.

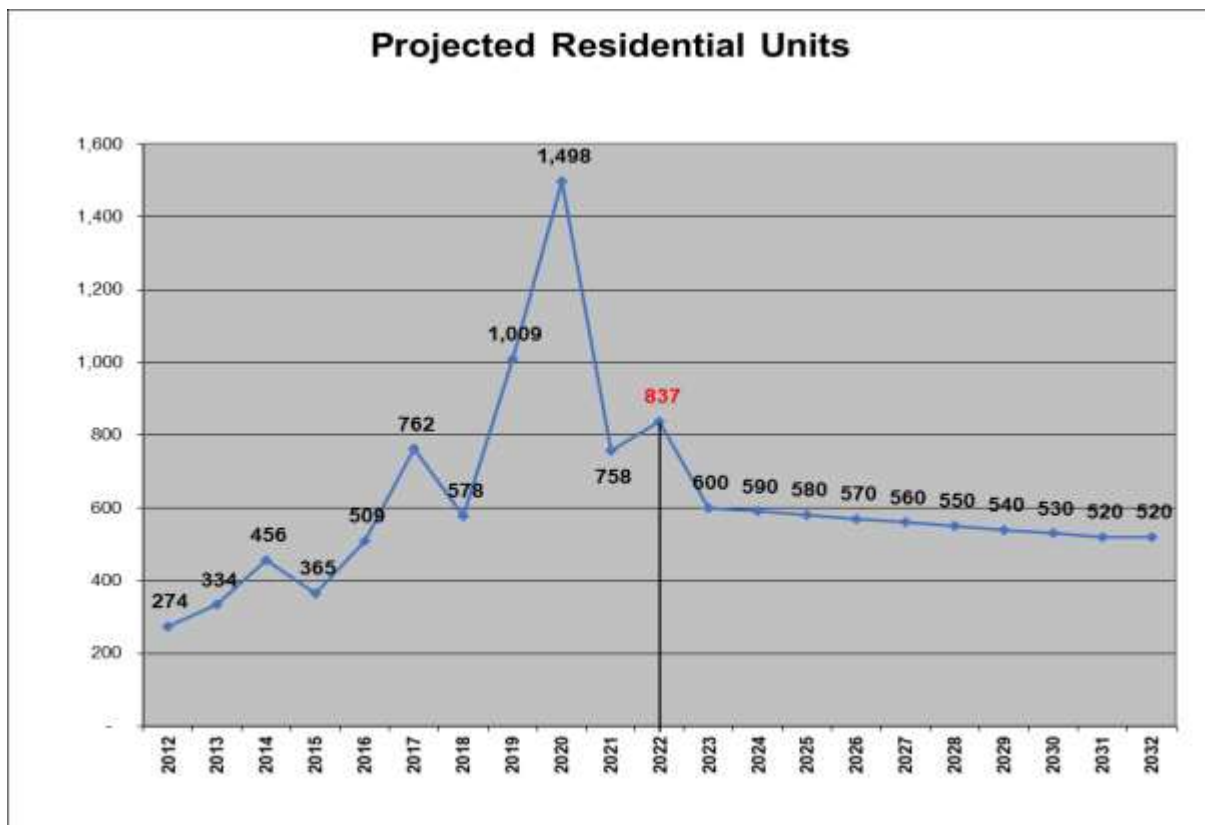


Figure 1: Projected Number of Residential Building Permits.

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Commercial and industrial permitting is reported based on the square footage of buildings added to the City's existing inventory. 725,457 square feet were permitted in 2022, which was the most permitted in the last ten years. Only 89,897 square feet were permitted in FY 2021. The total non-residential square footage permitted in FY2022 was composed of 604,494 square feet of commercial space and 120,953 square feet of industrial space.

The year-to-year volatility in non-residential permitting is typical. The annual building areas permitted fluctuates based on the timing of payments. The logistics center project currently under construction at NW Tudor Road and Main Street is projected to permit over 400,000 square feet of industrial space from one project in FY23. However, if construction is completed after June of 2023, the license tax revenue would be delayed until FY24. The City still receives the revenue, but the timing may change. Averages are generally used for planning and forecasting. The City permitted an average of 380,000 square feet of building over the past five years. Longer term, the projected average permitting is closer to 230,000 square feet per year. The project non-residential permitting is shown in Figure 2.

