



LEE'S SUMMIT MISSOURI

License Tax Review Committee Annual Report for FY2019

March 24, 2019

EXECUTIVE SUMMARY

City staff presented the FY2019 update to the License Tax Review Committee on January 27, 2020. This report presents the discussion and recommendations from the Committee. The discussion and data is based on information before the announcement by PRI to sell large parcels of land in Lee's Summit.

Current Status

- The License Tax is a fee for new development or re-development activity that increases traffic
- The City must spend funds received on transportation projects
- The License Tax Fund current balance is \$2.753 million
- Maximum rate approved by voters in 1997 was \$2,116 per residential unit
- Current rates are: \$1,088 per Residential unit;
\$1,000 per trip for Manufacturing/Industrial; \$750 per trip for Commercial

Projections

- The analysis and presentation does not include any projections for PRI land
- Commercial/Industrial building permit activity reached a peak in 2016
- Residential building permit activity is at a peak in 2019-20
- Future years will see declining License Tax revenues due to declining development activity
- \$9.699 million is the projected fund balance in 15 years

Committee Guidance

- Projects funded by the License Tax should be limited to projects identified in the City's Thoroughfare Master Plan (TFMP)
- Projects should exclude site specific projects such as adding a turn lane or signal required by one developer or landowner to complete a project
- Projects that remove impediments to future commercial or industrial development are the preferred use of this fund
- The License Tax funds should continue to manage cash flow so that projects are funded on a pay as you go basis

Actions

- Committee voted unanimously to recommend increasing the tax rates for commercial activities from \$750 per trip to \$850 per trip
- Committee voted unanimously to program \$6.0 million of license tax funds into the CIP for the US 50 / M291 North Interchange improvements project

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 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. 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 and NW Main Street 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 2019-20 (FY20)

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

Property Reserve Incorporated’s (PRI) announcement to release 4,500 acres of land for development is not included in these forecasts. PRI is working with an engineering firm to develop a conceptual land use plan for that property. Concurrently, the City is working to update the comprehensive plan. Planning and forecasting license tax activity and revenues will not change until the updated plans

provide guidance as to how to add the 4,500 acres into the City’s available land inventory. PRI has indicated they intend to be selective in selling land, so it may be 10, 20 or more years before the PRI land can be developed. In the meantime, the City has contracted with Shockley Consulting Services to update the City’s Comprehensive Plan. This update will include planning factors for the potential development of the land owned by PRI.

The City issued 800 permits for residential dwelling units in 2019, which was significantly more than the 578 permits issued in 2018. 2017 was projected to be the peak activity based on land currently available for development, but 2019 saw more permits issued compared to 2017.

2020 and 2021 projections estimate 500 to 800 residential permits. Starting in 2021-22, the residential construction activity is expected to gradually decline over the next 10 years. This recent peak included several multi-family units currently under construction or planned for construction in the next 2 years. Activity is expected to be equal or greater than 325 residential units per year for the next 3 to 5 years. The number of permits forecast in 3 to 5 years is less than previous years. The current increase, coupled with fewer permits in the future, tends to indicate construction activity has accelerated in 2019 and 2020, thus reducing available land inventory available for future growth.

Growth may flatten sometime after 2023 because new construction is expected to use most of the existing inventory of platted land or easily developable land. Forecasting permits beyond 5 years is difficult due to the uncertainty of available land and the increased infrastructure costs associated with more challenging land areas. Figure 1 shows the building permit projections for residential units.

