



# But-For Determination Report

Parkville, Missouri

Creekside Tax Increment Financing Plan

February 19, 2019

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*Mission Statement*

Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.

## 1. Purpose

The City of Parkville has retained Springsted to review the proposed Creekside Tax Increment Financing Plan. The proposal is to develop an approximately 337.7 acre site at the intersection of I-435 and Hwy 45/Tom Watson Pkwy. The site includes three corners of the intersection: the southwestern corner (south of Hwy 45 west of I-435), the southeastern corner (south of Hwy 45 west of I-435), and the northwestern corner (north of Hwy 45 east of I-435).

In total, the Developer is proposing to develop approximately:

- 170,000 square feet of new retail and restaurant space
- 30,000 square feet of grocery
- 4 hotels with approximately 440 guest rooms
- 400,000 square feet of industrial space
- 6 tournament quality youth baseball/softball fields
- 850 residential units
  - 390 owner occupied residential units
  - 460 multi-family rental units

A portion of the project scope will be developed by third parties who are not yet known at this time.

Additionally, the Developer will be undertaking necessary onsite and public infrastructure improvements.

The City has requested this analysis to determine the need for the requested assistance, based on the cost and operating pro forma information provided by the Developer. The analysis that follows examines whether the proposed redevelopment scenario would reasonably be anticipated to be developed without adoption of the requested financial assistance. We have approached this determination based on the proposed plans regarding redevelopment costs, outcomes, financing sources, and timing to develop a measure of the Developer's expected return when compared to the amount of risk.

If a development is owned and operated as an investment, a measure of return is calculated considering the time value of money and involves an assumed sale of the property at a price appropriate in the market place. This analysis is termed the Internal Rate of Return ("IRR"). The final determination is based on whether or not a potential IRR is reasonable without the requested subsidy, within the current marketplace and at the present time.

The Developer has requested assistance in the following forms:

**Statutory TIF Assistance** – The Developer is requesting statutory TIF assistance based on the capture of TIF eligible PILOT and EATS revenue.

**Hotel Sales Tax Rebate** – The Developer is requesting new sales taxes and Guest Room taxes applicable to hotel room sales be rebated to the Developer to reimburse eligible project costs. Sales taxes generated by hotel room sales are not automatically captured as TIF revenue, resulting in the Developer’s rebate request. The Developer is requesting different rates of rebate depending on the type of hotel sales tax.

**Transportation Development District Sales Tax** – The Developer has proposed the creation of a Transportation Development District (TDD) implementing a 1% sales tax on taxable sales within the TDD. The TDD boundary is to be coterminous with the boundaries of the TIF District. The Developer has projected revenues being generated by the TDD over a 30-year period, on which their estimate of reimbursable expenses is based, however the District will have an initial term of 40-years.

**Community Improvement District Sales Tax** – The Developer has proposed the creation of a Community Improvement District (CID) implementing a 1% sales tax on taxable sales within the CID. The CID sales tax boundary includes the TIF District boundaries and the ballfields and existing gas station. The Developer has projected revenues being generated by the CID over a 30-year period, on which their estimate of reimbursable expenses is based, however the District will have an initial term of 40-years.

**Community Improvement District Special Assessment** – The Developer has proposed the creation of a Community Improvement District (CID) imposing special assessments. The CID Special Assessment Boundary will include all lots containing single-family home and apartments located in Tract IX. The Special Assessment amount will be \$1,737 annually for each completed apartment unit, and \$400 annually for each completed single-family home. The CID Special Assessment will have a maximum term of 16-years for the apartments and 30-years for the single-family homes.

**Chapter 100 Sales Tax Exemption** – The Developer is proposing the use of a Chapter 100 to provide a sales tax exemption on the purchase of construction materials for the project. This sales tax exemption will provide a cost savings to both the Developer and the third-party developers who are undertaking vertical building costs. The sales tax exemption is projected to result in a total project cost savings of \$6,687,499, which is projected to result in a savings of \$3,307,615 for the Developer and \$3,379,884 for the third-party developers.

**Chapter 100 Property Tax Abatement** – The Developer is requesting the use of Chapter 100 property tax abatement for two components of the project.

