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Title: Conceptual Economic Development Incentive Request - Land Clearance for Redevelopment Authority sales tax exemption on construction materials and real property tax abatement; LS Industrial, LLC, applicant

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Attachments: 1. Developer Conceptual Presentation Slides, 2. Developer Incentive Modeling, 3. Sanitary Sewer Cost Estimate, 4. Water Main Cost Estimate, 5. Site Plan for water and sanitary sewer, 6. Staff Incentive Analysis, 7. Tax Abatement for Large-Scale Industrial Projects

Table with 5 columns: Date, Ver., Action By, Action, Result. Row 1: 6/7/2022, 1, City Council - Regular Session, presented

Conceptual Economic Development Incentive Request - Land Clearance for Redevelopment Authority sales tax exemption on construction materials and real property tax abatement; LS Industrial, LLC, applicant

Issue/Request:

This is a conceptual presentation pursuant to the City's Economic Development Incentive Policy for the request by LS Industrial, LLC ("Developer"), as the developer of an approximately 595,000 square foot industrial project to be constructed in two buildings on approximately 50 acres of property located east of Highway 291 South and south of Bailey Road, for sales tax exemption on construction materials and real property tax abatement through the Land Clearance for Redevelopment Authority Act. (This property was previously planned to be "The Grove" project by a prior developer.)

Key Issues:

Evaluation of a request for sales tax exemption on construction materials and real property tax abatement in the amount of 95% for the first 10 years and 50% for the second ten years.

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 an LCRA economic incentive in the form of (1) sales tax exemption on construction materials and (2) real property tax exemption in the effective amount of 95% for years 1-10 and 50% for years 11-20.

A summary of the key data associated with Developer's savings for the requested sales tax exemption on

construction materials results is:

ESTIMATED CONSTRUCTION BUDGET	\$46,569,400
EST. % OF CONSTRUCTION BUDGET THAT IS MATERIALS COST	40%
ESTIMATED CONSTRUCTION MATERIALS	\$18,627,760
SALES TAX RATE	7.850%
ESTIMATED SALES TAX EXEMPTION SAVINGS	\$1,462,279

The abatement request as a portion of the total project budget is:

- 3.1% Sales Tax Exemption on Construction Materials
- 14.8% Real Property Tax Abatement / Public Improvements Assessment (net present value)
- 17.9% Total Requested Incentives**

Public Improvements Assessment:

25% of the requested real property tax abatement during years 1-10 is in the form of a Public Improvements Assessment, which is imposed upon the tenants and paid to the Developer which results in effective abatement for the taxing districts, to reimburse Developer for \$1.2 million in costs associated with water and sewer improvements that will be constructed by Developer and which will have a regional benefit. The net present value of the Public Improvements Assessment is projected to cover 100% of the Developer’s public improvement costs.

A summary of the Developer’s overall abatement request is:

SUMMARY	
SALES TAX SAVINGS	
ESTIMATED SALES TAX EXEMPTION SAVINGS:	\$1,462,279
PUBLIC INFRASTRUCTURE REIMBURSEMENT	
ESTIMATED REIMBURSEMENT WITH PUBLIC INFRASTRUCTURE ASSESSMENTS:	\$1,218,403 (NPV)
PROPERTY TAXES/PILOTS TO TAXING JURISDICTIONS	
TOTAL ADDITIONAL PROPERTY TAX REVENUE FOR TAXING JURISDICTIONS:	\$2,316,238 (NPV)
PROPERTY TAX ABATEMENT TO ATTRACT TENANTS	
YEARS 1 - 10	75.00%
YEARS 11 - 20	50.00%

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 at this time. Developer will need to provide this data for the LCRA Plan.

Developer has calculated the effective tax abatement over the 20-year period results in about \$12.5 million in abated taxes (\$10.5 million in abatement and \$2 million for public improvement reimbursement). The City's portion of the real property tax revenues is historically about 17% of this amount, which would be about \$2.13 million in abated City real property taxes over 20 years. Developer's calculation of the tax benefits to the City is about \$1.06 million over 20 years.

Timeline:

Developer has not indicated when construction would begin. Both industrial buildings are projected to be constructed by year 2 of the abatement period.

Other Information/Unique Characteristics:

This is the second time that the City has received an incentive request for a large-scale industrial project. The request for this project is comparable to the incentive package that the City Council approved for the LS Logistics industrial park located north of Tudor Road and west of relocated Main Street. The requested tax abatement is the same as LS Logistics, but the Public Improvement Assessment does not extend beyond the first ten years for this project, resulting in a net abatement request of 50% rather than 75% during years 11-20.

Data has been collected for tax abatements provided for similar large-scale industrial projects on the Missouri side of the Kansas City metro area from 2015 through 2020. This data is included in the attached materials, and a summary of this data is:

- The average abatement duration is 19 years.
- The average abatement during years 1-10 exceeds 90%.
- The average abatement during years 11-20 is roughly 50% with some notable exceptions, and some projects incorporate an annual decline during this period.
- Some incentive packages include a fixed PILOT per square foot (Belton, Kansas City, Raymore); this has been incorporated into the abatement percentage calculation to create uniform data.

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