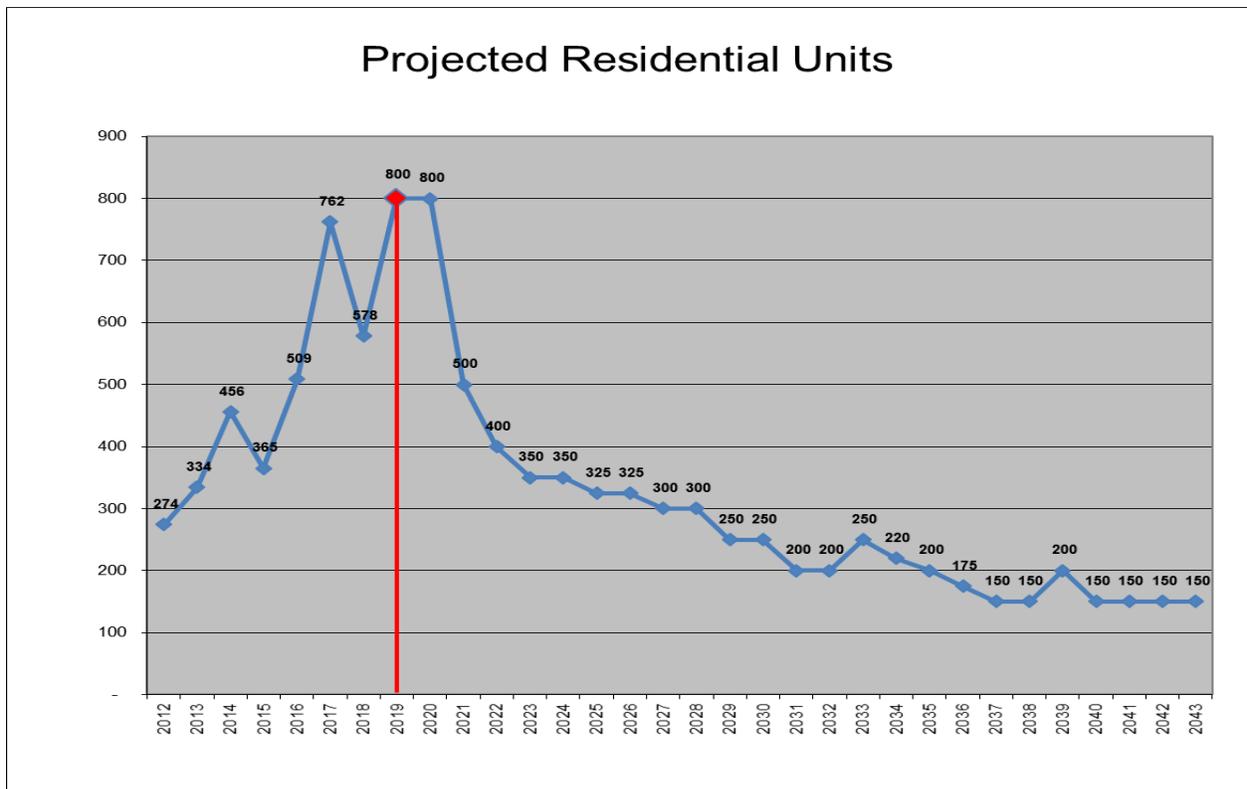


Figure 1: Projected Number of Residential Building Permits.

Commercial and industrial permitting is reported based on the square footage of buildings added to the City’s existing inventory. 415,150 square feet were permitted in 2019, which is significantly more than the 177,000 square feet permitted in 2018. Office and Industrial permit volumes in 2019 combined for 378,300 of the square footage, with the remaining 36,900 permitted as retail.

Commercial and industrial is forecast to peak this year and then decline starting in 2020. Commercial square footage construction is expected to be less than 150,000 square feet per starting in 2024. The peaks and downward trends are shown in Figure 2.

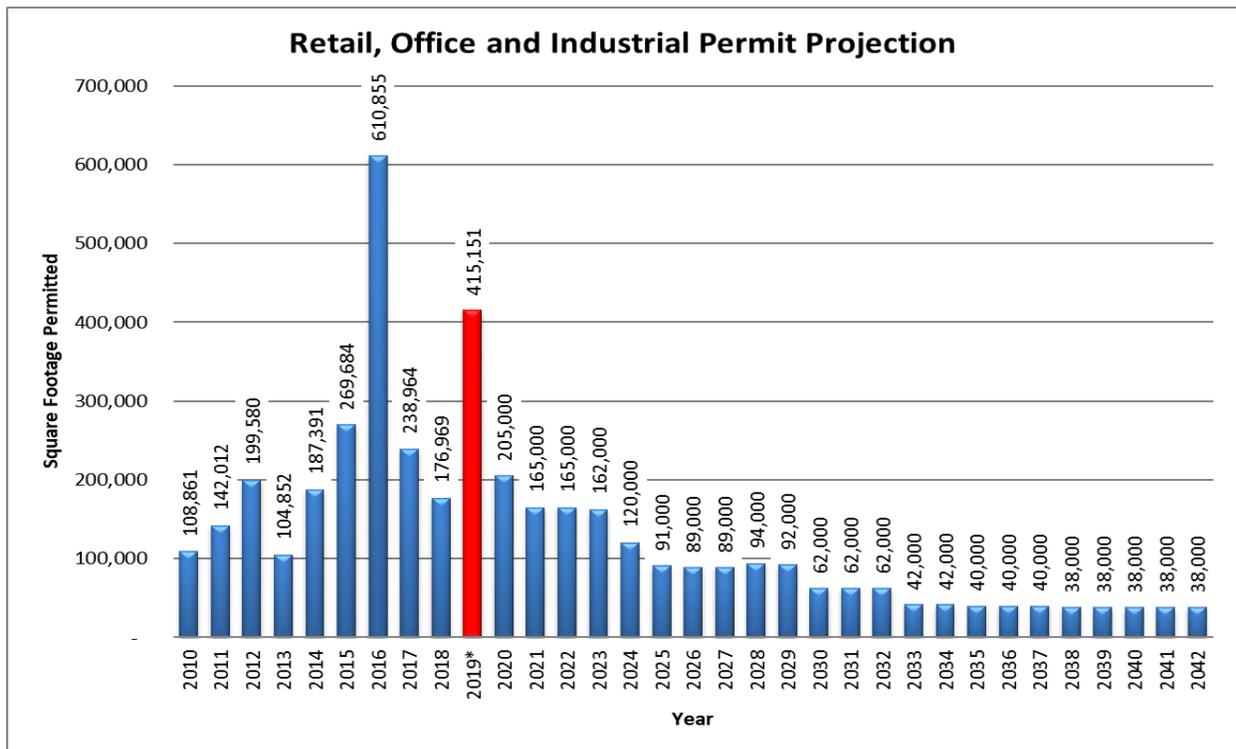


Figure 2: Projected Square Footage of Retail, Office and Industrial and Building Permits.