For the 216 multi-family units constructed in Tract IX, the Developer has requested a 100% abatement of the property taxes for a period of 16-years. These apartment units will be subject to the annual CID Special Assessment amount of \$1,737/unit for a period of 16-years.

Additionally, the Developer is requesting the use of Chapter 100 property tax abatement for the retail portion of the mixed-use building in Tract VI for a period of 23-years. The multi-family portion of the mixed-use building will be taxed normally. The Developer has estimated the property tax savings due to the Chapter 100 abatement will be approximately \$172,513 annually.

The Net Present Value (NPV) of the requested total abatement assistance is approximately \$2,772,003 based on a 5% interest rate.

Total listed sources are outlined below in Table A. The specific mechanics of the assistance requests are detailed later in the Assistance Request portion of the report.

**Table A**

<b>Sources:</b>	
TIF Assistance	\$17,621,846
Hotel Sales Tax Rebate and Guest Room Tax	\$6,677,509
TDD Sales Tax	\$9,990,810
CID Sales Tax	\$9,990,810
CID Special Assessments	\$1,302,632
Costs Incurred by Others	\$192,299,000
Developer Debt & Equity	\$90,269,212
<b>Total Sources*</b>	<b>\$328,151,818</b>

## 2. Executive Summary

Shown in the tables below are the calculated internal rates of return with and without the subsidy request, based on the project costs and operating revenues of the proposed project. Determining if a project would occur without subsidy requires the testing of various assumptions which have a material effect on a project's feasibility. We have tested the sensitivity of the return without assistance by varying the cost and the revenue assumptions, each independently and then collectively. The reason for testing sensitivity is to illustrate the magnitude with which project assumptions would have to change in order for the project to be considered feasible without assistance. Table B, below, details the significant findings of the sensitivity analysis:

**Table B**

Without Assistance Sensitivity Analysis	Change Necessary to be Feasible	Rate of Return without Assistance
Decreased Costs	32% Decrease	8.7%
Increased Revenue	46% Increase	8.5%
Combined Cost and Revenue Changes	19% Decreased Costs 19% Increase Rev	8.7%

The table above indicates the magnitude at which project assumptions would have to change for the project to have a feasible rate of return without assistance. Based on the *RealtyRates.com Investor Survey, Fourth Quarter 2018* the current range of unleveraged market returns for a project of this nature is 7.45% to 17.55%, with an average of 13.02%. For purposes of the sensitivity analysis, we used the 8.5% rate of return for the project with assistance, as calculated in the Springsted Adjusted Pro Forma, as our feasibility benchmark against which the sensitivity analysis is measured. Absent the changes outlined above, the projects would not attract a return sufficient to exceed this feasibility threshold for investment and would not likely be completed through private enterprise alone.

Table C, below, illustrates the Developer's projected rates of return with and without assistance, as adjusted by Springsted:

**Table C**

SI Adjusted Pro Forma	With Full Assistance Request	Without Assistance
Unleveraged	8.5%	1.6%

### 3. The Project

The Developer is proposing the development of an approximately 337.7 square acre mixed-used site at the intersection of I-435 and Hwy 45/ Tom Watson Pkwy. The site includes land on three corners of the intersection: the southwestern corner (south of Hwy 45 west of I-435), the southeastern corner (south of Hwy 45 west of I-435), and the northwestern corner (north of Hwy 45 east of I-435).

The site is divided into four tracts: Tract I, Tract VI, Tract VIII, and Tract IX. Tracts I and VIII are entirely within the TIF boundary, a portion of Tract VI is within the TIF boundary, and Tract IX is not within the TIF boundary. The TIF District will not include any single-family or townhome uses.

#### Tract I: Creekside Industrial

Located on the southwestern corner of the site, Tract 1 comprises a total area of approximately 48.18 acres. The proposed use of this land is 400,000 square feet of industrial space, split amongst a proposed 29 individual lots. The developer intends to sell these parcels of land to third party developers. Construction of this portion of the development is projected to commence in 2021 and be completed in 2025.

#### Tract VI: The Woods at Creekside & Creekside Village

Located on the northwestern corner of the site, Tract VI comprises a total area of 141.17 acres. The Developer intends to develop:

- 18,500 square feet of full-service restaurants
- 2,600 square feet of quick-service restaurant
- 15,000 square feet of retail
- A mixed-use building containing 22,500 of mixed- use retail and 50 multi-family units
- 6 tournament level baseball fields.

