

Memorandum

City of Lee's Summit

To: [License Tax Review Committee]

From: [George Binger, City Engineer]

C: [Bette Wordelman, Victoria Nelson, Ryan Elam, Josh Johnson, Michael Park,
Mark Dunning, Assistant City Manager, Steve Arbo, City Manager]

Date: [December 9, 2021]

Re: [FY 2021 License Tax Report]

[City Staff submits the following the FY21 update to the License Tax Review to provide a brief history of the tax, report building permit activity from July 1, 2020 to June 30, 2021; 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, and a 5% rate increase on non-residential development in 2018. No rate adjustments were made this year.

Table 1: License Tax Rates for 2020-21 (FY21)

Land Use Category	License Tax
Residential	\$1,088 per new trip
Manufacturing / Industrial	\$1,000 per new trip
Commercial	\$ 750 per new trip

Current Status and Projections for Permitting Activity

The City issued 758 for residential living units in FY21, which was significantly less than the 1,498 permits issued in FY20. FY20 saw many permits issued for multi-family units. This relative surge in multifamily permits in FY19 and FY20 shows a high peak in residential permitting.

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, 700 to 800 residential permits were projected through 2030. This trend shows continued growth at a consistent rate through 2030. Figure 1 shows the building permit projections for residential units.

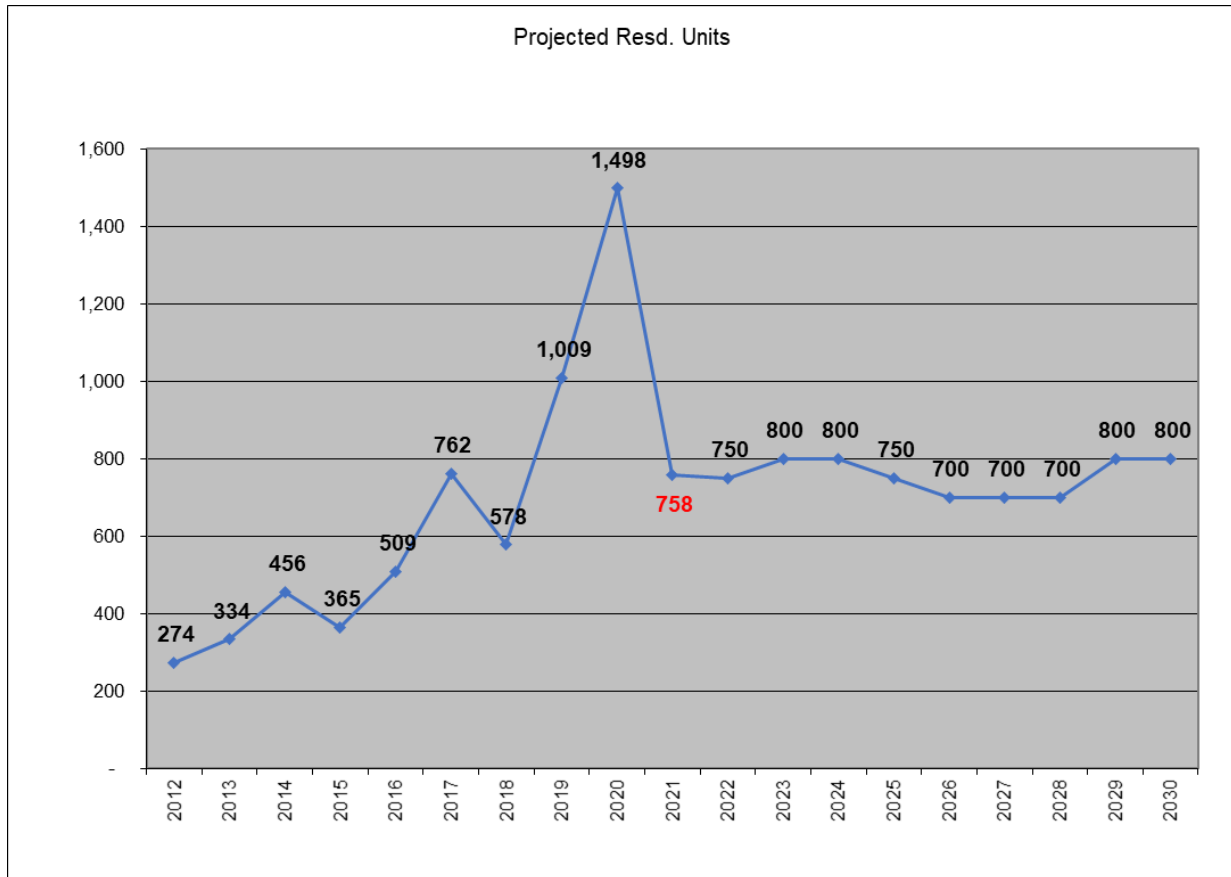


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City’s existing inventory. 89,897 square feet were permitted in 2021, which is less than the 533,076 square feet permitted in 2020. The total non-residential square footage permitted in FY2021 breaks down as follows: 3,885 square feet of office space, 58,914 square feet of retail, and 27,098 square feet of industrial space.