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 2020 may be delayed a few months, which would push the permit, and thus the revenues, into 2021. 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 amount. 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.

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 and

NW Main Street are such projects that address a roads the need to be improved to facilitate development in commercial / industrial areas.

The current fund balance is sufficient to fund smaller roadway projects or serve as local matching funds to secure grants for larger projects. Allocation of funds could support a single arterial road project, multiple smaller projects, or augment other funding sources to supplement very large projects. Improvements to the M291 North – US 50 Interchange and ways to promote housing options for local work force have been the topic of many conversations among local businesses, the Economic Development Council, City staff, Planning Commission, and elected officials. Transportation infrastructure costs are one of the impediments to development that is commonly discussed for these two items.

Developers, local business people, and economic development councils have expressed concerns about lack of housing cost options to house the workforce in the local area. Efforts to attract large manufacturing facilities or logistics hubs have not been successful. Affordable housing has more recently been apartments or higher-density development. Multi-family housing creates significant demands for improved roadways. Although multi-family housing is not a commercial/industrial development, the license tax fees are much higher than comparable single family developments because the license tax is calculated based on the number of housing units. Lower cost housing may become a necessary feature in Lee's Summit to attract commercial or industrial businesses to locate here. City staff would ask the committee to discuss and provide guidance if this connection between housing and industry would be considered an appropriate use of license tax funds for future road improvements. Would re-structuring how taxes are calculated be a consideration to scale the tax structure based on the cost per unit, but still generate the same total revenue?

Efforts to improve the M291 North – US 50 interchange have been discussed for many years. Recently, re-development in the area has started, others have expressed interest in re-developing near the interchange, the School District is planning to undertake significant renovations at the high school, and traffic continues to get worse. The recent State cost share programs have had additional funding made available by the State, so there is an opportunity for the City to partner with the State to rebuild the interchange. The total transportation costs to rebuild the interchange and outer roads will be about \$21 million, of which the City needs to provide about \$9 million from dedicated transportation funds to provide local matching dollars. The license tax could be used towards meeting the local match. The license tax coupled with savings from other projects would be a way to meet the local commitments.

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. Another consideration would be the structure of the tax. Changes in the retail market, housing alternatives, and the potential development of PRI may warrant reviewing how the license tax is calculated to adjust for changes over time. 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
2019	\$1,088.00	\$1,459.00	\$1,987.00	\$2,116.00

The current License Tax for residential rates lags 34% below the CPI and 83% 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 a 34% rate adjustments to match current costs would still be much 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.

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.

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. If the Committee desires to use the money for local cost shares on larger projects, then the project and proposes funding must be shown in the 5-year Capital Improvement Plan to score better in the grant evaluation process. 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
US 50 and M291 North Interchange	Yes	Redevelop north side of Interchange	\$21 M
NW Orchard and Olive: Connect Douglas signal and Chipman Road (infill / neighborhood connectivity)	No	3 residential	\$2.5 M
SW Longview Blvd: Longview Rd to Scherer Rd	Yes	11 residential plus undeveloped	\$2.8 M

Potential Future Projects for Consideration			
NW Pryor Road from I-470 north to City Limits (interim road standard)	Yes	undeveloped	\$1.2 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 Comments, Questions and Discussion

The Committee’s comments, discussion and action can be found in the meeting minutes attached to the Council packet as part of the presentation.