A portion of the site will be sold to third party developers:

- Three hotels with approximately 320 units
- 4,700 square foot gas station
- 114 single family homes
- 176 townhomes, approximately

Construction of this portion of the development is projected to commence in 2019 and be completed in 2026.

#### Tract VIII: The Old Town at Creekside

Located on the north side of southeastern corner of the site, Tract VIII comprises a total area of 38.57 acres. The Developer intends to develop:

- 51,000 square feet of restaurant space

- 3,900 square feet of quick-service food
- Two mixed-use buildings containing 45,000 sf retail and 100 multi-family units

A portion of the site will be developed by third party developers:

- 30,000 square feet of grocer
- One hotel with approximately 120 units
- 6,500 square feet of commercial space

Construction of this portion of the development is projected to commence in 2019 and be completed in 2024.

Tract IX: The Meadows at Creekside

Located on the south side of southeastern corner of the site, Tract VIII comprises a total area of 70.63 acres. This tract will be developed by third parties.

- 101 single family homes
- 96 townhomes
- 216 multi-family apartments

The total cost of the project is detailed in Table D, below.

**Table D**

Costs Category	Total Project Cost	% of Total Project Costs	Private		TIF & Other	Community Improvement District (CID) Reimbursable Costs			Transportation Development Districts Reimbursable (TDD)	
			Developer Costs	Third Party	TIF & Hotel STR	CID Sales Tax Non-Eats	CID Special Assessment Non-EATS	CID EATS	TDD Non-EATS	TDD EATS
Land Acquisition	\$1,700,002	0.52%	\$304,750	-	\$1,041,636	-	-	\$176,808	-	\$176,808
Building Construction	\$255,924,000	77.99%	\$63,625,000	\$192,299,000	-	-	-	-	-	-
<b>Site Construction</b>										
Grading, retaining walls and site prep	\$9,896,500	3.02%	\$2,620,000	-	\$5,432,329	-	-	\$922,086	-	\$922,086
Sanitary Sewer	\$3,377,500	1.03%	\$1,616,000	-	\$1,165,750	-	\$200,000	\$197,875	-	\$197,875
Water	\$2,687,000	0.82%	\$950,000	-	\$1,147,460	-	\$200,000	\$194,770	-	\$194,770
Storm Water	\$3,141,000	0.96%	\$1,350,000	-	\$1,113,118	-	\$300,000	\$188,941	-	\$188,941
Roadway	\$7,691,254	2.34%	\$1,795,000	-	\$835,586	-	\$300,000	\$141,833	\$4,477,003	\$141,833
Surface Parking & Curbs	\$6,990,675	2.13%	\$492,800	-	\$4,123,384	-	-	\$699,905	\$974,681	\$699,905
Site Utilities	\$2,174,000	0.66%	\$725,000	-	\$1,081,762	-	-	\$183,619	-	\$183,619
Hardscape / Landscape	\$3,071,500	0.94%	\$1,055,000	-	\$1,505,434	-	-	\$255,533	-	\$255,533
Amenities/ Walking Trails	\$1,721,000	0.52%	\$1,136,000	-	\$436,736	-	-	\$74,132	-	\$74,132
Sports Fields	\$7,193,500	2.19%	-	-	\$1,342,591	\$5,395,125	-	\$227,892	-	\$227,892
Soft Costs	\$17,687,494	5.39%	\$9,703,269	-	\$5,073,569	\$463,494	\$302,632	\$868,799	\$406,935	\$868,799
Contingency	\$4,896,393	1.49%	\$4,896,393	-	-	-	-	-	-	-
<b>Total Development Costs</b>	<b>\$328,151,818</b>	<b>100%</b>	<b>\$90,269,212</b>	<b>\$192,299,000</b>	<b>\$24,299,355</b>	<b>\$5,858,619</b>	<b>\$1,302,632</b>	<b>\$4,132,193</b>	<b>\$5,858,619</b>	<b>\$4,132,193</b>
<b>Percentage of Total Costs</b>			<b>27.5%</b>	<b>58.6%</b>	<b>7.4%</b>	<b>1.8%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>1.3%</b>

## Acquisition

The Developer identified the total cost of purchasing the portions of the site not currently owned by the City as \$1,700,002. The cost estimate is based on the Developer's cost of acquiring the remainder of the site which they have under contract to purchase. The Developer is seeking TIF reimbursement for \$1,395,252 of the acquisition cost.