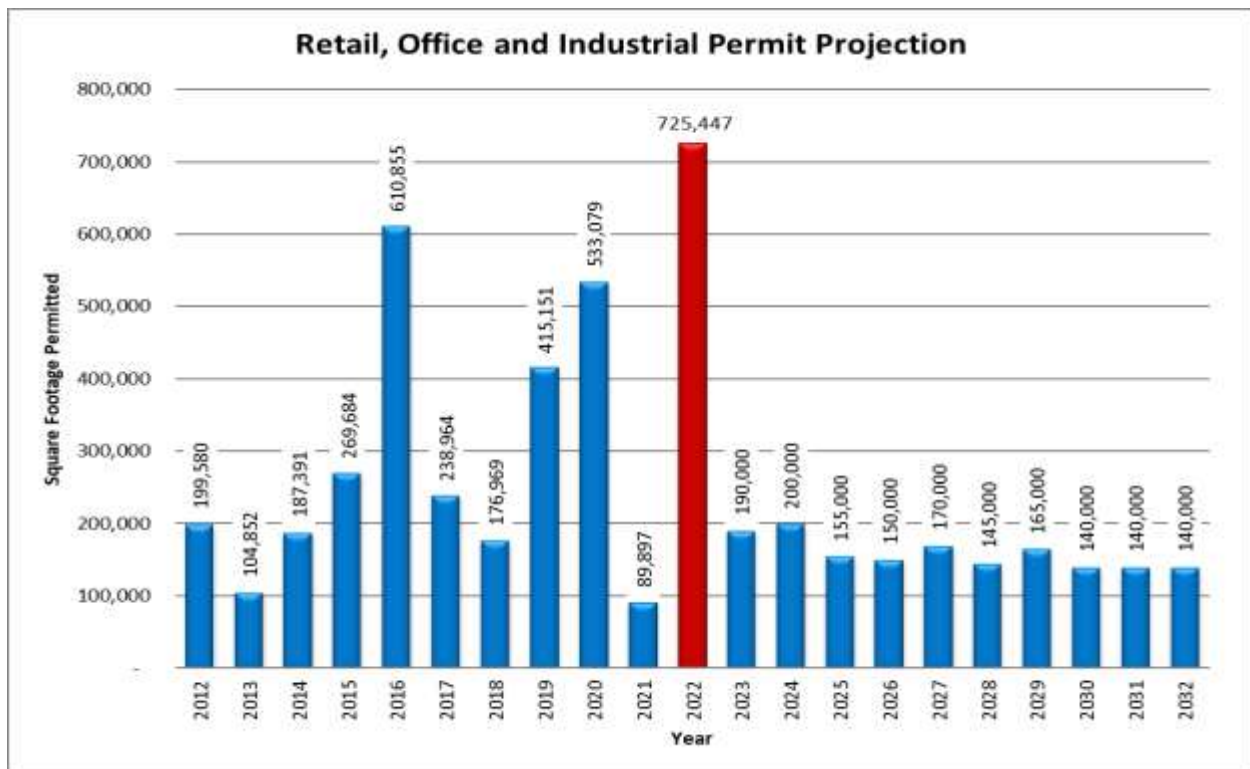


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

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Current Status and Projections for License Tax Fund Balances

The excise tax from permits generated \$1,431,300 of revenue. Expenses in FY22 were mostly for the Main Street project. FY22 saw a net increase in the License Tax Cash balance of \$611,800 that yielded a year-end cash balance of \$8,628,600. Capital projects in the FY22 CIP had programmed \$6,207,000 through the end of FY22, leaving \$2,422,000 in the License Tax Fund to be programmed for project in the FY23-26 CIP.

\$6, 207,000 million of license tax funding is currently programmed in the FY22 Capital Improvement Plan (CIP) to construct SE Browning Street, NW Main Street, and the M-291 North Interchange projects. The current balance, less expected revenues, and less the programmed money would create a projected available fund balance of about \$2,422,000 million available for programming in FY2023-27. Detailed revenue tables can be found in Appendix B.

The License Tax Committee forwarded a recommendation to program \$6M into the FY22 CIP for the M-291 North and US50 Interchange project. That recommendation was approved by City Council and Planning Commission as part of the CIP. The City's ability to show a committed source of local funds helped procure a \$9M state cost share grant for this project. Design work is underway. Right of way and easement acquisition will take place in 2023. Construction will start in 2024.

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 in 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 FY2027 or \$374,000.

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CIP funding for the M-291 North Interchange project was spread out over 5 years in the CIP. Currently the License Tax Fund contributions are programmed over 6 years from FY22 through FY27.

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 of 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. However, the combined License Tax, sales taxes dedicated to transportation, bond issues, and special assessment districts have been sufficient to improve the City's road networks in accordance with adopted goals and policies.

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 1.8% from 1997 through 2020. Thus far, the CPI has increased 10.0% in the Kansas City/Midwest region in 2021. The CCI has followed a similar pattern. The CCI averaged 3.1% from 1997 through 2020. The 2021 CCI is up 10.3% with the 3-year CCI averaging 5.0%.

The forecasts for 2022 indicate inflation to remain high. Recent construction bids solicited by the City have seen at least a ten percent increase in costs from last year, which is in with the industry forecasts and data. The Construction industry is expected to see inflation further increased due to passage of the Infrastructure Investment and Jobs Act. The large amount of federal money pumped into the construction industry will consume large portions of the supply of labor, equipment and materials, so construction costs to the City are expected to increase significantly. 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 and 2020 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.

