

Date 12/31/2024

David Bushek,
Chief Counsel of Econ. Dev. & Planning
City of Lee's Summit
220 SE Green Street
Lee's Summit, MO, 64063

Mr. Bushek:

The City of Lee's Summit, Missouri ("City") retained Baker Tilly Municipal Advisors ("BTMA") to review a request for financial incentives from Drake Development ("Applicant") for its proposed Oldham Village ("Project"), and to evaluate both the reasonableness and mathematical accuracy of the Applicant's projections in its Oldham Village Tax Increment Financing Redevelopment Plan ("Plan"). The Applicant proposes to redevelop approximately 50+ acres located near the South M-291 & US 50 Highway interchange. The proposed Project is intended to be a mixed-use development consisting of 307 multi-family units, fifteen commercial retail pad spaces and a sports fieldhouse to be constructed by the Applicant and owned by the City.

BTMA considered the assumptions and methodologies for four significant elements of the Applicant's Plan: **construction costs, property valuation and PILOTs, taxable annual sales and EATS capture, baseline district sales**. Baker Tilly engaged in the following process(s) to evaluate both the reasonableness and accuracy of the Applicant's Plan projections:

Assumptions and methodologies related to the cost of private construction:

- **Verification:** BTMA evaluated the Applicant's assumptions for the cost of construction using information from RS means, a Gordian service, a leading provider of facility and construction data, software, and services for all phases of the building lifecycle.
- **Evaluation:** BTMA determined that the estimated construction costs per square foot are higher than the industry reference for the commercial construction. The cost estimate for multi-family development aligns with the data from RS Means. Sensitivity of the Applicant's forecasted internal rate of return (IRR) to a reduction in Project costs was analyzed in our But-For Determination Report and determined that it would take a significant reduction in costs (in excess of 20%) to materially impact the IRR, holding all other variables constant.
- **Exceptions and Variance:** No material exceptions or variances.
- **Determination:** Assumptions are reasonable, and the calculation is mathematically accurate.

Assumptions and methodologies related to assessed valuation of private construction and associated PILOTs.

- **Verification:** The Applicant's process for valuation of private construction is consistent with expected methodologies to estimate construction valuation, appraisal, assessment, and taxation. BTMA evaluated whether the Applicant used the correct property tax levy rates and that PILOT calculations were consistent with Missouri statute, properly accounting for exempt levies.
- **Evaluation:** BTMA replicated the methodology used by the Applicant's financial advisor to calculate the valuation of private development in the Project proposal. Additionally, BTMA evaluated the phasing of project construction in concert with the assessment and collection policies of both Jackson County and the State of Missouri.

- **Exceptions and Variance:** No material exceptions or variances.

BTMA was able to recreate the proposed PILOT schedule from the data provided within 0.31% of the Applicant's schedule on a net present value basis; a variance which we consider immaterial. When the Plan PILOT forecast was prepared, the Applicant used 2023 levies as 2024 property tax levies were not available. BTMA re-calculated the PILOT revenue utilizing 2024 property tax levies, resulting in no meaningful change from the Plan.

- **Determination:** Applicant used 2023 property tax levies, as 2024 levies were not available at the time of preparation. Substitution of 2024 levies does not materially change forecasted PILOTS. The forecast of PILOTS is heavily influenced by construction cost estimates, which are addressed above. PILOT calculations were consistent with Missouri statute, properly accounting for exempt levies.

Assumptions and methodologies related to calculation of new taxable sales and associated EATS within TIF:

- **Verification:** While preserving confidentiality of proprietary information, BTMA supplied to City staff the anticipated sales per square foot assumed in the Plan. BTMA anticipates that City Staff will provide further information, with the direction of counsel, on the reasonableness of those assumptions within the context of local sales tax data.
- **Evaluation:** BTMA replicated the methodology outlined by the Applicant and the Applicant's financial advisor to calculate both taxable sales and EATs production and was able to replicate both with no material variations.
- **Exceptions and Variance:** No material exceptions or variances.
- **Determination:** Assumptions are reasonable, and the calculation is mathematically accurate.

Assumptions and methodologies related to calculation of baseline taxable sales and associated project revenues within the CID and TDD:

- **Verification:** City staff and the Applicant's financial advisor supplied data, sources, and methodologies to support the baseline taxable sales within the boundaries of the proposed Community Improvement District (CID) and Transportation Development District (TDD). BTMA evaluated the information and determined that the Applicant derived baseline sales using reasonable sources and methodologies. Precise annual sales tax data is proprietary, and further verification will require input from City staff and counsel.
- **Evaluation:** Understanding that all parties must observe federal, state, and local rules and laws associated with the confidentiality of sales data for private businesses, BTMA evaluated aggregate sales data supplied by the City, all iterations of the CID plan boundaries, as well as sources and methodologies supplied by the Applicant and Applicant's financial advisor to determine that the baseline sales estimated in the CID are consistent with the businesses included in the current iteration of the District.
- **Exceptions and Variance:** BTMA did not identify any exceptions or variations in the Applicant's calculation methodologies.
- **Determination:** The Applicant's assumptions and methodologies are sufficient and use the best available information while adhering to Federal, State, and Local laws and policies regarding protection of confidential sales and sales tax information.

Other assumptions, calculations, and considerations:

- **Financing:** BTMA verified that the cashflows from proposed Project revenues will support the requested principal totaling \$36 million, assuming uniform financing at 7% interest for the 27-year lifetime of proposed incentive programs.
- **Prior Analysis:** BTMA previously evaluated in its October 30, 2024 But-For Determination Report assumptions associated with private Project revenues from the sale of land, rental income from the proposed development, and costs associated with site infrastructure. No material exceptions or variances were identified.

We conclude that the Applicant's financial projections in its Oldham Village Tax Increment Financing Redevelopment Plan are based upon reasonable assumptions and mathematically accurate. This Analysis is not an opinion of the likelihood of success of the proposed Project. Projecting outcomes for projects of this nature involves subjective judgment which may or may not prove correct.

We would welcome an opportunity to discuss this analysis.

Respectfully,

BAKER TILLY MUNICIPAL ADVISORS, LLC

Tom Kaleko, Principal

CC: Mr. Mark Dunning, City Manager

Disclosure and Reliance

This Analysis is not an opinion of the likelihood of success of the proposed Project. BTMA has based this analysis upon projections provided by the Applicant. BTMA has completed due diligence to review the Applicant's projections using its institutional knowledge and, where applicable, third-party sources. BTMA utilized the Applicant's projections as provided unless otherwise noted. Where BTMA suggests alternative projections or assumptions, the reason and source of the proposed alternatives are described. Projecting outcomes for projects of this nature involves subjective judgment which may or may not prove correct. BTMA makes no representations or warranties, expressed or implied, as to the accuracy of this analysis, and nothing herein is, or shall be relied upon as, a representation or warranty with respect to future results.