The purchase price of equates to approximately 0.52% of the total project costs.

## Hard Costs

We have taken the project cost information submitted by the Developer and grouped the following line-items together under the hard cost heading, which are outlined in Table E below.

**Table E**

Total Hard Costs	Total Project Cost	% of Total Project Costs	Private	Third Party	Total Assistance
Building Construction	\$255,924,000	77.99%	\$63,625,000	\$192,299,000	-
<b>Site Construction</b>					
Grading, retaining walls and site prep	\$9,896,500	3.02%	\$2,620,000	-	\$7,276,501
Sanitary Sewer	\$3,377,500	1.03%	\$1,616,000	-	\$1,761,500
Water	\$2,687,000	0.82%	\$950,000	-	\$1,737,000
Storm Water	\$3,141,000	0.96%	\$1,350,000	-	\$1,791,000
Roadway	\$7,691,254	2.34%	\$1,795,000	-	\$5,896,255
Surface Parking & Curbs	\$6,990,675	2.13%	\$492,800	-	\$6,497,875
Site Utilities	\$2,174,000	0.66%	\$725,000	-	\$1,449,000
Hardscape / Landscape	\$3,071,500	0.94%	\$1,055,000	-	\$2,016,500
Amenities/ Walking Trails	\$1,721,000	0.52%	\$1,136,000	-	\$585,000
Sports Fields	\$7,193,500	2.19%	-	-	\$7,193,500
Contingency	\$4,896,393	1.49%	\$4,896,393	-	-
<b>Total Hard Costs</b>	<b>\$308,764,322</b>	<b>94.09%</b>	<b>\$80,261,193</b>	<b>\$192,299,000</b>	<b>\$36,204,131</b>

The costs grouped together under the hard cost heading total \$308,764,322 which equates to approximately 94.09% of the total project cost.

Building construction totals \$255,924,000 which is 77.99% of the total cost of the project. A significant portion of building construction will be undertaken by third-party developers. Approximately \$63,625,000 will be undertaken by the Master Developer, or 24.9% of the total project cost.

The costs provided by Developer under the building cost line-item represent an all-in cost including vertical improvement cost, tenant improvements/FF&E, and landscaping/hardscaping improvements. Cost estimates from *Marshall & Swift* were measured against only the portion of the Developer cost assumption applicable to vertical costs, in order to draw an accurate comparison.

### Mixed-use Retail Buildings

The Developer is anticipating constructing three mixed-use retail buildings with an average of approximately 67,500 square feet. The Developer's projected cost of constructing these buildings are \$41,625,000 which equates to an all-in per square foot cost of \$205.56, which is 51.9% of the total hard costs incurred by the Developer. The Developer indicated the per square foot cost assumption applicable to vertical construction was \$123.34.

To provide a comparison, we compared the cost estimates to the *Marshall & Swift* range of cost estimates for the construction of mixed-use retail space. The *Marshall & Swift* estimate range for this type of building ranges from \$117.99 to \$127.04 depending on construction type, with an average of \$122.81. We find the Developer's vertical cost per square foot of \$123.34 reasonable.

#### Restaurant

The Developer is anticipating constructing eight restaurants with an average square footage of 8,781 square feet. The Developer's projected cost of constructing these buildings is \$17,375,000 which equates to an all-in per square foot cost of \$250.00, which is 21.6% of the total hard costs incurred by the Developer. The Developer indicated the per square foot cost assumption applicable to vertical construction was \$200.00.

To provide a comparison, we compared the cost estimates to the *Marshall & Swift* range of cost estimates for the construction of commercial restaurant space. The *Marshall & Swift* estimate range for this type of building ranges from \$156.80 to \$219.80 depending on construction type, with an average of \$181.78. We find the Developer's vertical cost per square foot of \$200.00 reasonable.