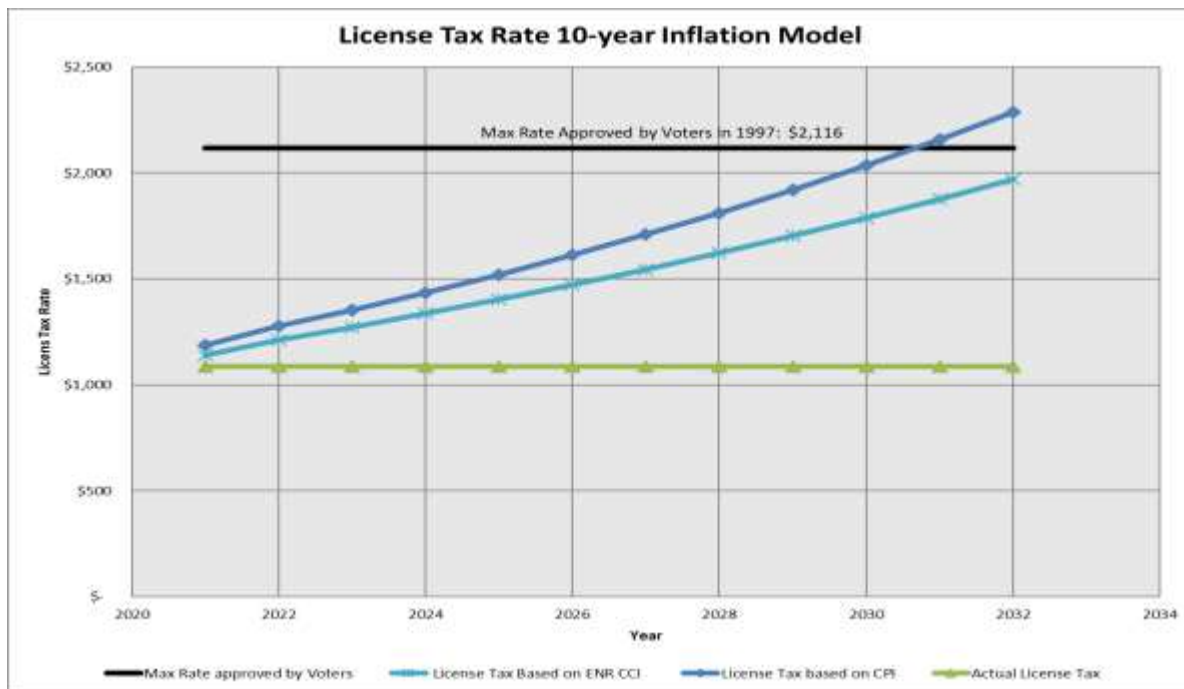


Figure 3: Future License Tax Rate Using a 5-year Average Inflation Rate

Lower Revenues per permit Due to Traffic Generation Standards

The nature of traffic has change from 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

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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 dining 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 2023, the ITE manual has fewer trips generated by a single home than in 1998. As a result of fewer trips, residential units currently generate a lower license taxes per permit in 2023 when compared to 1998, as shown in Figure 4. There have been no changes in the residential permit fees since 1998.

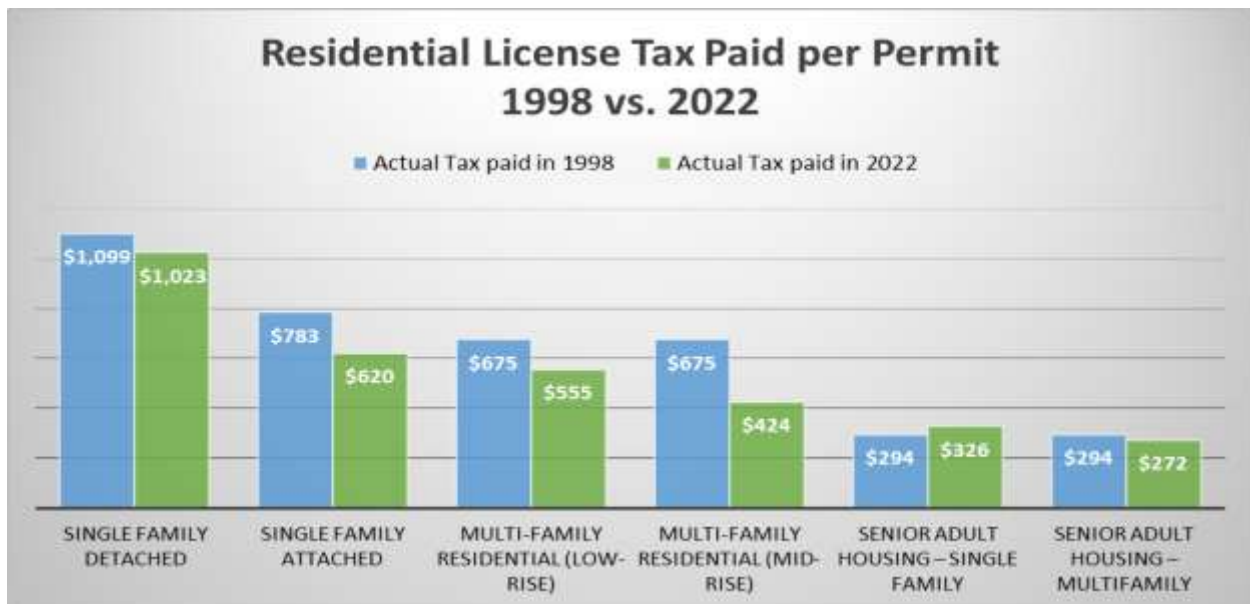


Figure 4: Less License Tax Paid Per Residential Permit in 2022 Compared to Initial License Tax in 1998