The logistics center project currently in the planning application process is projected to permit of 400,000 square feet of industrial space in one project in FY22. The active projects for FY21 and FY22 for will average about 325,000 square feet per year, which is double the average amount projected last year.

Commercial and industrial permits are forecast to peak in FY22, and then continue relative flat with permits averaging about 165,000 square feet for the next 8 years. These projected activities are illustrated in Figure 2.

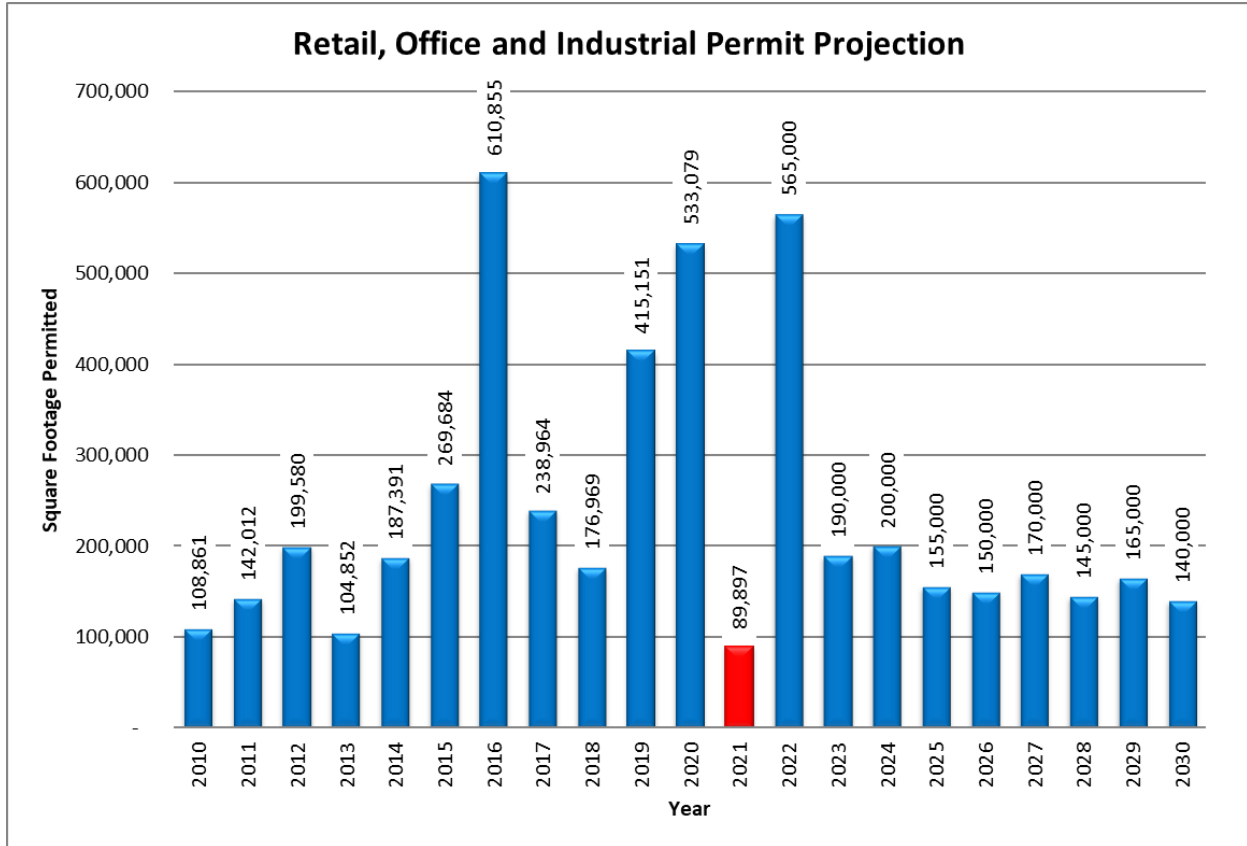


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

Current Status and Projections for License Tax Fund Balances

The license tax generated \$1,701,000 of revenue for FY 2021. The combination of expenses and funding commitment totaled \$4.370 million. The net FY21 reduction of -\$2.669 million yielded a year-end fund balance of \$4.535 million. Based on currently active development projects, FY 2022 license tax net revenues are forecast to be about \$687,000 of revenue by the end of this fiscal year for June 30, 2022.

