

Memorandum

City of Lee's Summit

To: [License Tax Review Committee]

From: [George Binger, City Engineer]

C: [Bette Wordelman, Darlene Picket, Heping Zhan, Ryan Elam, Dena Mezger;
Christal Weber, Assistant City Manager, Steve Arbo, City Manager]

Date: [November 29, 2018]

Re: [FY 2018 License Tax Report]

[City Staff submits the following the FY18 update to the License Tax Review to provide a brief history of the tax, report building permit activity from January 1 to December 31, 2017; 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, or sometimes called excise 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 fee for each project. The license tax acts as a transportation impact fee to help fund the expansion of the City's street system needed to support traffic generated by new development. 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. 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

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Planning Commission and funded through the City Council budgetary process. This was the process used to add SE Browning Street to the FY 2019 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.

Table 1: License Tax Rates for 2018-19 (FY19)

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 Future Revenues

The City issued 762 permits for residential dwelling units in 2017, which was significantly more than the 509 permits issued in 2016. 2017 is projected to be the peak activity based on land current available for development.

2018 and 2019 projections estimate 500 to 600 residential permits. Starting in 2020-21, the residential construction activity is expected to gradually decline over the next 10 years. This peak is included multi-family units currently under construction. Activity is expected to be equal or greater than 400 residential units per year for the next 3 to 5 years.

Growth may flatten sometime after 2022 because new construction is expected to use most of the existing inventory of platted land or easily developable land. Work beyond those years will become more difficult to develop due to the increased infrastructure costs associated with more challenging land areas. Figure 1 shows the building permit projections for residential units.

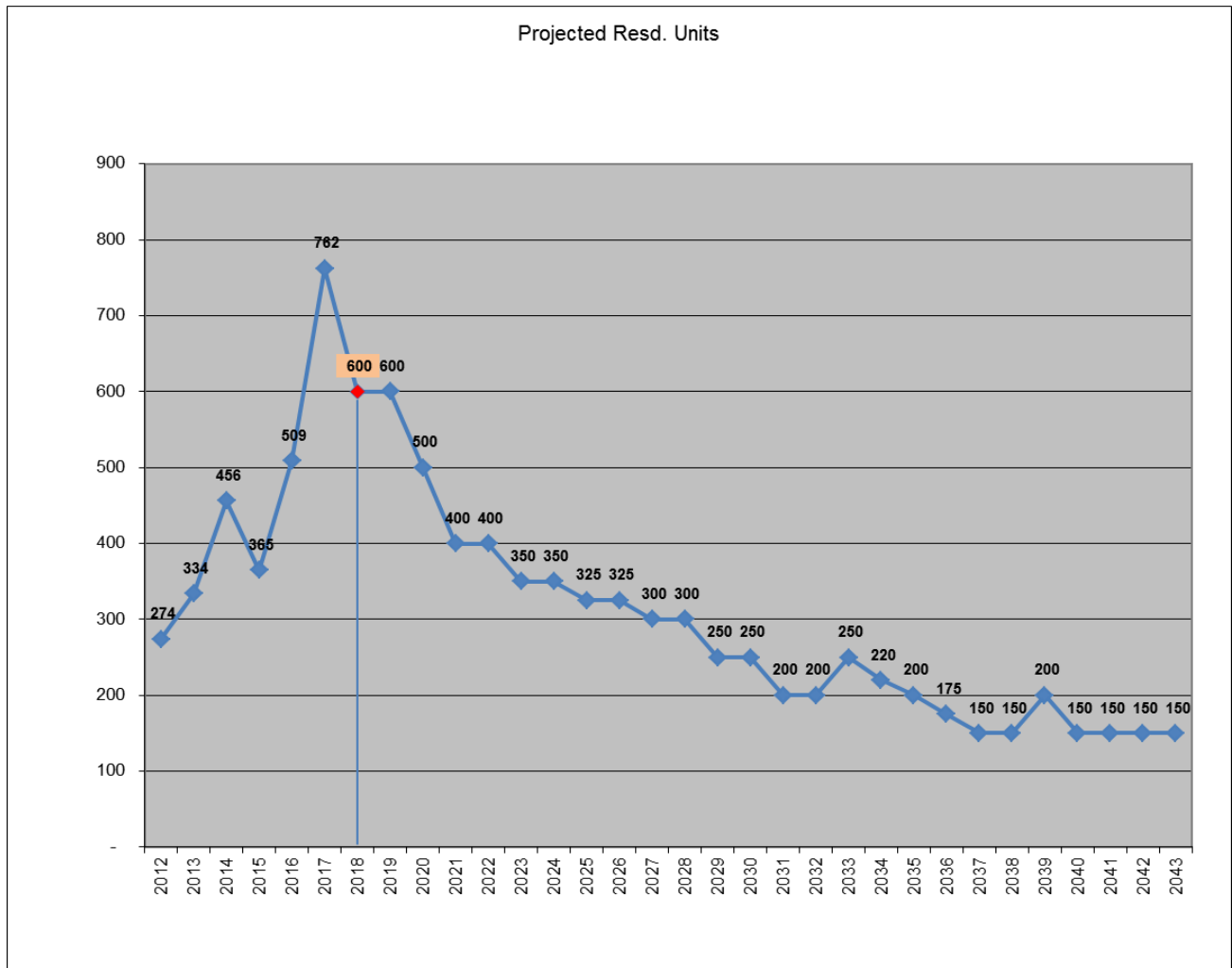


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City’s existing inventory. 113,000 square feet were permitted in 2017, which is significantly less than the 610,855 square feet permitted in 2016. Office and Industrial permit volumes in 2017 were each about 80% of the square footage permitted in the previous year.