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

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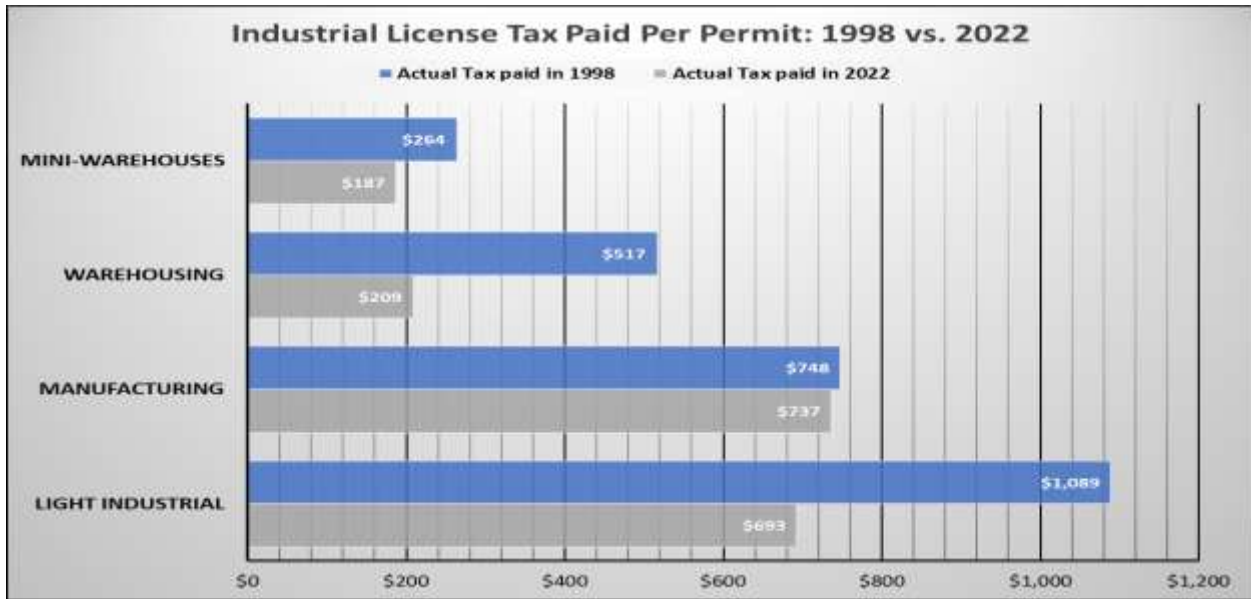


Figure 5: Less License Tax Paid Per Industrial Permit in 2022 Compared to Initial License Tax in 1998

Commercial license tax per permit in 2023 is higher than the 1998 levels. This includes several increases in the commercial fees. The main changes have come from significant increases in the number of trips generated by commercial activities. The ITE Manual also many types of businesses. As an examples, banks were split into walk-in bank, drive through only bank, 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 shop or day care, generate a much larger license tax than the big box stores. These commercial comparisons are shown in Figure 6.



