

Legislation Text

File #: 2022-4732, **Version:** 1

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

Issue/Request:

On November 2, 2021 a conceptual presentation pursuant to the City's Economic Development Incentive Policy was made 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).

On February 22, 2022, the City Council evaluated an update on the Developer's incentive request. The Developer proposed a PILOT on all units in the project at the rate of \$1300 per unit per year. The Council's direction was for the Developer and staff to hold further discussions on the request and determine if a revised incentive request can be achieved that addresses the Council's lingering concerns and that is also satisfactory for Developer to undertake the project.

This is a status update on the incentive request based on Developer's changes to the request since the February 22, 2022.

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). The changes proposed by Developer since the February 22nd Council meeting are:

1. Increase the initial PILOT rate from \$1300 to \$1400 per door per year.
2. The annual PILOT will increase bi-annually at the rate of 1.5% during years 1-5, and then 3% during years 6-10.
3. Incorporate a mechanism that makes the PILOT during years 6-10 to be the lesser of (a) the amount described above or (b) the average taxes per residential unit among a list of 11 taxable multi-family residential projects in the City.

Proposed City Council Motion:

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

Background and Discussion of Revised Incentive Request:

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 presentation calls the second component a "Tax Certainty Payment" but the payment is intended to provide real property tax abatement.

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

The Developer has proposed the following changes to the PILOTs schedule and mechanism:

- The PILOT starts at \$1,400 per door in Year 1 for all types of residential units.
- The PILOT will increase at the rate of 1.5% bi-annually during years 1-5, and then 3% bi-annually during years 6-10.
- In years 6, 8 and 10 (the "Test Years") the PILOT may be evaluated and updated to equal the lesser of (1) the PILOT as it has been growing according to the method above, or (2) the average per door taxes of the following group of residential developments in the City (year indicates expected year out of Chapter 100 and back on the tax rolls; no year means already taxable):
 - a. The Residences at New Longview (2026)
 - b. Summit Square (2028)
 - c. Fairway at Lakewood
 - d. Manor Homes at Arbor Walk
 - e. Summit Ridge/ AMLI
 - f. New Longview/ Tower Park
 - g. Echelon (2030)
 - h. Meridian (2030)
 - i. The Donovan (2030)
 - j. Stags Field
 - k. Maple Estates

- PILOT Evaluation by Developer: Projects on the list above may be evaluated by Developer in the Test Years, using the process described below, to the extent that the project in the list above is constructed and on the tax rolls (with no abatement) in the applicable Test Year, using actual property taxes and number of units for the calculation.
- Request Process: Developer may request no later than August 15 during Test Years 6, 8 and 10 (expected in calendar years 2030, 2032 and 2034) that the alternative PILOTS Evaluation described above be used for the PILOTS calculation by presenting appropriate tax data to the City. If the tax data presented by Developer shows that the per-door average of the project list above would produce a PILOT that is lower than the scheduled PILOT for that Test Year, then the alternative PILOT shall be used for that Test Year.

The sales tax exemption on construction materials is 2.0% 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 in the range of 2% of 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 \$1400 per unit would be equivalent to a 28.8% tax abatement, as compared to the aggregate apartment data above. The abatement amount is higher if the County valuation would result in tax payments that exceed \$1,965 per unit per year.

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. **The Developer's revised request is to pay \$1,400 per townhome unit per year, with the escalation in annual PILOTS as described above. If the County's valuation of the units would result in tax payments of \$2000 per unit per year, for example, this would be the equivalent of 30% tax abatement in the first year.**

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. **The Developer's revised request is to pay \$1,400 per single-family unit per year, with the escalation in annual PILOTS as described above. If the County's valuation of the units would result in tax payments of \$2000 per unit per year, for example, this would be the equivalent of 30% tax abatement in the first year.**

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 approximate impact to the City from the apartment units:

$\$1965 - \$1400 = \$565$ abatement / unit / year

$\$665 \times 252$ units = $\$142,380$ abatement / year

$\$167,580 \times 10$ years = $\$1,423,800$

$\$1,423,800 \times 17\% = \$242,046$ impact to City real property tax revenues over 10 years

(The calculation above is approximate because it does not factor in the escalation clause discussion above.)

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.

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.

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