#### Retail

The Developer is anticipating constructing one commercial retail building of approximately 15,000 square feet each. The Developer's projected cost of constructing this building is \$3,000,000 which equates to an all-in per square foot cost of \$200.00, which is 3.73% of the total hard costs incurred by the Developer. The Developer indicated the per square foot cost assumption applicable to vertical construction was \$120.

To provide a comparison, we compared the cost estimates to the *Marshall & Swift* for a range of cost estimates for the construction of retail space. The *Marshall & Swift* estimate range for this type of building ranges from \$99.48 to \$133.38 depending on construction type, with an average of \$133.10. We find the Developer's vertical cost per square foot of \$120.00 reasonable.

#### Quick Service Restaurant

The Developer is anticipating constructing two quick service restaurants with an average of approximately 3,250 square feet for each building. The Developer's projected cost of constructing these buildings are \$1,625,000 which equates to an all-in per square foot cost of \$250.00, which is 2.02% of the total hard costs incurred by the Developer. The Developer indicated the per square foot cost assumption applicable to vertical construction was \$200.

To provide a comparison, we compared the cost estimates to the *Marshall & Swift* for a range of cost estimates for the construction of quick service

restaurants. The *Marshall & Swift* estimate range for this type of building ranges from \$200.31 to \$287.84 depending on construction type, with an average of \$240.83. The Developer's vertical cost estimate of \$200.00 appears reasonable based on this comparison.

The remaining Hard Costs include expenses related to improvement of the site, the extension of public utilities, street improvements adjacent, landscaping, and the addition of amenities/ walking trails to the site. The Developer budgeted these costs by working with engineers to estimate improvements required to serve the development and the required quantities of each improvement type. The quantity of dirt to be moved for grading, the length and width of roadways to be constructed, the diameters and lengths of water lines and sewer lines, square feet of parking lots, etc. After the quantities are prepared, costs on a per quantity basis were applied based on discussions with contractors and the developer's experience on similar projects, including projects in the immediate area. Collectively these costs total \$47,943,929 and 14.61%.

The contingency set aside for this project is \$4,896,393, and 1.49% of the total project cost.

The total for all hard costs is \$308,764,322 which represents approximately 94.61% of the total project cost. Consequently, this is a segment where project costs savings could have a positive effect on the rate of return realized by the Developer, while higher than estimated costs would have the converse effect. In the return analysis section of the report, we discuss the sensitivity of the rate of return to changes in the project costs and the effect on the return without assistance of a decrease in project costs.

## Soft Costs

For purposes of this review, we have grouped the cost categories in Table F below as Soft Costs:

**Table F**

Total Soft Costs	Total Project Cost	% of Total Project Costs	Private	Third Party	Total Assistance
General Conditions / Impact & Other Fees	\$1,020,000	0.31%	\$370,000	-	\$164,738
Professional Services	\$3,390,000	1.03%	\$911,588	-	\$872,940
Leasing, Sales Commissions & Marketing	\$4,668,825	1.42%	\$4,668,825	-	\$0
Financing Costs	\$4,275,000	1.30%	\$998,699	-	\$1,150,478
Development Fee	\$4,333,669	1.32%	\$2,754,157	-	\$722,503
<b>Total Development Costs</b>	<b>\$17,687,494</b>	<b>5.39%</b>	<b>\$9,703,269</b>	<b>-</b>	<b>\$2,910,659</b>

The total amount of the soft costs categories grouped under the soft cost heading totals \$17,687,494, which equates to approximately 5.39% of the total development costs.

Reviewing the soft cost categories for largest percentage of the total project costs to smallest, the largest soft cost line-item is the Leasing, Sales Commissions and Marketing cost of \$4,668,825. The cost estimate equates to approximately 1.42% of the total project costs.

The next largest soft cost line-item is the Development Fee of \$4,333,669. This cost estimate equates to approximately 3.4% of the total hard costs incurred by the Developer which is a reasonable basis for the Development fee.

The third largest soft cost line-item is the Construction Interest/ Closing at \$4,275,000. This cost includes the interest carry costs of the construction loan. This cost equates to 1.30% of the Developer's total cost estimate.

The next largest soft cost line-item is the Professional Service costs at \$3,390,000. This cost includes costs related to the engineering, architecture, legal, and Consulting/Other. This cost equates to 1.03% of the Developer's total cost estimate.