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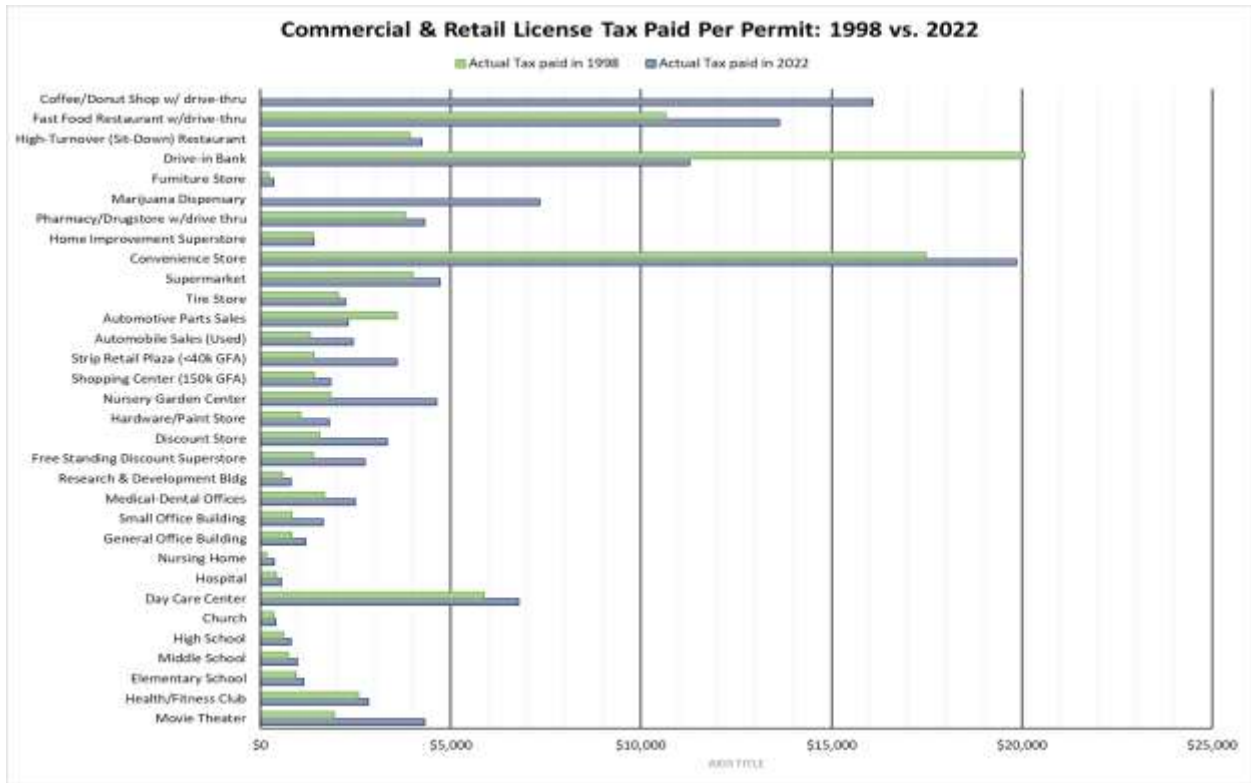


Figure 6: Commercial License Tax Showing Changes from 1998 to 2022

Status of Committee Recommendations from 2021 Report

The Committee recommended using License Tax funds to support the SE Browning Street, NW Main Street and the US-50/M-291 North Interchange projects.

SE Browning street is under construction, and scheduled to be completed in Spring/Summer of 2023. The NW Main Street project is complete.

The interchange project is currently in design. Olsson and Associates was selected as the Engineer for this project through a joint selection process that included City staff and MoDOT staff. The City has entered into agreements with the Lee’s Summit R7 School District, Missouri State Highway Patrol, MoDOT, and the State cost share agreement. More recently, the City was awarded an additional \$6.4 million in grant money through the Surface Transportation Block Grant Program administered through the Federal Highway Administration. The Highway Patrol facility relocation is scheduled to begin in the summer/fall of 2023 depending on State funding for the work. At this time, the initial \$6 million

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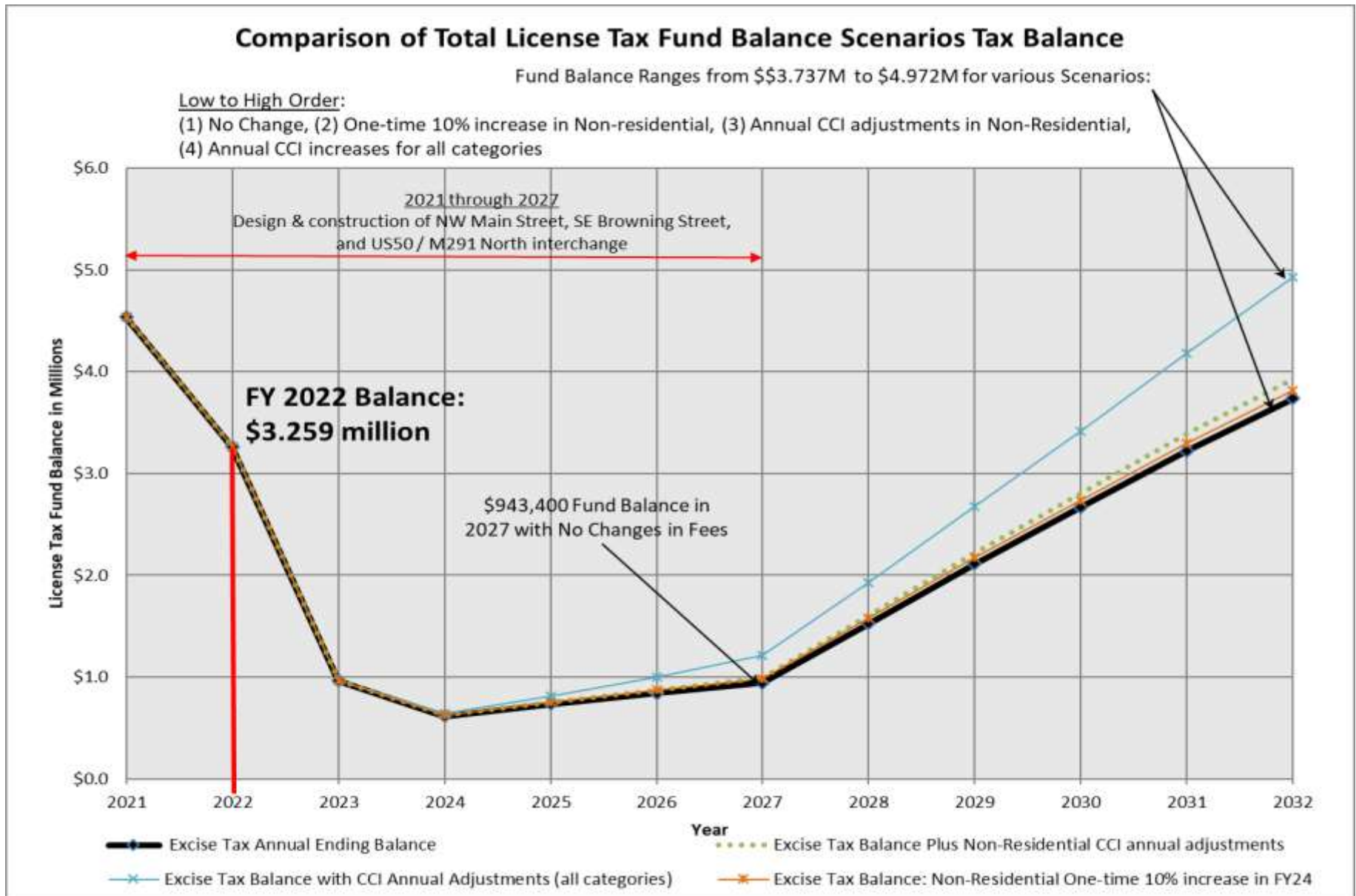
programmed for this project by the License Tax Committee has been leveraged to obtain \$16 million in state and federal grants for this project.