\$6.207 million of license tax funding is currently programmed in the 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 \$3.21 million available for programming in FY2023.*** Detailed revenue tables can be found in Appendix B.

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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 will begin in 2022.

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.

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.

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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%.

The forecasts for 2022 indicate inflation to remain high. 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. Recent construction bids solicited by the City have seen at least a ten percent increase in costs, which is in with the industry forecasts and data.

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
2020	\$1,088.00	\$1,632.00	\$2,138.00	\$2,116.00

The current License Tax for residential rates lags 50% below the CPI and 96% below the CCI. However, historical adjustments for the CCI would exceed the voter approved maximum.

Looking forward, increasing the current license annually to account for inflation would still yield a tax rate in 2030 that is below the voter approved limit. This forecast is based on increasing the tax rate the 5-year average of recent inflation. This inflation scenario is illustrated in Figure 3. Appendix C presents detailed license tax rates adjusted for CPI data and CCI data.

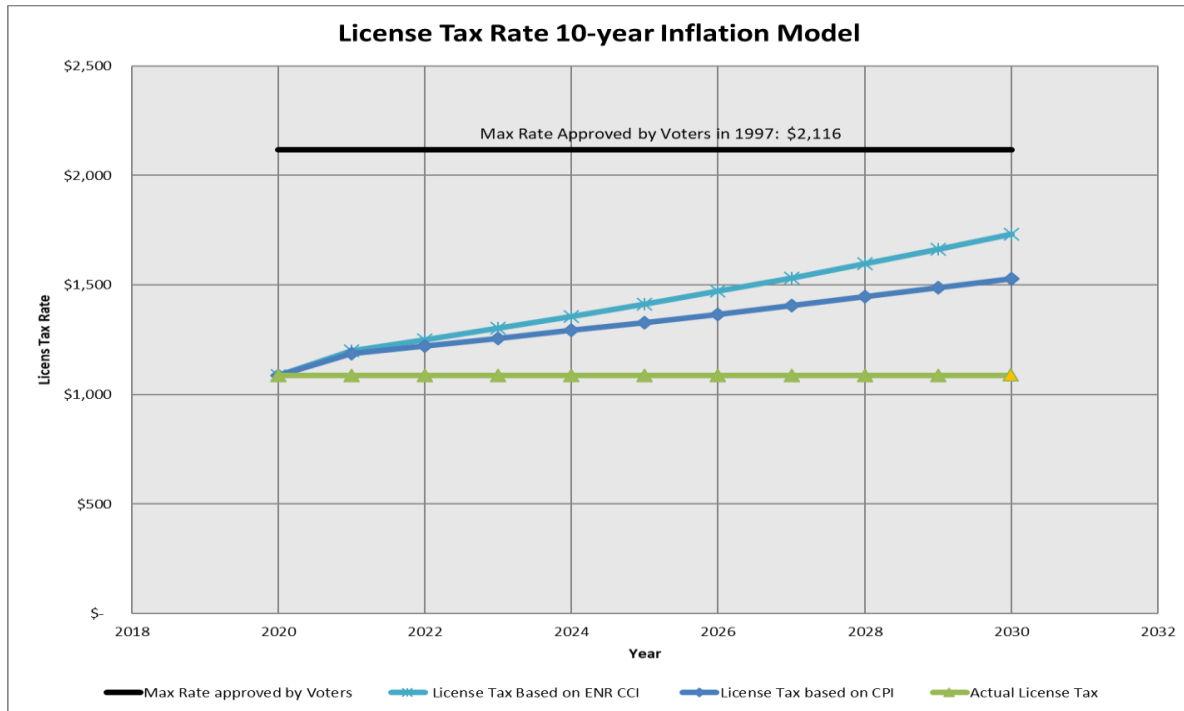


Figure 3: Future License Tax Rate Using a 5-year Average Inflation Rate

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.

The City is starting to experience the effects of inflation. Project costs are increasing and projects are taking longer to complete is starting to affect construction costs. Raw material pricing, transportation costs, fuel prices, and labor shortages have affected projects under construction and bid prices. Passage of the federal infrastructure bill is expected to further aggravate these supply issues, and thus further inflate construction costs. The City encountered these inflationary pressures on the NW Main Street that will require adding \$510,000 to the project budget in the FY23 CIP.

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Status of Committee Recommendations from 2020 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.