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

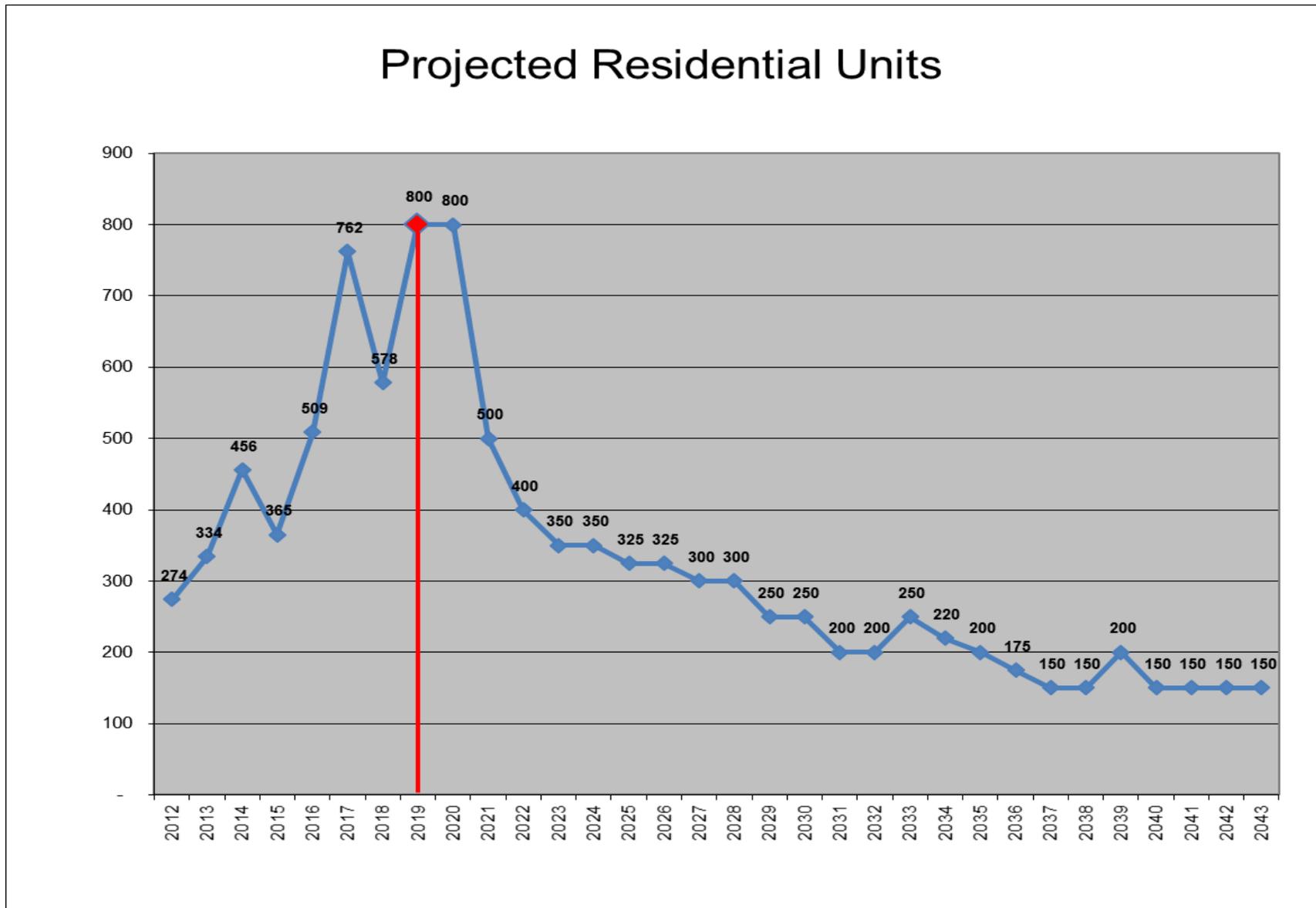
- A. Projects eligible for license tax funding should be limited to projects identified in the City’s Thoroughfare Master Plan (TFMP)
- B. License tax funding should be managed on a cash-flow basis, and not used for debt financing
- C. Projects should exclude site specific projects required by one developer or landowner to complete a project
- D. Projects funded from the license tax funds should be prioritized to support new roads that remove impediments to development for non-residential developments