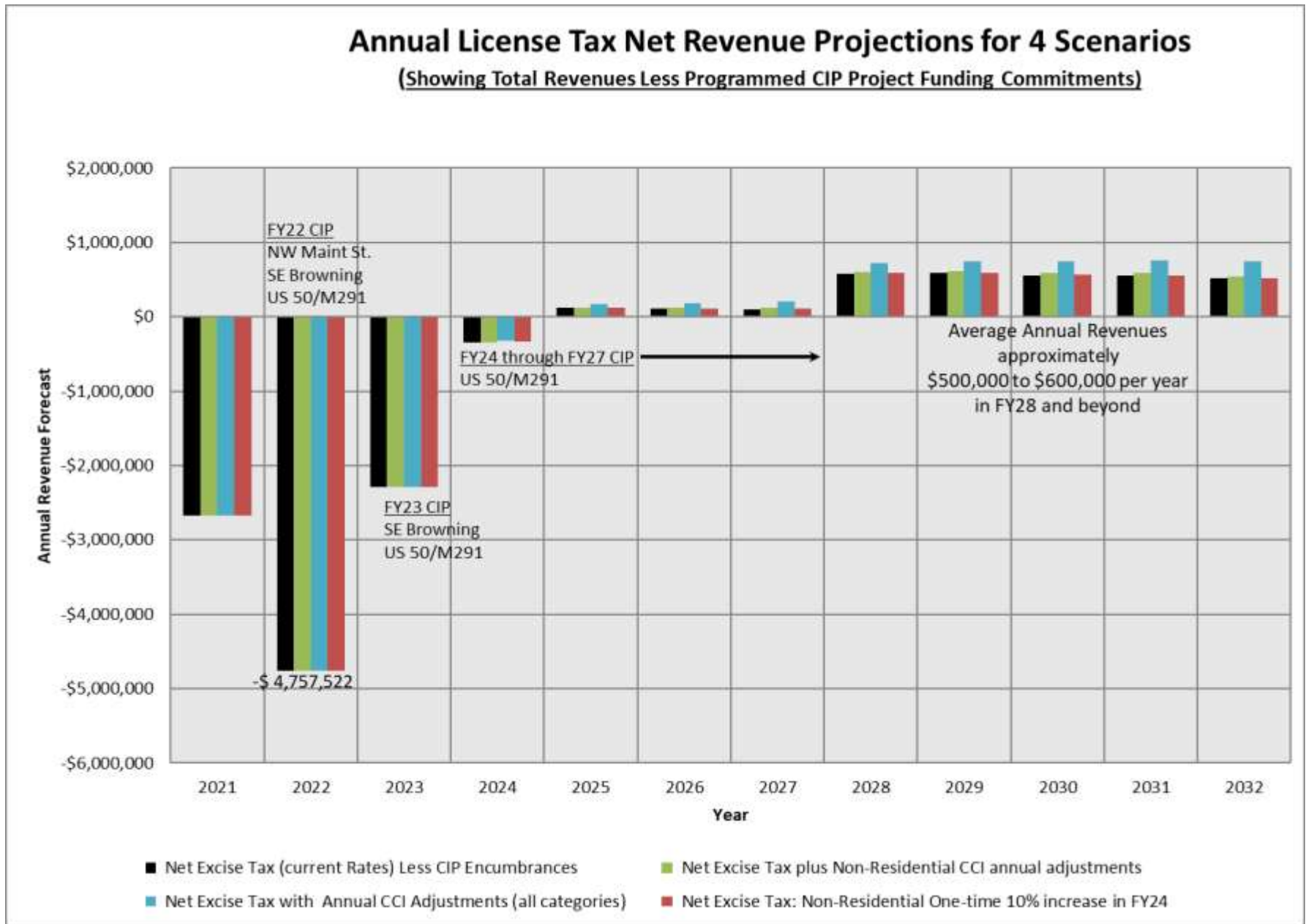
The committee also recommended a 10% rate increase for non-residential categories. This recommendation was approved by City Council on March 15, 2022 as Ordinance No.9365. The increased rates became effective at the start of FY23 on July 1, 2022.