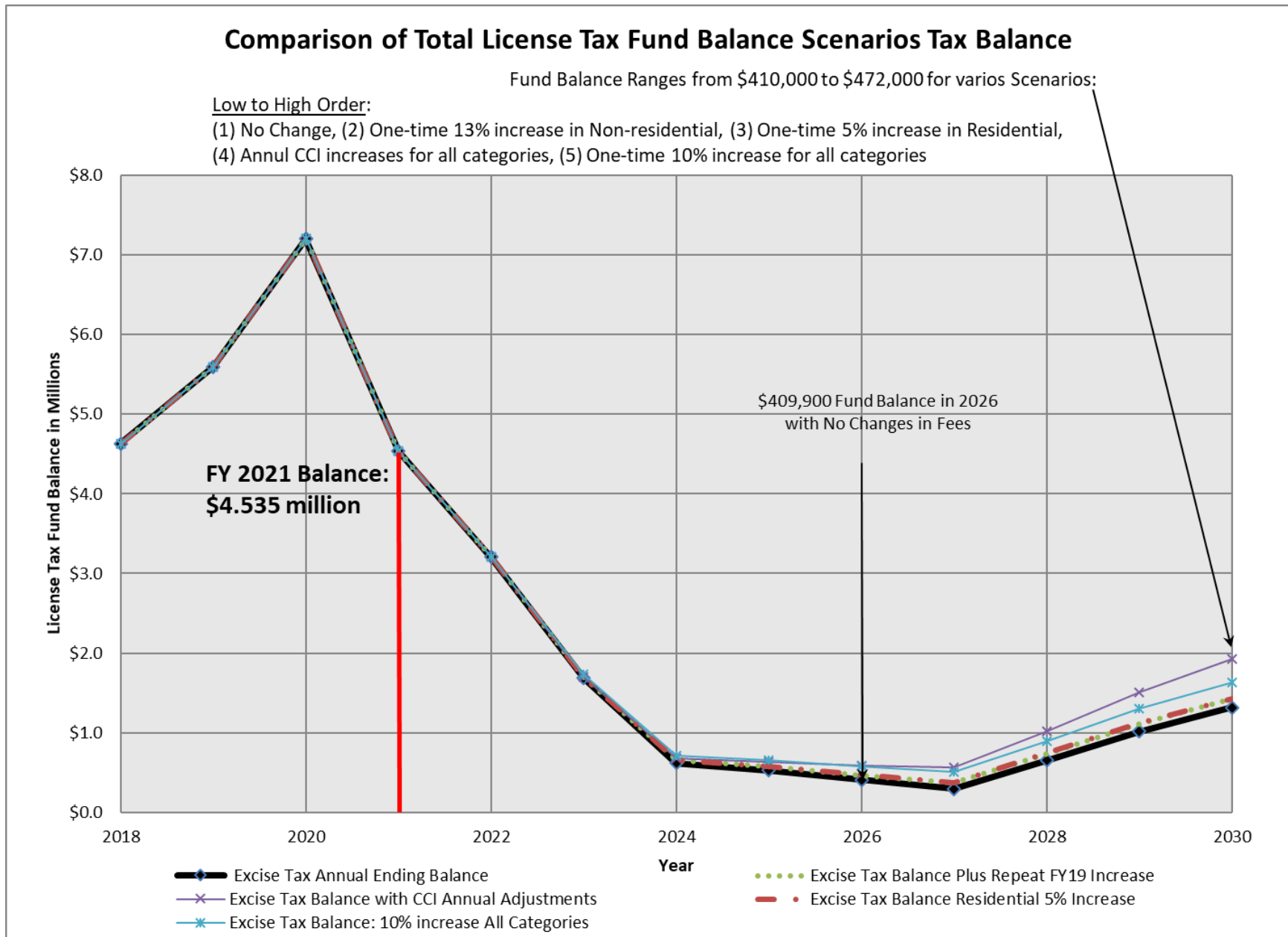
SE Browning street has final plans completed, but it still working with the Union Pacific Railroad to purchase right of way. City Council has authorized condemnation if needed. The NW Main Street construction contract was awarded to VF Anderson. Utility relocation work will take place through winter of 2021-22. Street construction will take place from March through October 2022.

