



LEE'S SUMMIT MISSOURI

LICENSE TAX REVIEW COMMITTEE

Action Letter

February 8, 2023

3:00 pm

City Hall
Strother Conference Room
220 SE Green Street
Lee's Summit, MO 64063

Present at meeting:

Members: Chairman Felker, Glen Jones, Karl Blumenhorst, Cynda Rader, Michael Park

Staff Support: George Binger, Mike Weisenborn, Joshua Johnson, Bette Wordelman, Ryan Elam
(joined briefly then had to leave for another meeting)

1. Call to Order

Chairman Felker called the meeting to order at 3:00 p.m.

2. Roll Call

3. Approval of Agenda

A motion was made by Michael Park, seconded by Karl Blumenhorst, to approve the agenda.
The motion carried with a 5-0 vote.

4. Public Comments

None

5. Business

Annual Report for FY2022

Mr. Binger, Deputy Director of Public Works/City Engineer, introduced everyone present including City staff. This report is usually conducted in Nov./Dec. timeframe, however this year staff elected to move this back due to a no-tax increase bond initiative request set for the April 4, 2023 ballot. A Powerpoint was presented showing the Agenda for this meeting to include License Tax background and current status; annual report of revenue, permits and projects; April 4, 2023 No Tax Increase Bond Issue Project Review; Staff Recommendations; and Committee Discussion and Guidance.



Mr. Binger noted the changes which were approved to Boards and Commissions from the Dec. 12, 2022 City Council meeting. This committee was not specifically listed, however, based on recommendations from the City's Law Department, the License Tax Review Committee would be governed by the new ordinance.

Background

This annual meeting is required by ordinance 4592, which was adopted in 1997 with several amendments. This tax is on new development activity when building permits are issued, based on the creation of additional traffic. There have been several amendments to the fee in years noted on the graph shown. In 2019, administrative cleanup in regards to how the trip generation is calculated was done. The fees are related to street improvements including but not limited to design, construction, reconstruction, repair and maintenance.

Discussion to Changes in the Committee

Mr. Binger discussed changes to consider to this committee such as term limits, eligibility, application process and staff can help initiate the process. Any changes would need to be made to the License Tax Ordinance, such as considering to modify term from two years to three years. Again, staff would be able to assist in this process.

Chairman Felker invited discussion on this matter. Mr. Blumenhorst asked what the goal behind this change was, and if this committee members are limited to three terms. Mr. Park noted this is to bring consistency to all Boards and Commissions, as well as many different considerations such as seeing more turn over, term limits, and that all members are residents. Mr. Park also noted more research needs to be done as to limitations, since this Board meets once per year and only has three citizen volunteers, as per the 1997 ordinance. Ms. Rader agrees that new people are needed all the time and asked if people would need to cycle off this committee all at once. Chairman Felker answered all committee reappointments or additions to committees would need to be brought to Council at the same time.

A motion was made by Mr. Blumenhorst, seconded by Mr. Jones, that this Board would move to direct staff to review the License Tax Committee ordinances to develop recommended changes to better align appointments, structure and rules with ordinance 9538, seeking guidance to evaluate terms of 2 to 3 years, maintain experience of committee members, evaluate waiver or exceptions to term limits. The motion passed with a unanimous 5-0 voice vote.

Mr. Park would also like to examine expanding a couple of volunteer positions.

Presentation of FY2022 License Tax Report

Mr. Binger gave a summary, with Powerpoint slides, of the current tax rates for residential and non-residential development. Residential is \$1,088 per residential unit, manufacturing and industrial increased 10% last year to \$1,100 per new trip, and Commercial is \$825 per new trip. The current rates are below the \$2,116 rate that was authorized by voters when the tax was adopted in 1997, so rate adjustments below that amount do not require voter approval. A slide



showing residential building permits for this fiscal year 2022 was 837, which were fewer permits issued in previous years, but multi-family housing units were permitted in prior years with many being large apartment complexes. Population growth has driven development of residential units in the past, as detailed in the Comprehensive Ignite plan. Mr. Johnson noted the reason the graph shows the forecast is flat, is due in part to the pandemic of 2021. However, as things level out or current land area increases, then the longer-range projections will increase a bit more. Non-residential for retail, office and industrial building permits are based on square footage permitted and for FY22 that was 725,447 sq. feet.