APPENDIX A to FY 2022 LICENSE TAX REPORT: Status of Projects Funded with License Tax Revenues

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)	
License Tax Projects Currently Underway	
SE Browning Street (Oldham to Hamblen) <ul style="list-style-type: none"> • Construction underway • Contractor is Amino Brothers • Construction cost: \$3.524 million • Construction about 65% complete • Estimated completion in Summer 2023 	US-50 and M-291 North Interchange <ul style="list-style-type: none"> • Design Contract Awarded • CIP total project funding = \$22.5 million • Excise tax amount = \$6.0 million • Construction estimated to occur in 2024-2026 (includes facilities relocations)

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





APPENDIX B to FY 2022 LICENSE TAX REPORT: Total Fund Balance and Annual Revenue Comparisons if the tax is Increased

Fiscal Year	Net Excise Tax (current Rates) Less CIP Encumbrances	Net Excise Tax plus Non-Residential CCI annual adjustments	Annual Difference from existing rate with Repeat FY19 Increase	Net Excise Tax with Annual CCI Adjustments (all categories)	Annual Difference from existing rate with Annual CCI Adjustments	Net Excise Tax: Non-Residential One-time 10% increase in FY24	Annual Difference between Current and One-Time, 10% Non-Res Increase in FY24	Fiscal Year
2021	\$ (2,669,008)	\$ (2,669,008)	\$ -	\$ (2,669,008)	\$ -	\$ (2,669,008)	\$ -	2021
2022	\$ (4,757,522)	\$ (4,757,522)	\$ -	\$ (4,757,522)	\$ -	\$ (4,757,522)	\$ -	2022
2023	\$ (2,294,658)	\$ (2,294,658)	\$ -	\$ (2,294,658)	\$ -	\$ (2,294,658)	\$ -	2023
2024	\$ (347,675)	\$ (341,941)	\$ 5,734	\$ (320,427)	\$ 27,248	\$ (335,264)	\$ 12,411	2024
2025	\$ 117,476	\$ 127,074	\$ 9,598	\$ 170,342	\$ 52,866	\$ 127,673	\$ 10,197	2025
2026	\$ 104,901	\$ 119,057	\$ 14,156	\$ 184,310	\$ 79,409	\$ 114,743	\$ 9,842	2026
2027	\$ 104,087	\$ 124,732	\$ 20,645	\$ 212,190	\$ 108,103	\$ 114,644	\$ 10,557	2027
2028	\$ 583,989	\$ 607,699	\$ 23,710	\$ 717,571	\$ 133,582	\$ 593,512	\$ 9,523	2028
2029	\$ 584,971	\$ 616,176	\$ 31,205	\$ 748,661	\$ 163,690	\$ 595,210	\$ 10,239	2029
2030	\$ 559,160	\$ 585,970	\$ 26,810	\$ 741,258	\$ 182,098	\$ 564,409	\$ 5,249	2030
2031	\$ 549,565	\$ 584,424	\$ 34,859	\$ 762,684	\$ 213,119	\$ 557,844	\$ 8,279	2031
2032	\$ 516,069	\$ 540,268	\$ 24,199	\$ 745,548	\$ 229,479	\$ 521,146	\$ 5,077	2032
	Increased Revenues 2023-2032		\$ 190,916		\$ 1,189,594		\$ 81,374	

APPENDIX C to FY 2022 LICENSE TAX REPORT: City of Lee’s Summit License Tax Rates Compared to Economic Indexes and Other Communities