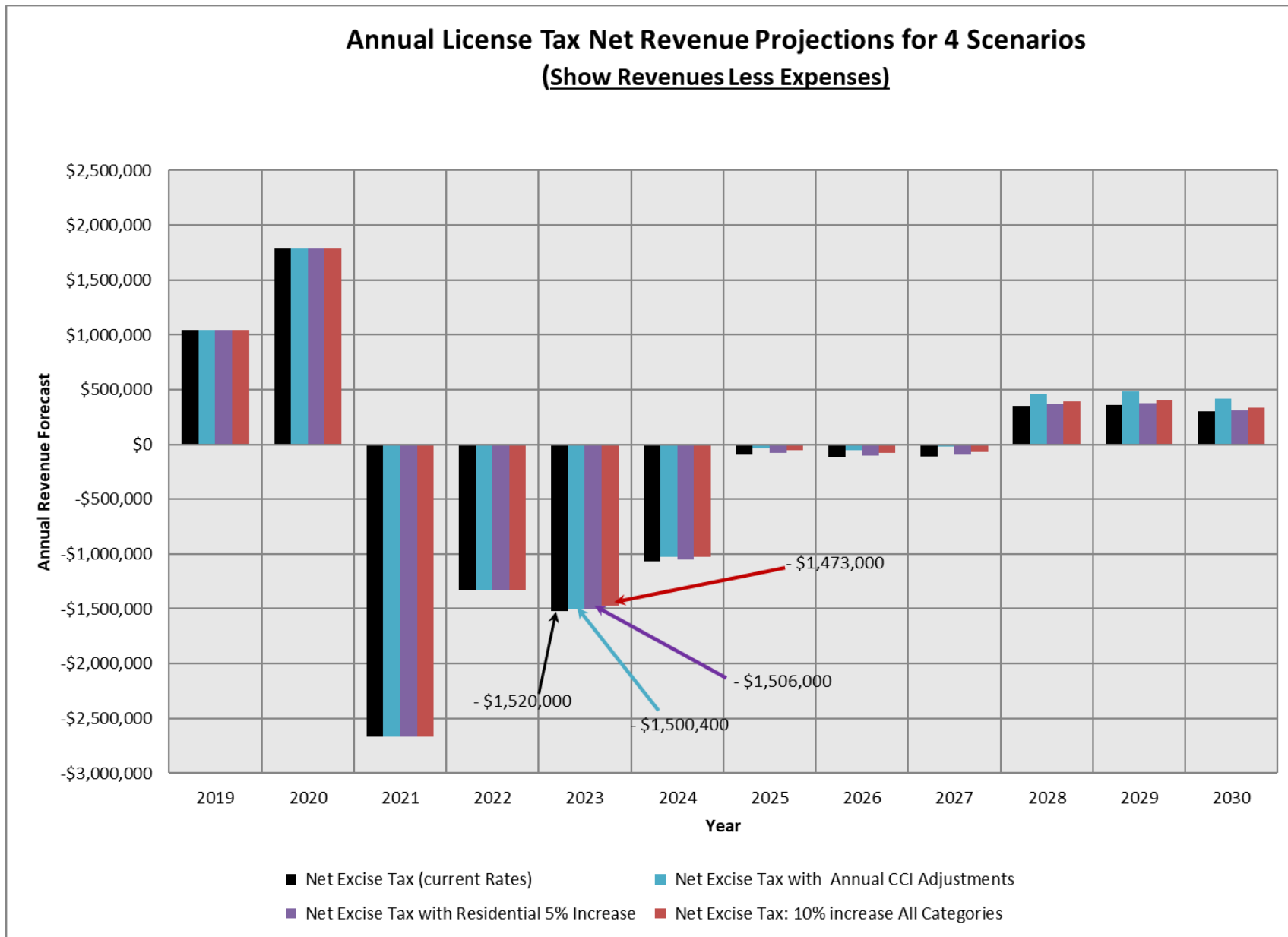
The interchange project has completed preliminary work by negotiating agreements and plan concepts with the Lee's Summit R7 School District, Missouri State Highway Patrol, MoDOT, and the State cost share agreement. Design work will begin in 2022.

APPENDIX A to FY 2021 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)
License Tax Projects Currently Underway	
SE Browning Street (Oldham to Hamblen) <ul style="list-style-type: none"> • Added to CIP in FY 2019 • Design complete • Working Right of way acquisition with railroad • Construct in 2021 	NW Main Street (Chipman to Commerce) <ul style="list-style-type: none"> • Construction Contract Awarded (\$1.67M) • CIP funding = \$1.54M • Total required about \$2.05 • Add \$510,000 budget from fund 323 as part of the annual CIP process
US-50 and M-219 North Interchange: License tax funding programmed into Capital Improvement Plan for FY2022 – FY2027	

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 2021 LICENSE TAX REPORT: Total Fund Balance and Annual Revenue Comparisons if the tax is Increased