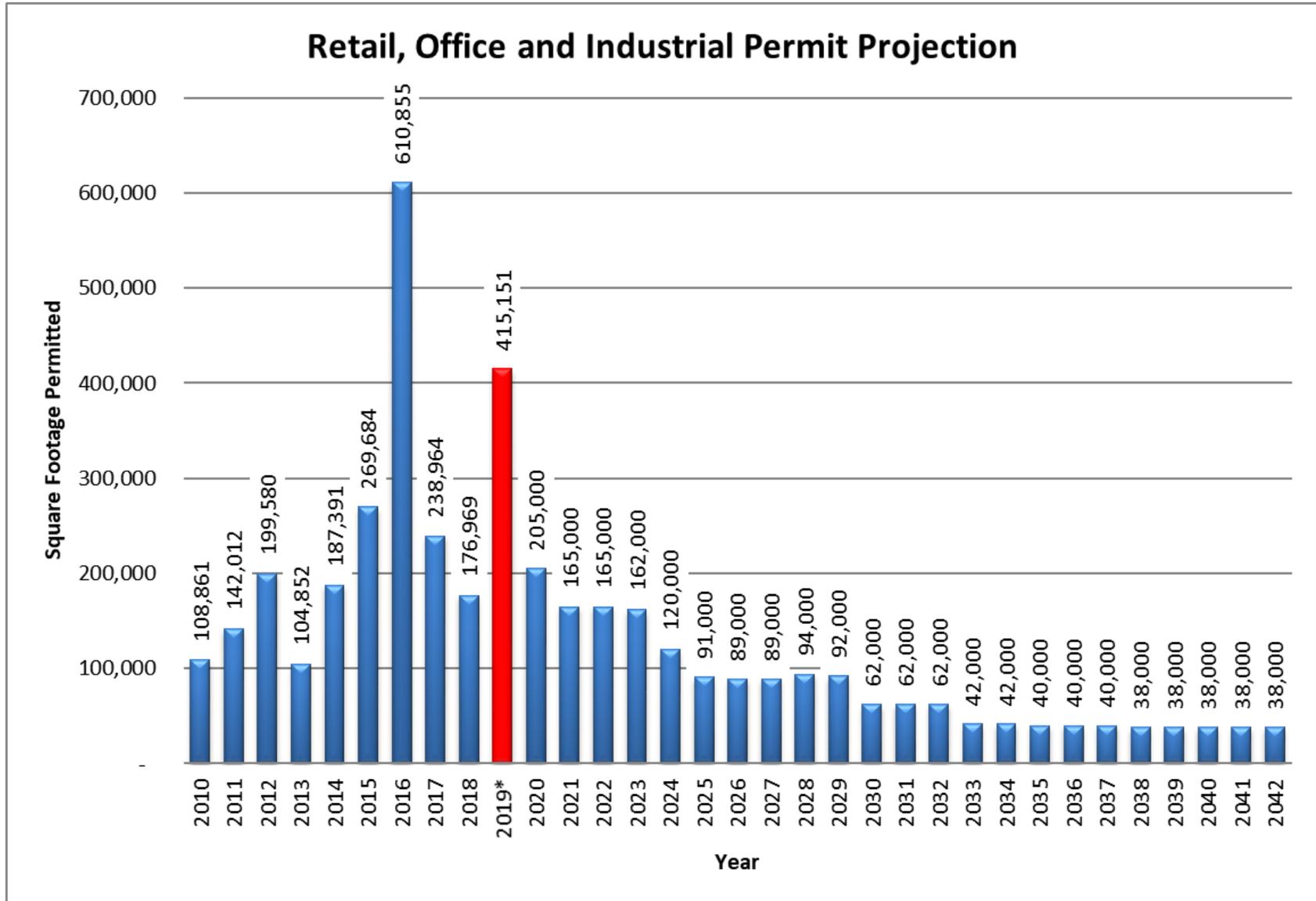
The Committee unanimously adopted to motions. The first motion recommended that City Council increase the commercial activity tax rate from \$750 to \$850 per trip. The second motion recommended that City Council instruct staff to program \$6.0 million of license tax money into the US 50 and M291 North interchange project.

APPENDIX A to FY2019 LICENSE TAX REPORT: Transportation Project Completed as Part of the License Tax Program Adopted in 1998

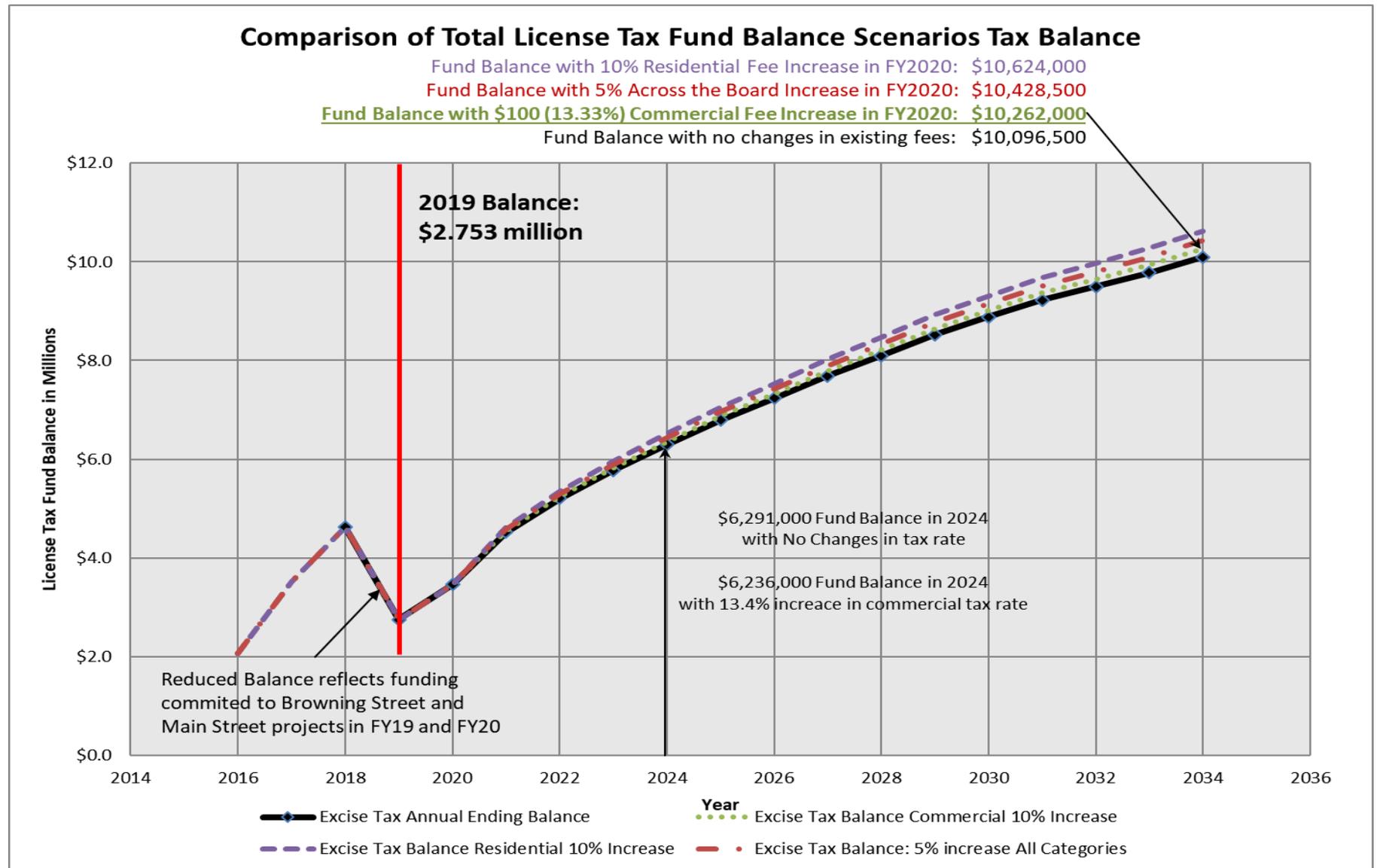
Transportation Projects Completed with Use of License Tax Funds	
Blackwell Pkwy (Langsford to Colbern)	Pryor Rd (Longview to Chipman)
Chipman Rd (US 50 to M-291)	Scruggs Rd (M-291 to Blackwell)
Independence Ave (Tudor to Colbern)	Todd George Pkwy (McKee to Tudor)
Langsford Rd (Todd Geo. To Blackwell)	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 in 2019 • In process to select design consultant • Due to interaction with Union Pacific Railroad, construction likely in 2020-21 	NW Main Street (Chipman to Commerce) <ul style="list-style-type: none"> • Design startup / kickoff underway • Construct in 2021

