

Legislation Text

File #: 2023-5695, **Version:** 1

Conceptual Economic Development Incentive Request - Chapter 100 incentives for the Douglas Station Residential Project; Andy Mackey, applicant

Issue/Request:

This is a conceptual presentation pursuant to the City's Economic Development Incentive Policy for the request by Andy Mackey (the "Developer"), as the Developer of the Douglas Station Residential Project consisting of 150 residential units on approximately 6.3 acres of property located east of NW Commerce Drive and north of the Lee's Summit Police & Courts Facility, for sales and use tax exemption on construction materials and fixed payments in lieu of taxes (PILOTs) starting at \$1,350 per unit pursuant to Chapter 100 of the Revised Statutes of Missouri.

Key Issues:

Evaluation of a request for incentives in the form of sales and use tax exemption on construction materials and fixed PILOTs for 10 years starting at \$1,350 per door.

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:

Request

Developer is requesting a Chapter 100 economic incentive in the form of (1) sales and use tax exemption on construction materials and (2) fixed PILOTs starting at \$1,350 per door for a period of 10 years. The development is proposed to contain 150 residential units.

Impact/Analysis:

Sales and Use Tax Exemption

The sales tax exemption request would have an impact on the City based on the loss of sales and use tax revenues. City staff has preliminarily calculated that the lost sales and use tax revenue for the City would be about \$13,700 from lost sales taxes and \$137,000 from lost use taxes, for a total impact to the City of about \$151,000.

Fixed PILOTs / Real Property Tax Abatement

Developer has proposed a fixed PILOTs of \$1,350 per unit in the first year of the project. The property is currently generating nominal real property taxes. City staff has also calculated the projected taxes for the project using the calculation methodologies as explained by Jackson County staff.

The real property tax calculations prepared by staff shows that the per unit taxes would be \$2,414 per unit. This is effectively a 44% tax abatement request by Developer, with a 56% PILOT.

Benefit to Developer

The total benefit to the Developer from the sales and use tax request is about \$610,000. This is about 2.5% of the total project costs.

The total benefit to Developer from the fixed PILOTs, assuming that the County values the property as explained by County staff, would be about \$1.7 million over 10 years which has a net present value of \$1.1 million at an 8.5% discount rate (the current prime rate). This is about 4.7% of the total project costs.

The total benefit to Developer from both components of the incentive request is about 6.9% of total project costs.

Impact to City

The total impact to the City is about \$439,000, which includes \$288,000 from the fixed PILOTs structure and \$151,000 from the sales and use tax exemption.

Tax Projection Variables

There are variables that could impact the real property tax calculations:

- The County's valuation of the finished project might be higher or lower than we are projecting. We are using the methodology as explained to City staff by County Staff in the Assessment Department.
- If the company was not receiving an incentive package, the company might appeal the County valuation.
- The company might be successful with the appeal, meaning the actual taxes per unit would be lower than our projections.

Curt Petersen, Polsinelli Law Firm for applicants

Andy Mackey, applicant

David Bushek, Chief Counsel of Economic Development and Planning

Ryan Elam, Assistant City Manager