

Legislation Details (With Text)

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Conceptual Economic Development Incentive Request - Chapter 100 incentives for the Summit Square Phase III Apartments; NorthPoint Development, applicant

Issue/Request:

This is a conceptual presentation pursuant to the City's Economic Development Incentive Policy for the request by NorthPoint Development ("Developer"), as the developer of the Summit Square III Apartments consisting of two apartment buildings containing 323 residential units with an integrated clubhouse on approximately 11.4 acres of property located at 700 NW Ward Road, for sales and use tax exemption on construction materials and fixed payments in lieu of taxes (PILOTs) starting at \$1700 per door 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 \$1700 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 \$1700 per door for a period of 10 years.

The property is located at 700 NW Ward Road, which is to the west of the developing Summit Orchard

shopping area and the constructed Summit Square I and II Apartments (The Donovan).

The proposed development will be composed of two buildings containing 323 residential units

Prior Summit Square Apartment Incentives

On May 19, 2016, the City Council approved Ordinance No. 7889 which approved the Chapter 100 Plan for the Summit Square Apartments (Phase 1) and the associated implementation documents which provided for sales tax exemption on construction materials and a fixed PILOT in the amount of \$935 per unit. The Phase 1 project consists of 310 apartment units and the principal amount of the bonds was \$36,000,000.

On August 23, 2018, the City Council approved Ordinance No. 8440 which approved the Chapter 100 Plan for the Summit Square Apartments (Phase 2, later named “The Donovan”) and the associated implementation documents which provided for sales tax exemption on construction materials and a fixed PILOT in the amount of \$1,135 per unit. The Phase 2 project consists of five buildings and 326 apartment units and the principal amount of the bonds was \$48,460,00.

Comprehensive Plan

The 2021 Ignite Comprehensive Plan land use map identifies the subject site for the Phase III Apartments as the “Summit Activity Center.” The Comprehensive Plan described the Activity Center Summit as follows:

“The Summit Activity Center includes a range of commercial, industrial and residential options. Future development will introduce a range of residential densities that are walkable to nearby retail and open space opportunities. The Activity Center will continue to serve as a regional retail destination with the potential to serve as a community mobility hub, ensuring increased connectivity to all parts of Lee’s Summit, as well as Interstate 470 and Highway 50.”

The Summit Activity Center is centered on the Summit Fair Shopping Center, and includes a walking radius of about 15 minutes, or about three-quarters of a mile. The Summit Square III Apartment are at the eastern edge of this Activity Center.

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. Developer has projected that the lost sales and use tax revenue for the City would be about \$347,000 from lost sales taxes and \$257,000 from lost use taxes, for a total impact to the City of about \$604,000. City staff has run the same calculations and has produced approximately the same number as an impact to the City. Developer has proposed an issuance fee or other mechanism that would dampen the impact of the lost use tax revenue for the City.

Fixed PILOTs / Real Property Tax Abatement

Developer has proposed a fixed PILOTs of \$1700 per unit in the first year of the project. The latest County data shows that the average per unit taxes generated by the apartments where Chapter 100 incentives have been provided by the City in the past is \$1965 per unit. City staff has also calculated the projected taxed 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 about \$2486 per unit. This is effectively a 32% tax abatement request by Developer, with a 68% PILOT. City staff has calculated that the first year tax bill would be about \$803,000, as compared to \$549,000 through the proposed PILOTs structure.

Benefit to Developer

The total benefit to the Developer from the sales and use tax request is about \$1,764,000, which is about \$1,113,000 from sales tax savings and about \$652,000 from use tax savings. This is about 3.2% of the total project costs.

The total benefit to Developer from the fixed PILOTs, assuming that the County values as explained by County staff, would be about \$2.62 million over 10 years which has a net present value of \$1.97 million at a 5.5% discount rate. This is about 3.4% of the total project costs.

The total benefit to Developer from both components of the incentive request is about 6.6% of total project costs.

Impact to City

The total impact to the City is about \$1.09 million, which includes \$642,000 from the fixed PILOTs structure and \$604,000 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 NorthPoint were 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.

Other Information/Unique Characteristics:

This is the third apartment project proposed by the Developer in this area of the City.

Brian Benjamin and Brent Miles, NorthPoint Development
David Bushek, Chief Counsel of Economic Development and Planning
Ryan Elam, Assistant City Manager