Avg. Change in CPI (%)	Year	License Tax based on CPI	Actual License Tax	Max Rate approved by Voters	KC Regional Consumer Price Index (1982 dollars) *	ENR KC Area Construction cost Index*** (1913 Dollars)	ENR CCI % change	License Tax Based on ENR CCI	Year
1.3%	1998	\$ 1,001	\$ 1,001	\$ 2,116	157.8	5981	1.2%	\$ 1,001	1998
1.5%	1999	\$ 1,016	\$ 1,001	\$ 2,116	160.1	6000	0.3%	\$ 1,004	1999
4.1%	2000	\$ 1,057	\$ 1,001	\$ 2,116	166.6	6221	3.7%	\$ 1,041	2000
3.4%	2001	\$ 1,092	\$ 1,001	\$ 2,116	172.2	6477	4.1%	\$ 1,084	2001
1.0%	2002	\$ 1,104	\$ 1,001	\$ 2,116	174.0	6782	4.7%	\$ 1,135	2002
1.7%	2003	\$ 1,123	\$ 1,001	\$ 2,116	177.0	6972	2.8%	\$ 1,167	2003
2.1%	2004	\$ 1,146	\$ 1,001	\$ 2,116	180.7	8020	15.0%	\$ 1,342	2004
2.5%	2005	\$ 1,175	\$ 1,001	\$ 2,116	185.3	8125	1.3%	\$ 1,360	2005
2.6%	2006	\$ 1,206	\$ 1,001	\$ 2,116	190.1	8705	7.1%	\$ 1,457	2006
2.3%	2007	\$ 1,234	\$ 1,031	\$ 2,116	194.5	8975	3.1%	\$ 1,502	2007
3.4%	2008	\$ 1,276	\$ 1,031	\$ 2,116	201.2	9392	4.6%	\$ 1,572	2008
-0.1%	2009	\$ 1,275	\$ 1,031	\$ 2,116	201.0	10027	6.8%	\$ 1,678	2009
2.2%	2010	\$ 1,303	\$ 1,031	\$ 2,116	205.4	10410	3.8%	\$ 1,742	2010
3.9%	2011	\$ 1,354	\$ 773	\$ 2,116	213.5	10495	0.8%	\$ 1,756	2011
2.3%	2012	\$ 1,386	\$ 1,031	\$ 2,116	218.5	10657	1.5%	\$ 1,784	2012
1.4%	2013	\$ 1,406	\$ 1,031	\$ 2,116	221.6	10896	2.2%	\$ 1,824	2013
0.5%	2014	\$ 1,413	\$ 1,031	\$ 2,116	222.7	10911	0.1%	\$ 1,826	2014
-0.2%	2015	\$ 1,410	\$ 1,088	\$ 2,116	222.3	10968	0.5%	\$ 1,836	2015
0.8%	2016	\$ 1,422	\$ 1,088	\$ 2,116	224.1	11286	2.9%	\$ 1,889	2016
1.5%	2017	\$ 1,443	\$ 1,088	\$ 2,116	227.4	11153	-1.2%	\$ 1,867	2017
0.7%	2018	\$ 1,453	\$ 1,088	\$ 2,116	229.0	11422	2.4%	\$ 1,912	2018
1.6%	2019	\$ 1,475	\$ 1,088	\$ 2,116	232.6	11481	0.5%	\$ 1,921	2019
1.3%	2020	\$ 1,495	\$ 1,088	\$ 2,116	235.7	11911	3.7%	\$ 1,993	2020
9.3%	2021	\$ 1,634	\$ 1,088	\$ 2,116	257.3	12498	4.9%	\$ 2,092	2021
8.2%	2022	\$ 1,767	\$ 1,088	\$ 2,116	276.6	13276	6.2%	\$ 2,222	2021
*Source: Bureau of Labor Statistics Mountain-Plains Information Office webpage, accessed October 2018									
https://www.bls.gov/regions/mountain-plains/mo_kansascity_msa.htm									
***Source: Engineering News Record (ENR) Construction Cost Index									
https://www.enr.com/economics/historical_indices/construction_cost_index_history									

APPENDIX C to FY 2022 LICENSE TAX REPORT: City of Lee’s Summit License Tax Rates Compared to Economic Indexes and Other Communities

year	Population	Median Home Values	5-year average					
2005		\$ 170,800						
2006		\$ 187,200						
2007		\$ 186,000						
2008		\$ 187,200						
2009			\$ 183,580					
2010	91,229	\$ 186,000	\$ 185,500					
2011	91,352	\$ 182,900	\$ 186,800					
2012	92,770	\$ 189,500	\$ 185,100					
2013	93,669	\$ 188,600	\$ 186,700		As of 2021:			
2014	94,927	\$ 190,100	\$ 187,420		38,500	housing units		
2015	95,068	\$ 200,300	\$ 190,280		76.40%	Owner occupied rate		
2016	96,076	\$ 209,100	\$ 195,520		\$1,786	Median cost with a mortgage		
2017	97,101	\$ 211,300	\$ 199,880		\$668	Median cost with NO mortgage		
2018	98,469	\$ 233,500	\$ 208,860		\$1,160	Median Rental cost		
2019	99,618	\$ 260,500	\$ 222,940					
2020	101,108	\$ 295,000	\$ 241,880					
2021	102,924	\$ 334,000	\$ 266,860					
NOTES:								
Median Home price data not available prior to 2000. Before 2000, Census data published every ten years.								
Current census data reports 2015-2019 running average								