Commercial and industrial is forecast to be lower this year, move up for two to four years, and then decline gradually starting in 2023. Commercial square footage construction is expected to be less than 150,000 square feet per starting in 2023. The peaks and downward trends are shown in Figure 2.



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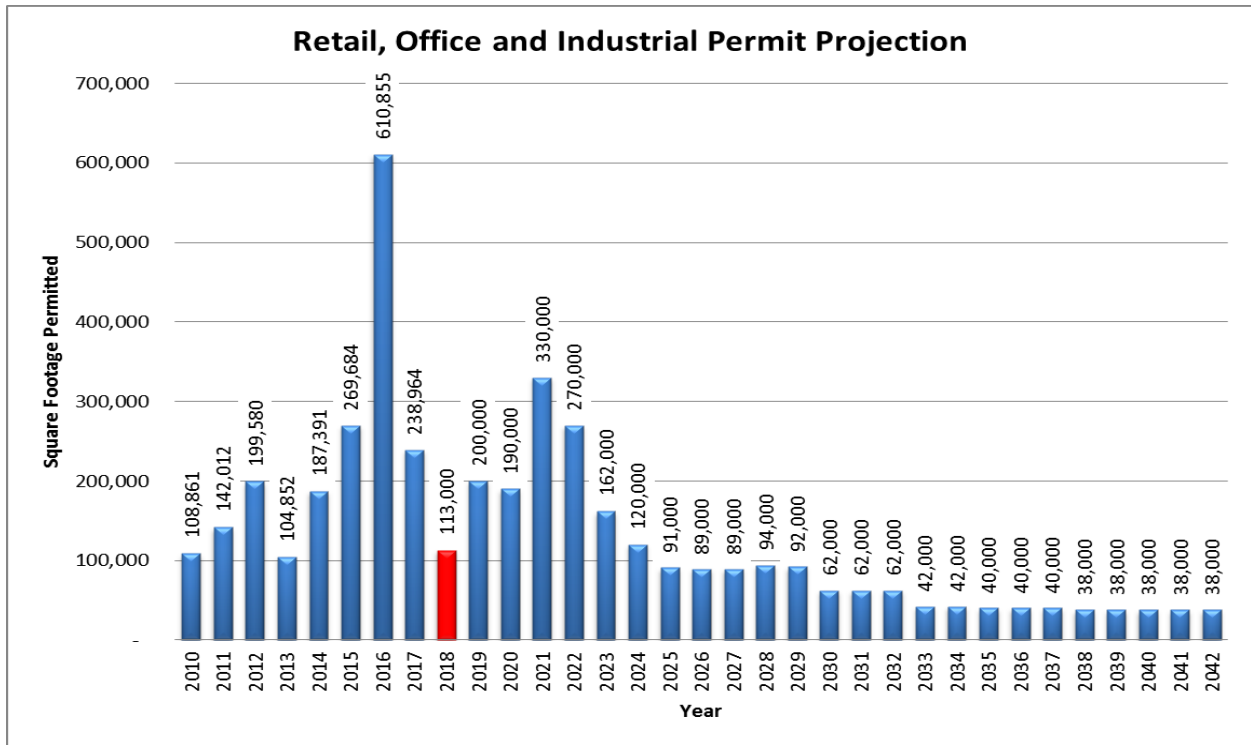


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

The total number of permits forecast is expected to be achieved because permit estimates are based on land area. The actual timing of the permit activity is more difficult to forecast. For example, a project development expected to start in 2018 may be delayed a few months, which would push the permit, and thus the revenues, into 2019. The City still receives the revenues, but the timing will change.

City staff has conservatively projected permits. The unpredictable timing and changes in projects may change the building footprint or use of a site, and thus change the license tax fee. Only known projects were considered for the next 2 to 4 years. Additional projects are likely to occur, but no such hypothetical projects were counted in the forecast.

The license tax generated \$1,106,761 of revenue for FY 2018 to yield a year-end balance of \$4.630 million. Based on currently active development projects, FY 2019 license tax revenues are forecast to be about \$700,633 by the end of this fiscal year for June 30, 2019. \$1.430 million of license tax funding is currently programmed in the Capital Improvement Plan (CIP) to construct SE Browning Street. The current balance, plus expected revenues, less the programmed money would create a projected available fund balance of about \$3.900 million available for spending in FY2020. Detailed revenue

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tables can be found in Appendix B. Based on current tax rates, revenues are expected to create a fund balance exceeding \$6.216 million in 2023.

