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Conceptual Economic Development Incentive Request - Chapter 100 sales tax exemption on construction materials and real property tax abatement for residential project, Griffin Riley applicant.

Issue/Request:

This is a conceptual presentation pursuant to the City's Economic Development Incentive Policy for the request by Griffin Riley (“Developer”), as the developer of the mixed use residential and commercial project to be constructed at 2840 SE Blue Parkway, for sales tax exemption on construction materials and real property tax abatement for three types of residential products (apartments, townhomes and single-family units) pursuant to Chapter 100 of the revised statutes of Missouri (Chapter 100).

Key Issues:

Evaluation of a request for sales tax exemption on construction materials and real property tax abatement in the form of a fixed PILOT schedule for 10 years for three distinct types of residential products (single-family, apartments and townhomes).

Proposed City Council Motion:

No motion requested as this is only a conceptual presentation. The Developer is seeking the City Council's feedback pursuant to the City's Economic Development Incentive Policy.

Background:

Developer is requesting a Chapter 100 economic incentive in the form of (1) sales tax exemption on construction materials and (2) real property tax exemption in the form of fixed PILOTs on three types of residential products. Developer’s budget summary is:

Budget

- Construction:
 - S.F. (Rental) \$17,000,000
 - Apartment \$41,600,000
 - 55+ (Rental) \$26,700,000
 - TOTAL \$85,300,000

- Land: \$3,800,000

- Soft Costs: \$13,800,000

- TOTAL \$102,900,000**

A summary of the Developer’s savings for the requested sales tax exemption on construction materials is:

	Hard Construction Costs	Sales Tax Exemption
Single Family	\$17,000,000	\$333,475
Apartments	\$41,600,000	\$815,600
55+ Townhomes	\$26,700,000	\$523,750
TOTAL	\$85,300,000	\$1,672,825

A summary of the Developer’s request for scheduled PILOTs is:

- Chapter 100: Tax Certainty Agreement for 3 District Unit Type
 - Single Family Residential: \$1,400/unit
 - Apartments: \$1,000/unit
 - 55+ Townhomes: \$500/unit

The sales tax exemption on construction materials is 1.6% of the total project budget, which is in the range of the same incentive as previously approved by the City Council for residential apartment projects.

The value of the apartment abatement is 2.4% of the total project budget (\$2,431,800 / \$102,800,000).

Developer has not quantified the impact of the fixed PILOTs schedule for the townhomes and single-family units in relation to the total project budget.

Apartments (252 units):

The average tax per unit for the aggregate valuation of the following apartment projects is **\$1,965 per unit**:

- Residents at New Longview
- Summit Square Apartments
- Residents and Echelon
- Meridian at View High Apartments
- The Donovan Apartments
- Streets of West Pryor Apartments

The request for the apartment PILOTs at \$1000 per unit would be equivalent to a **49.1% tax abatement**, as compared to the aggregate apartment data above.

Townhomes (113 units):

The City Council has only provided tax abatement for one project that has townhome units: The Vanguard Villas project in Streets of West Pryor. For that project, the City provided tax abatement in the amount of 50% for 25 years, with the fixed PILOT resetting every 6 years. Other than this one project, City staff does not have an established data set that allows for evaluation of the fixed PILOTs for townhome units.

Single Family (77 units):

City staff does not have an established data set that allows for evaluation of the fixed PILOTs single family residential units. The City has never provided tax abatement for single-family residential development.

Impact/Analysis:

The sales tax exemption request would have an impact on the City based on the loss of use tax revenues. Developer has not quantified where the construction materials would be purchased, so we do not have the ability to evaluate the impact to the City from this portion of the request. We could run the calculations if we know where the materials will be purchased.

The City's portion of the real property tax revenues is historically about 17%. Developer has not provided data on the direct impact to the City, but staff can provide this approximate calculation for the impact to the City from the apartment units:

$\$1965 - \$1000 = \$966 \text{ abatement / unit / year}$
 $\$966 \times 252 \text{ units} = \$243,632 \text{ abatement / year}$
 $\$243,632 \times 10 \text{ years} = \$2,436,320$
 $\$2,436,320 \times 17\% = \mathbf{\$414,174 \text{ impact to City real property tax revenues over 10 years}}$

We cannot provide the calculation of the single family and townhome abatement because we do not have a data set that provides the average real property taxes for these types of units to compare against the fixed PILOTs request.

Timeline:

Developer has indicated that construction would commence next year, and has not provided a targeted completed date. A full development schedule would be needed for the Chapter 100 cost-benefit analysis.

Other Information/Unique Characteristics:

This is the first time that the City has received a request to provide real property tax abatement for a residential development that is not in a blighted area. All prior Chapter 100 incentives approved for apartment projects in Lee's Summit used a structured PILOT payment that was designed to approximate the real property taxes that would be owed for the first 10 years of the project. Therefore, real property tax abatement has not intentionally been provided for residential developments through Chapter 100. The prior Chapter 100 structures used for apartments were not designed to provide actual real property tax abatement, but instead a structured PILOT to provide certainty as to the amount to be paid annually in place of real property taxes.

In addition, the City has never received a request to provide real property tax abatement for single-family development.

Aaron March, Attorney for Griffin Riley

David Bushek, Chief Counsel of Economic Development and Planning

Mark Dunning, Assistant City Manager