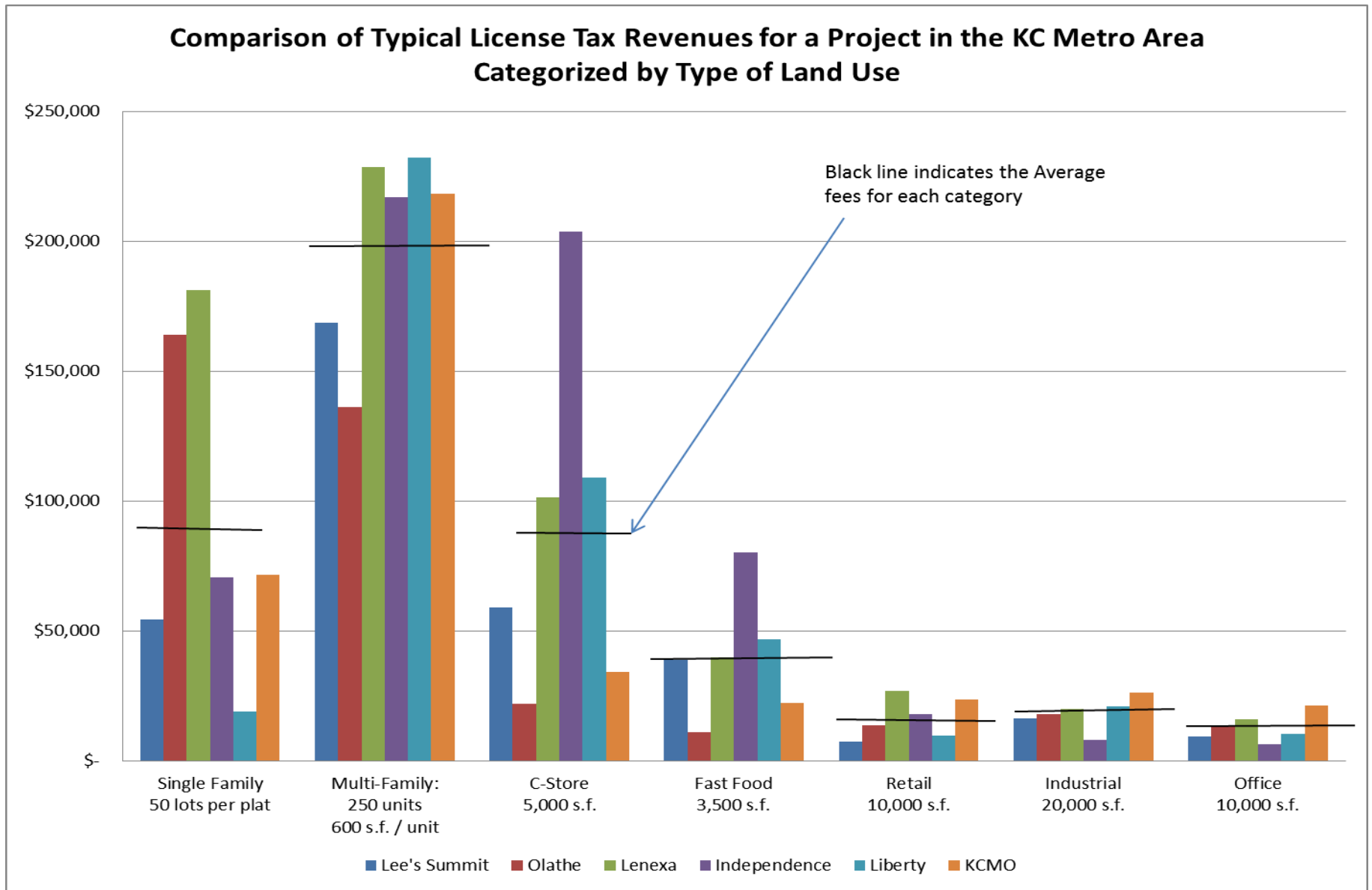
Comparison of Annual Excise Tax Revenues Models										
Fiscal Year	Net Excise Tax (current Rate)	Net Excise Tax plus Repeat FY19 Increase	Annual Difference from existing rate with Repeat FY19 Increase	Net Excise Tax with Annual CCI Adjustment	Annual Difference from existing rate with Annual CCI Adjustment	Net Excise Tax with Residential 5% Increase	Annual Difference from existing rate with Residential 5% increase	Net Excise Tax: 10% increase All Categories	Annual Difference from existing rate with All Categories 10% increase	Fiscal Year
2019	\$ 1,046,583	\$ 1,046,583	\$ -	\$ 1,046,583	\$ -	\$ 1,046,583	\$ -	\$ 1,046,583	\$ -	2019
2020	\$ 1,783,911	\$ 1,783,911	\$ -	\$ 1,783,911	\$ -	\$ 1,783,911	\$ -	\$ 1,783,911	\$ -	2020
2021	\$ (2,669,008)	\$ (2,669,008)	\$ -	\$ (2,669,008)	\$ -	\$ (2,669,008)	\$ -	\$ (2,669,008)	\$ -	2021
2022	\$ (1,328,458)	\$ (1,328,458)	\$ -	\$ (1,328,458)	\$ -	\$ (1,328,458)	\$ -	\$ (1,328,458)	\$ -	2022
2023	\$ (1,520,019)	\$ (1,504,326)	\$ 15,693	\$ (1,500,364)	\$ 19,655	\$ (1,502,656)	\$ 17,363	\$ (1,473,223)	\$ 46,796	2023
2024	\$ (1,065,728)	\$ (1,049,535)	\$ 16,193	\$ (1,028,949)	\$ 36,779	\$ (1,050,471)	\$ 15,257	\$ (1,022,757)	\$ 42,971	2024
2025	\$ (92,327)	\$ (79,013)	\$ 13,314	\$ (38,864)	\$ 53,463	\$ (77,013)	\$ 15,314	\$ (51,456)	\$ 40,871	2025
2026	\$ (118,317)	\$ (105,464)	\$ 12,853	\$ (49,979)	\$ 68,338	\$ (104,031)	\$ 14,286	\$ (79,856)	\$ 38,461	2026
2027	\$ (111,967)	\$ (98,182)	\$ 13,785	\$ (23,022)	\$ 88,945	\$ (97,627)	\$ 14,340	\$ (72,683)	\$ 39,284	2027
2028	\$ 355,177	\$ 367,618	\$ 12,441	\$ 455,313	\$ 100,136	\$ 368,485	\$ 13,308	\$ 391,364	\$ 36,187	2028
2029	\$ 363,303	\$ 376,673	\$ 13,370	\$ 485,115	\$ 121,812	\$ 376,661	\$ 13,358	\$ 400,305	\$ 37,002	2029
2030	\$ 300,966	\$ 311,749	\$ 10,783	\$ 418,623	\$ 117,657	\$ 312,205	\$ 11,239	\$ 331,737	\$ 30,771	2030
2031	\$ 269,770	\$ 280,203	\$ 10,433	\$ 390,728	\$ 120,958	\$ 281,051	\$ 11,281	\$ 297,424	\$ 27,654	2031
2032	\$ 227,376	\$ 237,849	\$ 10,473	\$ 342,802	\$ 115,426	\$ 236,528	\$ 9,152	\$ 250,793	\$ 23,417	2032
2033	\$ 228,228	\$ 238,741	\$ 10,513	\$ 358,120	\$ 129,892	\$ 237,415	\$ 9,187	\$ 251,733	\$ 23,505	2033
2034	\$ 256,256	\$ 264,697	\$ 8,441	\$ 418,602	\$ 162,346	\$ 267,648	\$ 11,392	\$ 282,566	\$ 26,310	2034
2035	\$ 231,173	\$ 239,647	\$ 8,474	\$ 392,818	\$ 161,645	\$ 241,305	\$ 10,132	\$ 254,978	\$ 23,805	2035
Increased Revenues 2020-2036			\$ 156,766		\$ 1,297,052		\$ 165,609		\$ 437,034	