Administrative Issues

The current ordinance includes language that is either outdated or confusing to applicants. City staff recommends modifying the ordinance to delete the outdated or expired sections of the ordinance. For example, several paragraphs outline tax exemptions for work initiated before December 31, 1997 would be deleted.

Analysis

The current fund balance is sufficient to fund projects currently identified in the Thoroughfare Master Plan (TFMP). Examples of projects that could be funded now are a traffic signal with turn lane improvements at SE Hamblen and Bailey Roads; SW Longview Boulevard from Longview Road to Scherer Road; NE Chipman Road between Todd George Parkway and Bristol Drive; NW Pryor Road from I-470 north to Colbern Road; SW Pryor Road from County Line Road to M-150; SW Hook Road City Limits to Ward Road. Allocation of funds could support a single arterial road project, multiple smaller projects, or augment other funding sources to supplement very large projects.

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.

Table 2 shows the historical license tax rates compared to values adjusted for inflation. Consumer inflation is based on annual adjustments to the Consumer Price Index (CPI) published by the Department of Labor. Construction inflation is based on annual adjustment to the 1993 Construction Cost Index (CCI) published by RS Means.

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

Year	Actual Residential License Tax Rate	Residential Rates Adjusted for CPI	Residential Rates Adjusted for CCI	Max. Rate Allowed by 1997 Election
2018	\$1,088.00	\$1,453.00	\$1,877.00	\$2,116.00

The current License Tax for residential rates lags 33% below the CPI and 73% below the CCI. The existing ordinance allows for increasing the License Tax rate to \$2,116.00, which would exceed the rates adjusted for inflation. So rate adjustments less than the voter-approved threshold can be approved by City Council without requiring a citywide public vote. Appendix C presents license tax rates adjusted for CPI data and CCI data in comparison with the actual license tax rates.

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Based on recent comments by the Committee, they desired to raise rates as one-time events in 2015 and 2018 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, and (b) small changes in those rates have not altered development activity.

After funding SE Browning Street, the remaining accrued balances in FY19 will be sufficient to support additional transportation projects for which the combined costs are less than \$4.0 million. Funds would allow programming up to \$6.2 million into the CIP over the next five years.

Based on the current fund balance, and the projected multi-million dollar fund balance building over the next 5 to 10 years, consideration should be given to programming money so that a plan is in place to spend the money. The City should avoid building too large of an unallocated balance to avoid potential issues related the Hancock Amendment which prohibits collecting excessive fees. Planning ahead would also reduce the risk of hastily choosing work that may be hard to fit the Committee's general guidance for project selection. The project lists also subject to annual reviews so project programmed beyond the current fiscal year can easily be deferred, removed, replaced, change the scope, or other actions to adjust to future changes in the City.

An example list of projects potentially eligible for funding is shown below. City Staff would ask the Committee to consider discussion of road projects for inclusion in the City's 5-year Capital Improvement Plan, similar to the process that authorized funding for SE Browning Street.

Potential Future Projects for Consideration			
Project	TFMP*	Multiple Developments?	Budget Estimate
Main Street: Chipman Road to Commerce Drive	Yes	8 Commercial plus undeveloped	\$1.1 M
SE Hamblen and Bailey Road Signal and Intersection	Yes	17 commercial 6 residential	\$850,000
SW Longview Boulevard from Longview Road to Scherer Road	Yes	11 residential plus undeveloped	\$2.8 M



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NE Chipman Road between Todd George Parkway and Bristol Drive	Yes	7 residential plus undeveloped	\$3.1 M
NW Pryor Road from I-470 north to City Limits (interim road standard)	Yes	undeveloped	\$1.2 M
SW Pryor Road from County Line Road to M-150 (interim road standard)	Yes	3 residential plus undeveloped	\$3.0 M
SW Hook Road from City Limits to Ward Road (Can be phased; possible CIP Sales Tax candidate)	Yes	4 residential plus undeveloped	\$10.3 M

*TFMP = 2017 Thoroughfare Master Plan

Summary of Committee Recommendations from 2017 Report

The Committee reiterated the desire to at least discuss the topic of raising rates annually to evaluate if adjusting rates may be appropriate. City Staff introduced several projects that could be funded by the License Tax, but did not specifically ask for projects to be evaluated for funding.

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

- A. Projects eligible for license tax funding should be limited to projects identified in the City's Thoroughfare Master Plan (TFMP)
- B. License tax funding should be managed on a cash-flow basis, and not used for debt financing
- C. The fund should not be tied to the City's Economic Development Policy
- D. Projects should exclude site specific projects required by one developer or landowner to complete a project
- E. Economic development focused projects are preferred use of this fund

Last year the Committee recommended the following and City Council Approved the following:

- Add SE Browning Street extension to connect Oldham Parkway to Hamblen Road
- Increased non-residential rates by 5% so that the current rates are as shown below:

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. Although economic development related road work is the preferred used for this fund, it should be noted that TFMP includes economic development as a component of the many needs and demands used to identify needed transportation projects. Therefore, capacity and safety projects should not be automatically dismissed from consideration. Many projects have multiple benefits, so a capacity project is likely to support economic development and safety.

