

Legislation Text

File #: 2022-5248, **Version:** 1

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Presentation: Discovery Park Project and Tax Increment Financing Plan

Issue/Request:

Presentation for the Discovery Park Project, including the following incentive requests for the project:

1. Tax Increment Financing Plan
2. 1% CID Sales tax (expansion of an existing CID)
3. City Hotel Sales Tax Rebate (1% City general sales tax)

Key Issues:

Discovery Park Lee's Summit, LLC (Developer) is proposing to develop the proposed Redevelopment Area, which contains approximately 200 acres, which is located between NE Colbern Road and NE Douglas Street on the north, I-470 on the south, NE Douglas Street on the east, and Main Street on the West, in Lee's Summit, Missouri.

The four Redevelopment Projects are proposed to consist of a mixed-use development project containing approximately 660,500 square feet of retail, office, entertainment and hospitality space and/or other related commercial uses, approximately 2,930 luxury multi-family units and approximately 1,520 structured parking stalls, along with associated public improvements that would serve the Redevelopment Area. The development by Redevelopment Project Area is:

- Redevelopment Project Area 1 - approximately 80,800 square feet of commercial space, approximately 1,185 luxury multi-family units, approximately 690 structured parking stalls and approximately 230 hotel rooms.
- Redevelopment Project Area 2 - approximately 126,500 square feet of commercial space.
- Redevelopment Project Area 3 - approximately 224,000 square feet of commercial space, approximately 332 luxury multi-family units.
- Redevelopment Project Area 4 - approximately 234,000 square feet of commercial space, approximately 1,280 luxury multi-family units and approximately 830 structured parking stalls.

Please see attached memorandum prepared by David Bushek which summarizes the economic development incentives requested for the proposed TIF Plan.

Background:

On July 19, 2022, the City Council approved a Funding Agreement with the Developer through the adoption of Ordinance No. 9465. On May 31, 2022, the City Council heard the conceptual presentation for the incentive

request and provided generally positive non-binding feedback about the project and the request.

On October 17, 2022, the Lee’s Summit TIF Commission held the public hearing regarding the proposed TIF Plan. After the hearing, the TIF Commission approved Resolution 2022-1 by a vote of 7-2. The attached staff memorandum contains more details about the TIF Commission’s recommendations and the basis of the two opposing votes to the resolution.

Following the TIF Commission hearing, Developer made the following changes to the TIF Plan:

- Revisions of the Plan text and Budget pages to uniformly reflect that Redevelopment Projects 1 and 4 will have structured parking and Redevelopment Projects 2 and 3 will have surface parking.
- Due to Fire Code requirements associated with construction of the residential structures in Redevelopment Project 1, the number of apartment units will decrease by approximately 140 units.
- The commercial square footage in Redevelopment Project 1 will be reduced by 21,500 square feet. Commercial development will increase in Redevelopment Project 4 by at least 21,500 square feet, shifting at least the same amount of commercial space from Redevelopment Project 1 so that the overall amount of commercial space for the Redevelopment Area as a whole will not be reduced.
- Revisions to the Schedule to reflect that Redevelopment Project 1 will commence in May 2023 and is expected to be completed in October 2026, and that Redevelopment Project 3 will commence in May 2024 and is expected to be completed in December 2027.
- Revisions to the Redevelopment Project 1 budget page to correct a math error associated with the total On-Site Costs.
- Revisions to the data in the revenue projections and cost benefit analysis which are consistent with the changes described above.

This is a chart from page 3 of the Columbia Capital report which summarizes the changes to the TIF Plan after the TIF Commission meeting:

CHANGES FROM COMMISSION PRESENTATION		
Item	Original Project	Revised Project
Total Development Cost	\$956.5 million	\$951.0 million
Projected Incentives	\$212.2 million	\$227.4 million
Incentives as % of Dev Cost	22.1%	23.9%
Residential Units	2,930	2,797
Commercial Space (sf)	660,500	665,300
Structured Parking Stalls	1,520	1,860

Impact/Analysis:

The total project costs are estimated to be approximately \$951 million and the total amount of reimbursement that would be provided by the combined incentive package (TIF, CID, TDD, and Hotel Sales Tax Rebate) is approximately \$227 million which represents approximately 23.9% of the total project costs. The

TIF is anticipated to generate approximately \$198 million in reimbursement which represents approximately 20.8% of total project costs.

The attached staff memorandum contains a detailed summary of the TIF Plan data and information, including a summary of the cost benefit analysis presented by the proposed project.

The report from Columbia Capital Municipal Advisors, the City's financial advisor, provides significant detail on the "but for test" and the financial feasibility of the proposed TIF Plan in the attached Financial Advisor Report dated October 27, 2022. The primary conclusions of Columbia Capital are:

- Developer has presented sufficient information to permit the Commission to evaluate whether the Project as proposed is financially feasible.
- Developer has provided sufficient information to permit the Commission to determine that, as presented, the Plan, as modified by the October 20 afternoon modeling, would not provide a market rate of return and, therefore, meets the statutory but-for test.
- Columbia Capital's return assumptions are materially the same as the Developer's.

Columbia Capital made the following recommendations:

- The City should require new financial analysis for each phase of the Project, ideally including third-party support for construction cost estimates and potential net operating income projections.
- The City should impose finite limits on the amount of reimbursement that can be generated by the Developer from such phase.
- The City should require that certain levels of commercial development be required to "unlock" the Developer's access to reimbursement in each phase.

Columbia Capital also made a number of observations about the TIF Plan in the categories of the budget and cost projections, the Developer's capital stack, the appropriateness of incentive and the rate of return calculations. The report also made a number of detailed findings and additional considerations which are summarized in the staff memo and set forth in full in the report.

Wesley Fields, Bryan Cave Leighton Paisner law firm
David Bushek, Chief Counsel of Economic Development & Planning
Ryan Elam, Assistant City Manager

Recommendation: The TIF Commission recommended approval of the TIF Plan subject to certain conditions as set forth in TIF Commission Resolution 2022-1.