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.

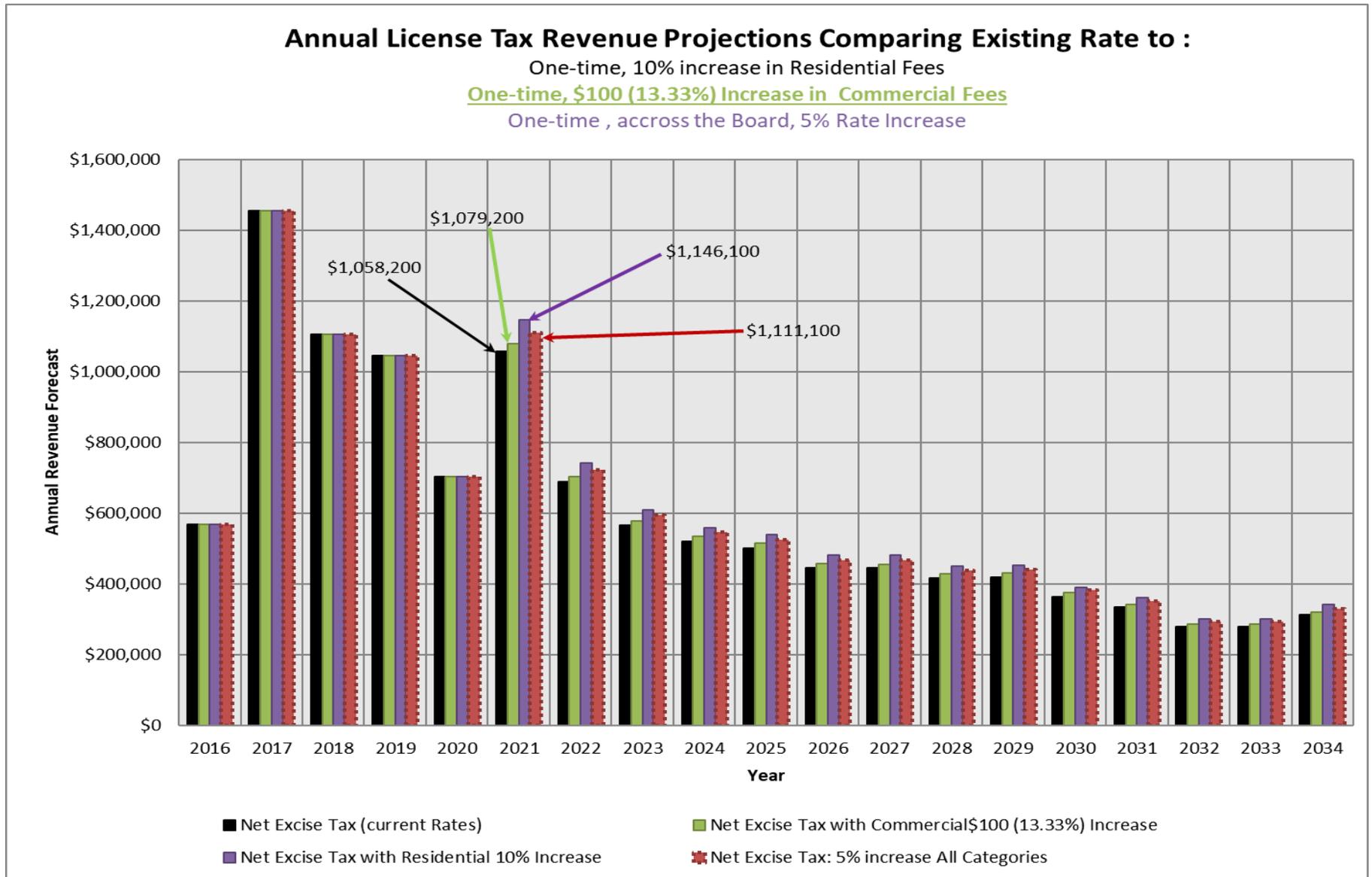


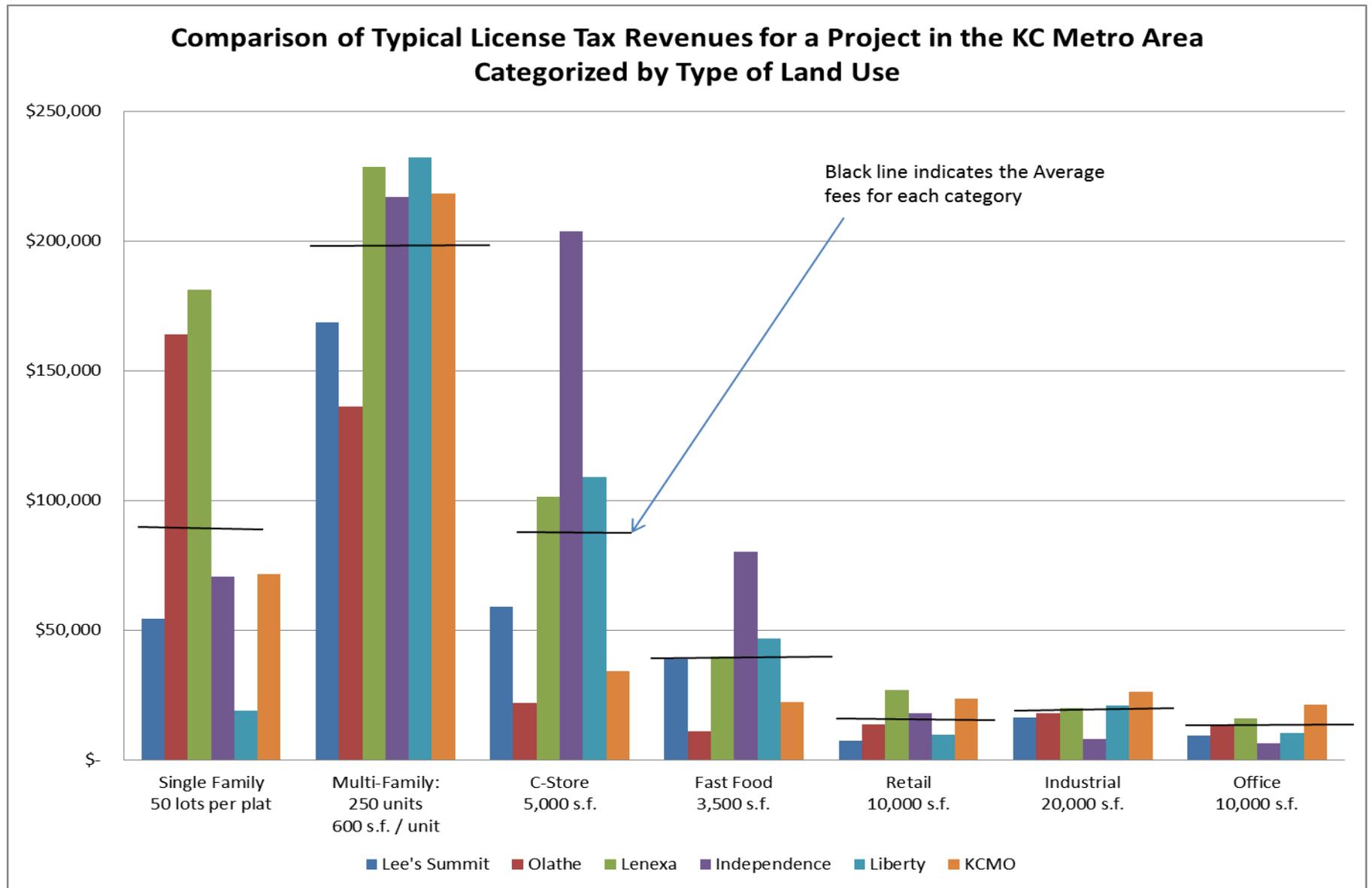


APPENDIX C to FY2019 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compared to Other Agencies



APPENDIX C to FY2019 LICENSE TAX REPORT: Projected Fund Balance, Annual Revenues, and Fees Compartmented to Other Agencies





**LICENSE TAX REVIEW COMMITTEE
ACTION LETTER
CITY OF LEE'S SUMMIT**

Monday, January 27, 2020
3:00 p.m.