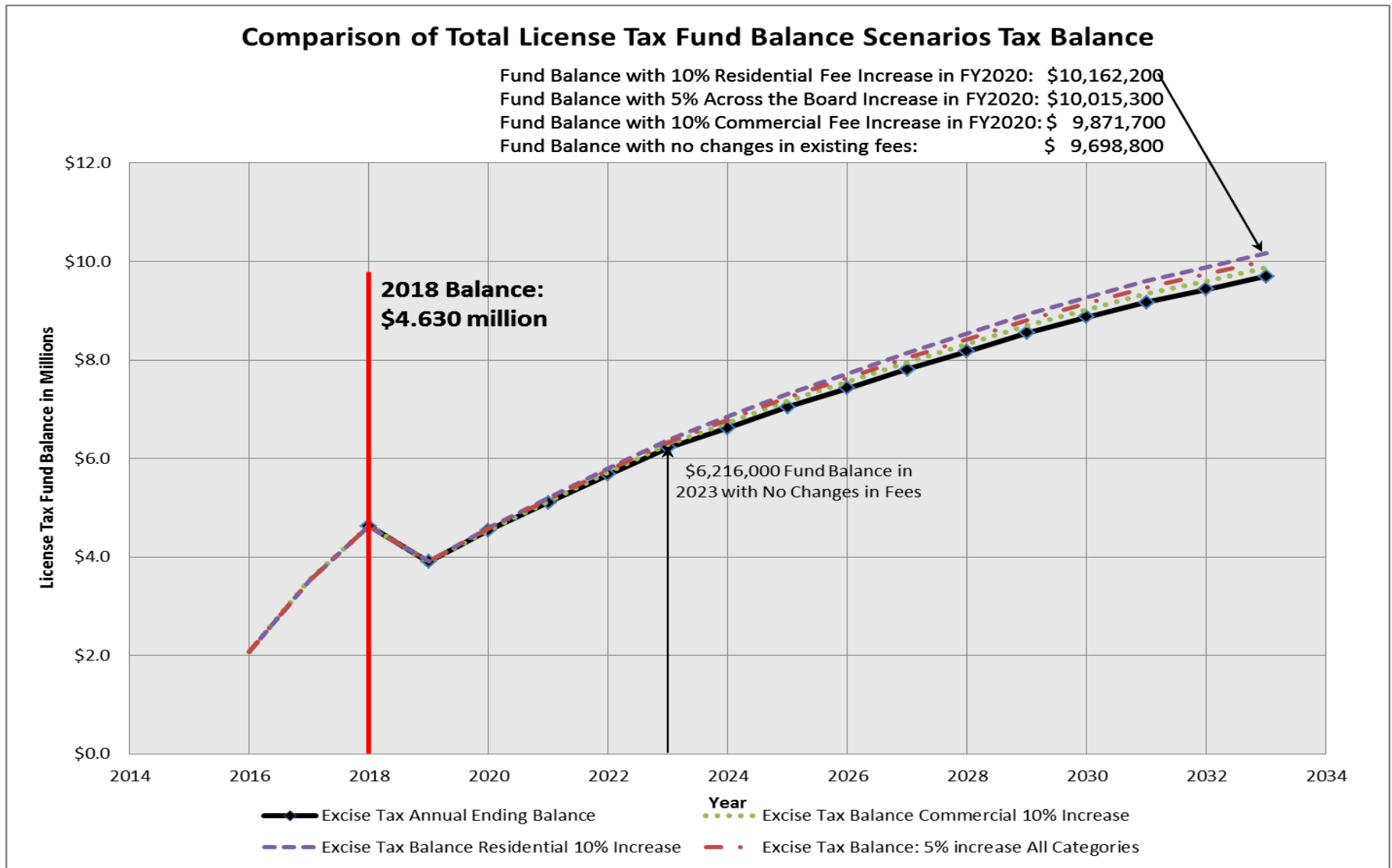
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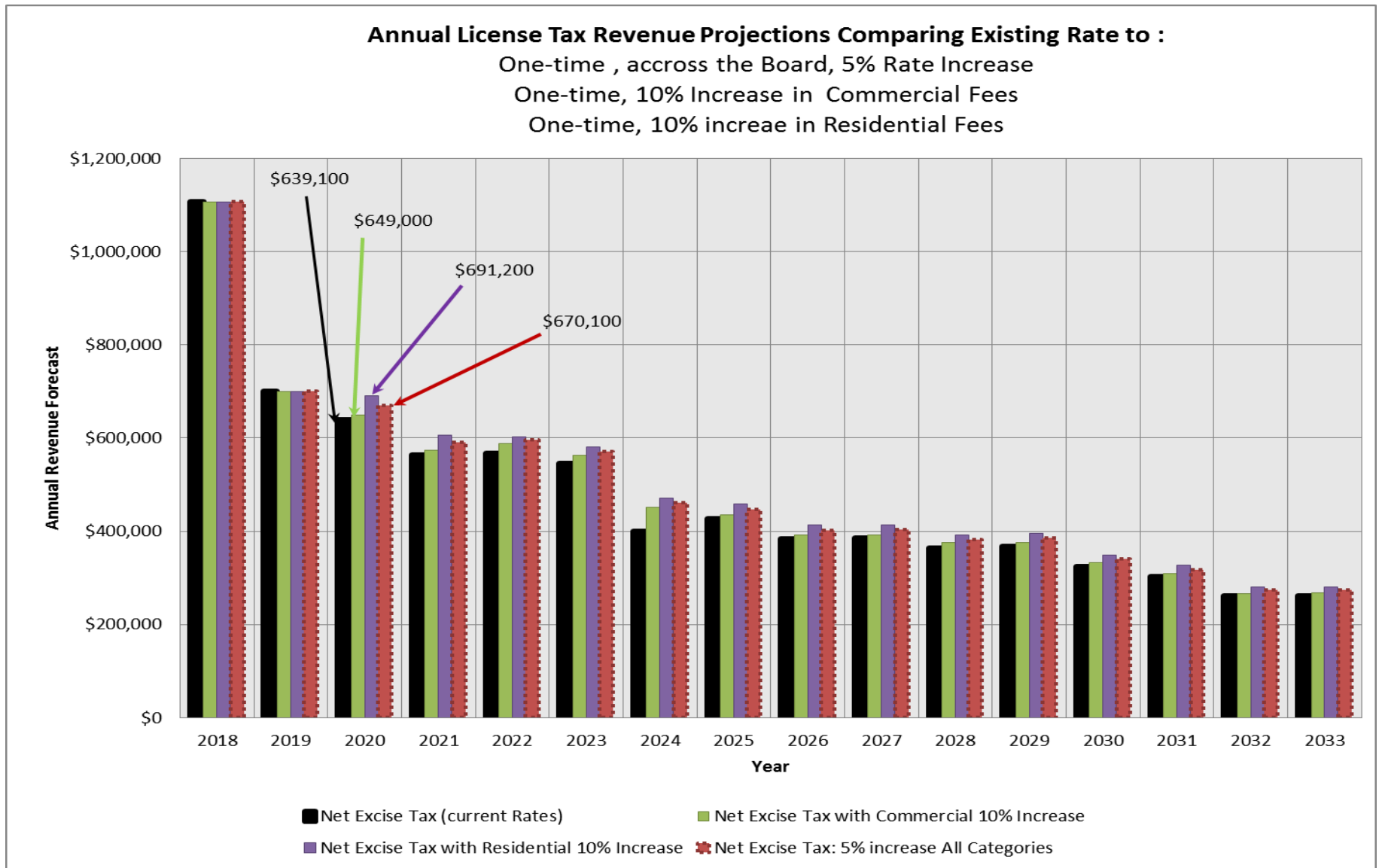
The Committee commented that the License Tax program has been successful in helping the City's transportation network keep pace with new growth. Moving forward, revenues generated from this program should continue to support projects needed to build a high-quality transportation network in accordance with the City's overall vision for high quality and long-lasting roads.