Mr. Binger then presented the annual net revenue projections. The large negative amount for FY22 is due in part to \$2M seed money for funds programmed for capital improvement projects such as Main St., Browning, and design fee on the M291/50 Highway North interchange. The balance of the fund is still positive, the City is able to spend this money due to staff programming funds for the M291/50 Highway North project to be spread out over six years. The \$3.2M positive fund balance, as well as grant money for the M291/50 Highway North interchange project, helps in keeping the balance positive. 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 lead to an increased demand for housing units. Based on this methodology, 500 to 600 residential permits were projected to be permitted annually through 2031. This trend shows continued growth at a consistent rate through 2032.

Chairman Felker asked for an explanation of the graph depicting net excise tax with annual Construction Cost Index adjustments to include all categories. Mr. Binger explained the graph's projections in all categories. The difference after 10 years is approximately \$1.2 M.

Mr. Jones inquired if the grant money for the M291/50 Highway North interchange was secured and approved. Mr. Park answered yes those federal and state funds were secured in December. The City showed a committed source of local funds to help procure a \$9M state cost share grant for this project. Design work is underway, Right of Way and easement acquisition will take place this year. Construction is projected to start in 2024. All in all totaling \$43 M in funds for this project.

Mr. Blumenhorst asked if other expense considerations might come up. Mr. Binger responded inflation would be the only other consideration which is depicted on the Inflation Chart. Mr. Jones noted if there were a change to fees, that should be on the commercial side. Mr. Johnson inquired what the construction cost index is on the depicted graphs, and Mr. Binger answered that is 4.2% on the construction cost index three year average.

The next graph that Mr. Binger presented shows declining revenue due to traffic generation changes. The Residential License Tax paid per permit for Single family detached in 1998 was \$1,099, and in 2022 was \$1,023. The nature of traffic has changed since the License Tax was first implemented, and has been the result of changes in volume of traffic at drive through windows,



types of businesses with drive through windows, how people bank, coffee and donut shop kiosks, etc. Mr. Blumenhorst inquired as to if the trip fees were changed, due to inflation, has there been any discussion. Mr. Park answered the fee, the trip rate, which would impact the fee, is not directly related to inflation. 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. 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. Commercial license tax per permit in 2023 is higher than the 1998 levels. This includes several increases in the commercial fees.

Based on graph observations, City Staff assessed 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. Several capital projects that the City has on hold for in the future, as discussed in previous committee discussions as being premature, were the South Outer Rd of 50 Hwy from Todd George Road which is a tract of undeveloped land. No Tax increase bond transportation project discussions that were not on the list, were mentioned, such as SE Hamblen Rd. south of Bailey to Thompson Road. This is an area of unimproved road and could be an Excise Tax project once funds become available.

Mr. Jones inquired about Pryor Road-Colbern/Bannister/95th to I-470 area. Mr. Park noted this location project is a part of the upcoming No Tax Increase Bond Initiative set for the April 4, 2023 ballot. Several projects listed on the ballot measure were discussed.

Mr. Blumenhorst inquired if the City will have to take on more financial burden on the M291/50 Highway North interchange cost. Mr. Park answered that interchange project is funded by a multitude of sources. 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 remainder of City contributions is to come from the 2017 CIP Sales Tax. There have been some deferments, due to funding gaps and environmental permitting issues, thus construction could now be set for summer 2024 to begin construction. City staff are also trying to get city projects out to bid before the federal Infrastructure and Jobs Act projects are published for bids.

License Tax Committee Recommendations

Staff will submit the License Tax Review Committee Report to Council on March 21, 2023. The No Tax Increase Bond issue election is upcoming on April 4, 2023. Again, inflation is a significant factor adding about 4.2% to project budgets annually. Staff reiterates previous policy guidance



that projects eligible for license tax funding should be limited to those identified in the City's Thoroughfare Master Plan (TFMP); should support economic activity among several sites and not for sole benefit for single development, and cash flow projects. The Committee agrees with staff on these next steps. The Fiscal Year 2024-2028 CIP will have a public comment period from March 31 to April 30, then move on to the April Public Works Committee. Then City Council in April, on to Planning Commission in May. Then the City Council FY24 budget approval and adoption of the CIP in June.

6. Roundtable

No items discussed

7. Adjournment

Cynda Rader motioned to adjourn the meeting at 4:51 p.m. and Michael Park seconded.