APPENDIX C to FY 2021 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) *	Year	ENR Construction cost Index*** (1913 Dollars)	ENR CCI % change	License Tax Based on ENR CCI	
	1997				155.8	1997	5826			
1.3%	1998	\$ 1,001	\$ 1,001	\$ 2,116	157.8	1998	5920	1.6%	\$ 1,001	
1.5%	1999	\$ 1,016	\$ 1,001	\$ 2,116	160.1	1999	6059	2.3%	\$ 1,025	
4.1%	2000	\$ 1,057	\$ 1,001	\$ 2,116	166.6	2000	5221	-13.8%	\$ 883	
3.4%	2001	\$ 1,092	\$ 1,001	\$ 2,116	172.2	2001	6343	21.5%	\$ 1,073	
1.0%	2002	\$ 1,104	\$ 1,001	\$ 2,116	174.0	2002	6538	3.1%	\$ 1,105	
1.7%	2003	\$ 1,123	\$ 1,001	\$ 2,116	177.0	2003	6694	2.4%	\$ 1,132	
2.1%	2004	\$ 1,146	\$ 1,001	\$ 2,116	180.7	2004	7115	6.3%	\$ 1,203	
2.5%	2005	\$ 1,175	\$ 1,001	\$ 2,116	185.3	2005	7446	4.7%	\$ 1,259	
2.6%	2006	\$ 1,206	\$ 1,001	\$ 2,116	190.1	2006	7751	4.1%	\$ 1,311	
2.3%	2007	\$ 1,234	\$ 1,031	\$ 2,116	194.5	2007	7966	2.8%	\$ 1,347	
3.4%	2008	\$ 1,276	\$ 1,031	\$ 2,116	201.2	2008	8310	4.3%	\$ 1,405	
-0.1%	2009	\$ 1,275	\$ 1,031	\$ 2,116	201.0	2009	8570	3.1%	\$ 1,449	
2.2%	2010	\$ 1,303	\$ 1,031	\$ 2,116	205.4	2010	8799	2.7%	\$ 1,488	
3.9%	2011	\$ 1,354	\$ 773	\$ 2,116	213.5	2011	9070	3.1%	\$ 1,534	
2.3%	2012	\$ 1,386	\$ 1,031	\$ 2,116	218.5	2012	9308	2.6%	\$ 1,574	
1.4%	2013	\$ 1,406	\$ 1,031	\$ 2,116	221.6	2013	9547	2.6%	\$ 1,614	
0.5%	2014	\$ 1,413	\$ 1,031	\$ 2,116	222.7	2014	9806	2.7%	\$ 1,658	
-0.2%	2015	\$ 1,410	\$ 1,088	\$ 2,116	222.3	2015	10035	2.3%	\$ 1,697	
0.8%	2016	\$ 1,422	\$ 1,088	\$ 2,116	224.1	2016	10338	3.0%	\$ 1,748	
1.5%	2017	\$ 1,443	\$ 1,088	\$ 2,116	227.4	2017	10737	3.9%	\$ 1,815	
0.7%	2018	\$ 1,453	\$ 1,088	\$ 2,116	229.0	2018	11062	3.0%	\$ 1,870	
1.6%	2019	\$ 1,475	\$ 1,088	\$ 2,116	232.6	2019	11281	2.0%	\$ 1,907	
1.3%	2020	\$ 1,495	\$ 1,088	\$ 2,116	235.7	2020	11465	1.6%	\$ 1,939	
9.2%	2021	\$ 1,632	\$ 1,088	\$ 2,116	257.3	2021	12647	10.3%	\$ 2,138	
*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										
5-year average CPI =		1.8%			5-year average CIP =			3.1%		