APPENDIX A to FY 2018 LICENSE TAX REPORT: Status 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)
SE Browning Street (Oldham to Hamblen) <ul style="list-style-type: none"> • Added to CIP in FY 2019 • Design in 2019 • In process to select design consultant • Due required interaction with Union Pacific Railroad, construction likely in 2020-21 	

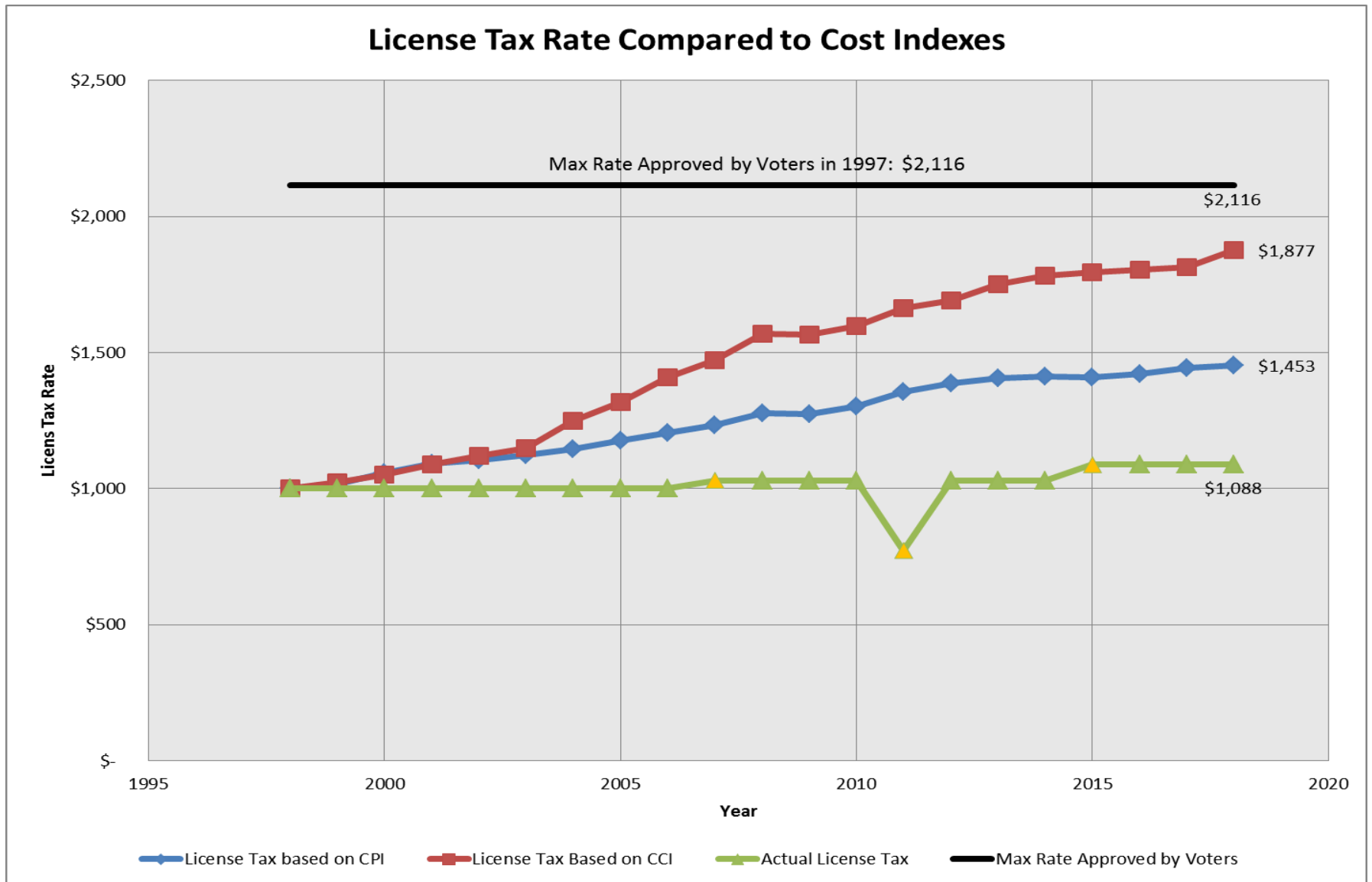
Note: The License Tax Committee recommended the Chipman Road Phase III project (from M-291 to Birchwood) be removed from the program so License Tax funds can be used for other projects in the Thoroughfare Master Plan. Chipman Road project will remain in the master plan, but funded from other sources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





APPENDIX B to FY 2018 LICENSE TAX REPORT: Total Fund Balance and Annual Revenue Comparisons if Fees Increased

Comparison of Annual Excise Tax Revenues Models								
Fiscal Year	Net Excise Tax (current Rates)	Net Excise Tax with Commercial 10% Increase	Annual Difference from existing rate with Commercial 10% increase	Net Excise Tax with Residential 10% Increase	Annual Difference from existing rate with Residential 10% increase	Net Excise Tax: 5% increase All Categories	Difference from existing rate with All Category 5% increase	Year
2018	\$ 1,106,761	\$ 1,106,761		\$ 1,106,761		\$ 1,106,761		2018
2019	\$ 700,633	\$ 700,633	\$ -	\$ 700,633	\$ -	\$ 700,633	\$ -	2019
2020	\$ 639,125	\$ 648,951	\$ 9,826	\$ 691,211	\$ 52,086	\$ 670,081	\$ 30,956	2020
2021	\$ 563,112	\$ 573,817	\$ 10,705	\$ 606,714	\$ 43,602	\$ 590,265	\$ 27,153	2021
2022	\$ 568,335	\$ 588,071	\$ 19,736	\$ 603,418	\$ 35,083	\$ 595,744	\$ 27,409	2022
2023	\$ 545,600	\$ 562,924	\$ 17,324	\$ 580,816	\$ 35,216	\$ 571,870	\$ 26,270	2023
2024	\$ 400,128	\$ 451,106	\$ 50,978	\$ 471,135	\$ 71,007	\$ 461,120	\$ 60,992	2024
2025	\$ 426,615	\$ 436,117	\$ 9,502	\$ 457,737	\$ 31,122	\$ 446,928	\$ 20,313	2025
2026	\$ 383,964	\$ 391,246	\$ 7,282	\$ 413,032	\$ 29,068	\$ 402,139	\$ 18,175	2026
2027	\$ 385,172	\$ 392,459	\$ 7,287	\$ 414,351	\$ 29,179	\$ 403,405	\$ 18,233	2027
2028	\$ 364,914	\$ 375,492	\$ 10,578	\$ 392,031	\$ 27,117	\$ 382,129	\$ 17,215	2028
2029	\$ 367,980	\$ 375,492	\$ 7,512	\$ 395,199	\$ 27,219	\$ 385,345	\$ 17,365	2029
2030	\$ 325,275	\$ 332,747	\$ 7,472	\$ 348,256	\$ 22,981	\$ 340,501	\$ 15,226	2030
2031	\$ 303,607	\$ 308,818	\$ 5,211	\$ 326,674	\$ 23,067	\$ 317,745	\$ 14,138	2031
2032	\$ 261,339	\$ 266,570	\$ 5,231	\$ 280,152	\$ 18,813	\$ 273,361	\$ 12,022	2030
2033	\$ 262,319	\$ 267,570	\$ 5,251	\$ 281,202	\$ 18,883	\$ 274,386	\$ 12,067	2031
Total increased Revenues from 2020-2033:			\$ 173,895		\$ 464,443		\$ 317,534	