Present at the Meeting –

Chairman Craig Faith	Victoria Nelson (City Staff)
George Binger (City Staff)	Michael Park (City Staff)
Dena Mezger (Member)	Heping Zhan (City Staff)
Karl Blumenhorst (Member)	Josh Johnson (City Staff)
Glen Jones (Member)	Cindy DeShazo (City Staff)

Member Cynda Rader was absent. All other members were present.

1. CALL TO ORDER:

Chairman Faith called the meeting to order at 3:03 p.m.

2. APPROVAL OF THE AGENDA:

A motion was made by Ms. Mezger, seconded by Mr. Jones, to approve the agenda. The motion carried unanimously with a vote of 4-0.

3. APPROVAL OF THE ACTION LETTER:

A motion was made by Mr. Jones, seconded by Mr. Blumenhorst, to approve the action letter dated November 29, 2018. The motion carried unanimously with a vote of 4-0.

4. PUBLIC COMMENTS: None

5. BUSINESS:

Mr. Binger, Deputy Director of Public Works/City Engineer, introduced everyone present including City staff. A Powerpoint was presented to detail the license tax background. The program dates back to 1997 as part of an excise tax. The tax has been amended four times for fees and changes in rates, and an administrative cleanup in 2019. This is a tax on new development that is allocated to streets and related improvements. The ordinance requires this annual report, and the license tax administrator is the Director of Finance, or a representative. The Committee then reviews the annual report and forwards comments to the City Council.

The City's current tax rates were presented. Residential building permits for last fiscal year were presented. Mr. Binger presented a graph of projected residential units, as well as retail, office and industrial building permits. He noted there were 800 residential building

permits last fiscal year and that there had been an increase in activity since prior years. Heping Zhan, Assistant Director of Planning and Special Projects, explained projections for this fiscal year 2020 and the tracking of building permits. Mr. Zhan noted the City is having a very active year for multi-family building permits. Mr. Jones questioned how the residential lot inventory has changed over the years. Mr. Zhan explained the number of single family lots available to build on has remained constant over the last 3-4 years. Multi-family lots have been projected to peak out over the next year.

Mr. Binger transitioned into the commercial trends on available inventory and the annual estimated revenues generated in the next slide presentation. Residential is the largest contributor to the fund. The next slide presented was the fund balance projections. The drop in funds are due to the two projects being committed to by the fund, including the Browning Street Project and the NW Main Street project. The next slide presented the Excise Tax Project Status of the SE Browning St. and the NW Main St., and Mr. Binger gave a summary of each.

Next was a discussion of fee structure in context of PRI land and the demands on traffic infrastructure. There was discussion on the connection between workforce housing and attracting commercial/industrial growth since this fund supports the City's Thoroughfare Master Plan. Mr. Michael Park, City Traffic Engineer, notes information is being sought regarding tiered residential rates based on home or unit price. Mr. Jones suggested the City should keep the current structure. The committee members agreed the structure should remain unchanged.

Mr. Josh Johnson, Assistant Director of Plan Services, noted how we are marketing the City regarding starter homes versus apartments as well as cost of living. Discussion regarding current trip generation manuals and how they are dividing out more specific uses; such as multi-family, single family residential, etc. Guidance from the Committee is being requested regarding fee structure related to PRI growth and impacts, as well as consideration of the license tax for workforce housing.

Mr. Binger recommended re-affirming project selection criteria and to consider projects in the five year plan. Future projects for consideration were shown on a map handout, as well as a slide presentation, provided by Mr. Binger. One of those projects is the Missouri 291 North and US 50 highway interchange, the other is the NW Olive & Main project. Raising the commercial excise tax rate, as well as rates for next year, was discussed. The Committee is supportive of using the License Tax Fund to focus on the Missouri 291 North and 50 Highway interchange.

Mr. Glen Jones made a motion, seconded by Mr. Blumenhorst, to leave the residential tax rate at \$1,088 per residential unit, to leave the industrial as is, and to raise the Commercial license tax rate to \$850 per new trip. The motion carried unanimously with a 4-0 vote.

Mr. Blumenhorst made a motion, seconded by Mr. Jones, to direct the excise tax to the Missouri 291 North and 50 Highway interchange project. The motion carried unanimously with a 4-0 vote.

These two Committee recommendations will move forward to a future City Council meeting for discussion.

1. **BUSINESS:**

Chairman Faith noted that the Minutes from the Nov. 29, 2018, License Tax Review Committee meeting were distributed to the Committee prior to this meeting.

Mr. Heping Zhan noted that the Housing and Urban Development does a fair housing analysis, which focuses on housing affordability in the City, every 5 years. The City is an “entitlement City,” and housing affordability in the City is a big topic. The nearly 300 page report can be found on the City’s website under Development Services. Discussion ensued regarding the lack of affordable housing in Lee’s Summit.

2. **ADJOURN:**

Chairman Faith adjourned the meeting at 4:20 p.m.