APPENDIX C to FY 2021 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 2019:				
2014	94,927	\$ 190,100	\$ 188,200	\$ 187,420	38,500	housing units			
2015	95,068	\$ 200,300	\$ 191,300	\$ 190,280	77.90%	Owner occupied rate			
2016	96,076	\$ 209,100	\$ 191,300	\$ 195,520	\$1,636	Median cost with a mortgage			
2017	97,101	\$ 211,300	\$ 195,900	\$ 199,880	\$618	Median cost with NO mortgage			
2018	98,919	\$ 233,500	\$ 210,400	\$ 208,860	\$1,015	Median Rental cost			
2019	99,290	\$ 260,500	\$ 223,700	\$ 222,940					
2020	101,108								
2021	2020, 2021 ACS data not available as of 11/25/2021: census not publishing ACS due to COVID anomalies								
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									
Mean value of housing, 2105-1019		https://www.census.gov/quickfacts/leessummitcitymissouri							



APPENDIX C to FY 2021 LICENSE TAX REPORT: City of Lee's Summit License Tax Rates Compared to Economic Indexes and Other Communities

11/6/2018 Data - Comparison of Fees							
	1,800 s.f. Assumes 50 lots per platted phase	250 Units @ 600 s.f. ea.	5,000 s.f.	3,500 s.f.	10,000 s.f.	20,000 s.f.	10,000 s.f.
	Single Family 50 lots per plat	Multi-Family: 250 units 600 s.f. / unit	C-Store 5,000 s.f.	Fast Food 3,500 s.f.	Retail 10,000 s.f.	Industrial 20,000 s.f.	Office 10,000 s.f.
Lee's Summit	\$ 54,400.00	\$ 168,640.00	\$ 58,931.40	\$ 38,916.90	\$ 7,244.60	\$ 16,153.50	\$ 9,328.00
Olathe	\$ 164,000.00	\$ 136,200.00	\$ 21,808.00	\$ 10,904.00	\$ 13,630.00	\$ 17,984.00	\$ 13,630.00
Lenexa	\$ 181,150.00	\$ 228,550.00	\$ 101,500.00	\$ 39,715.00	\$ 26,950.00	\$ 19,987.40	\$ 16,030.00
Independence	\$ 70,700.00	\$ 217,000.00	\$ 203,630.00	\$ 80,017.00	\$ 17,780.00	\$ 8,010.00	\$ 6,165.00
Liberty	\$ 18,950.00	\$ 232,250.00	\$ 109,050.00	\$ 46,550.00	\$ 9,500.00	\$ 20,800.00	\$ 10,300.00
KCMO	\$ 71,500.00	\$ 218,250.00	\$ 34,240.00	\$ 22,351.00	\$ 23,424.00	\$ 26,200.00	\$ 21,060.00
	Office - General Office						
	Retail - Specialty Retail		Assumes that	50	residential units permitted in average plat		
	Industrial - Light Industrial						
Averages	\$ 93,450.00	\$ 200,019.17	\$ 88,684.33	\$ 40,066.62	\$ 16,481.81	\$ 18,323.76	\$ 12,829.90
Median	\$ 71,100.00	\$ 217,625.00	\$ 81,688.99	\$ 40,288.87	\$ 15,705.00	\$ 18,985.70	\$ 11,965.00