CPI = Consumer Price Index

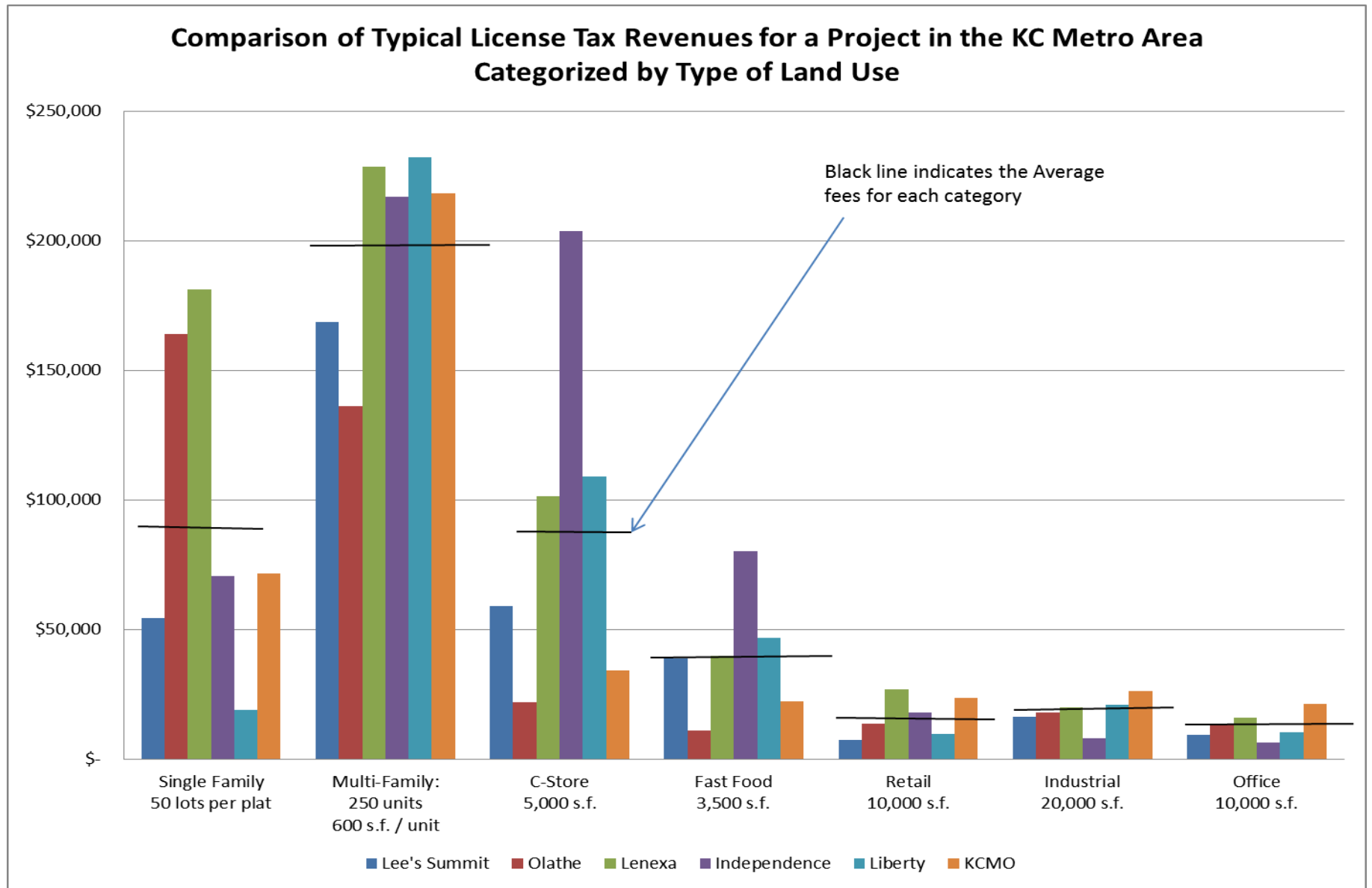
CCI = Construction Cost Index

APPENDIX C to FY 2018 LICENSE TAX REPORT: City of Lee’s Summit License Tax Rates Compared to Economic Indexes and Other Communities

Avg. Change in CPI (%)	RS Means CCI % change	Year	License Tax based on CPI	License Tax Based on CCI	Actual License Tax	Max Rate approved by Voters	KC Regional Consumer Price Index (1982 dollars) *	RS Means Construction Cost Index (1993 dollars) **
		1997					155.8	112.8
1.3%	2.0%	1998	\$ 1,001	\$ 1,001	\$ 1,001	\$ 2,116	157.8	115.1
1.5%	2.2%	1999	\$ 1,016	\$ 1,023	\$ 1,001	\$ 2,116	160.1	117.6
4.1%	2.8%	2000	\$ 1,057	\$ 1,051	\$ 1,001	\$ 2,116	166.6	120.9
3.4%	3.5%	2001	\$ 1,092	\$ 1,088	\$ 1,001	\$ 2,116	172.2	125.1
1.0%	2.9%	2002	\$ 1,104	\$ 1,119	\$ 1,001	\$ 2,116	174.0	128.7
1.7%	2.6%	2003	\$ 1,123	\$ 1,148	\$ 1,001	\$ 2,116	177.0	132.0
2.1%	8.9%	2004	\$ 1,146	\$ 1,250	\$ 1,001	\$ 2,116	180.7	143.7
2.5%	5.5%	2005	\$ 1,175	\$ 1,318	\$ 1,001	\$ 2,116	185.3	151.6
2.6%	6.9%	2006	\$ 1,206	\$ 1,409	\$ 1,001	\$ 2,116	190.1	162.0
2.3%	4.6%	2007	\$ 1,234	\$ 1,473	\$ 1,031	\$ 2,116	194.5	169.4
3.4%	6.5%	2008	\$ 1,276	\$ 1,569	\$ 1,031	\$ 2,116	201.2	180.4
-0.1%	-0.2%	2009	\$ 1,275	\$ 1,566	\$ 1,031	\$ 2,116	201.0	180.1
2.2%	1.9%	2010	\$ 1,303	\$ 1,596	\$ 1,031	\$ 2,116	205.4	183.5
3.9%	4.2%	2011	\$ 1,354	\$ 1,663	\$ 773	\$ 2,116	213.5	191.2
2.3%	1.8%	2012	\$ 1,386	\$ 1,692	\$ 1,031	\$ 2,116	218.5	194.6
1.4%	3.4%	2013	\$ 1,406	\$ 1,750	\$ 1,031	\$ 2,116	221.6	201.2
0.5%	1.8%	2014	\$ 1,413	\$ 1,782	\$ 1,031	\$ 2,116	222.7	204.9
-0.2%	0.6%	2015	\$ 1,410	\$ 1,793	\$ 1,088	\$ 2,116	222.3	206.2
0.8%	0.5%	2016	\$ 1,422	\$ 1,803	\$ 1,088	\$ 2,116	224.1	207.3
1.5%	0.6%	2017	\$ 1,443	\$ 1,813	\$ 1,088	\$ 2,116	227.4	208.5
0.7%	3.5%	2018	\$ 1,453	\$ 1,877	\$ 1,088	\$ 2,116	229.0	215.8
*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: RS Means Construction Cost Data, Historical Cost Indexes								
https://www.rsmeansonline.com/references/unit/refpdf/hci.pdf								

APPENDIX C to FY 2018 LICENSE TAX REPORT: City of Lee’s Summit License Tax Rates Compared to Economic Indexes and Other Communities

year	Median Home Values	5-year average	% Change in Home						
2000	\$ 131,500								
2001									
2002									
2003									
2004									
2005	\$ 170,800		6%	*Average per year for 5 years					
2006	\$ 187,200		10%						
2007	\$ 186,000		-1%						
2008	\$ 187,200		1%						
2009		\$ 183,580	-2%						
2010		\$ 185,500	1%						
2011		\$ 186,800	1%						
2012		\$ 185,100	-1%						
2013		\$ 186,700	1%						
2014		\$ 188,200	1%						
2015		\$ 191,300	2%						
2016		\$ 191,300	0%	96,076	Population				
2017		\$ 195,900	2%	97,290	Population				
2018		2018 ACS data not available as of 10/4/2018							
NOTES:									
Median Home price data not available prior to 2000. Before 2000, Census data published every ten years.									
After 2010, Census Bureau published American Community Survey (ACS) information based on statistical sampling.									
ACS published annual data from 2005 to 2008.									
In 2009, ACS started to publish a 5-year running average of housing data to mitigate annual market fluctuations.									
5-year averaging provides generally more accurate forecasting information than looking back for only 1 year.									
https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml									



APPENDIX C to FY 2018 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