The remaining soft cost line-item is a combination of general conditions, impact and other fees which total \$1,020,000 and 0.31% of the total project costs. In the "Return Analysis" section of the report we discuss the sensitivity of the rate of return to changes in the project costs and the effect on the return of a decrease in project costs.

## 4. Assistance Request

The Developer is requesting assistance from the following sources:

**Statutory TIF Assistance** – The Developer is requesting statutory TIF assistance based on the capture of TIF eligible PILOT and EATS revenue.

The Developer is proposing the capture of TIF eligible PILOTS available to the Developer on a sliding schedule as follows:

- Y1-2019 – Y11-2029 – PILOT Capture at 50%
- Y12-2030 – Y17-2035 – PILOT Capture at 65%
- Y18-2036 – Y23-2041 – PILOT Capture at 75%

In addition, the Developer is proposing the City will capture PILOT payments from Tract 1 of on average \$100,000 annually to be used by the City to reimburse the cost of acquiring the City owned property. The City PILOT capture is projected to occur from Y5-2023 through Y21-2039, in the amount of \$100,000 annually, except the first and last payments will be partial amounts. The total gross value of the City PILOT capture is \$1,600,000. The City's capture of these PILOTS will be from revenue available after the application of the PILOT sharing formula identified above.

The Developer is also requesting EATS capture at the standard statutory rate of 50%. Technically, 50% of the CID and TDD sales tax revenue generated within the boundary of the TIF District will be captured as TIF EATS revenue. However, for the sake of illustrating the request we are illustrating this revenue separately under the CID and TDD headings later on in this section of the report.

Table G provides the anticipated net present value (NPV) of the TIF PILOT and EATS revenue requested by the Developer, the NPV amount is calculated based on an interest rate of 5%.

**Table G**

Statutory TIF Request*	NPV
PILOT TIF Revenue	\$8,642,619
EAT TIF Revenue	\$8,979,227
<b>Total TIF Request</b>	<b>\$17,621,846</b>

\*In calculating the TIF amounts above the Developer has made certain assumptions:

- In regard to the PILOTS revenue the Developer is assuming participation by the South Platte Fire District and Southern Platte Ambulance District of 100% of their available mill rate, prior to the

PILOT sharing ratio identified above. The final amount of the mill rate eligible to be captured by the TIF District will be subject to individual agreements with these taxing districts. If their participation is at a rate of less than 100% of their total mill rate, the amount of PILOT revenue available to the Developer will be less than the amounts shown here.

- With regard to the Developer’s EATS projections they have assumed the renewal of any existing sales taxes from which EATS revenue is generated. In the event these sales taxes are not renewed, or are replaced with new and different sales taxes, the amount of EATS revenue available to the Developer will be less than the amounts shown here.

**Hotel Sales Tax Rebate** – The Developer is requesting new sales taxes applicable to hotel room sales be rebated to the Developer to reimburse eligible project costs. Sales taxes generated by hotel room sales are not automatically captured as TIF revenue, resulting in the Developer’s rebate request. The Developer is requesting different rates of rebate depending on the type of hotel sales tax.

For the City’s 1.0% general sales tax and 0.5% transportation sales tax applied to hotel room sales, the Developer is requesting that 75% of the general sales tax and 50% of the transportation sales taxes be rebated.

For the City’s 5.0% Hotel Occupancy Tax, the Developer is requesting that 75% of the taxes applicable to the new hotel room sales be rebated to the Developer.

The ability to use either of the requested hotel tax rebates will be subject to the Developer having costs eligible to be reimbursed under the statutory authority of these sales tax rates.

Table H provides the anticipated net present value (NPV) of the requested forms of hotel tax rebates.

**Table H**

Hotel Tax Rebate Request	NPV
City General and Transportation Sales Taxes	\$1,084,955
City Hotel Occupancy Tax	\$5,592,554
<b>Total Hotel Sales Tax Rebate Request</b>	<b>\$6,677,509</b>

**Transportation Development District Sales Tax** – The Developer has proposed the creation of a Transportation Development District (TDD) implementing a 1% sales tax on taxable sales within the TDD. The TDD boundary is to be coterminous with the boundaries of the TIF District. The

Developer has projected revenues being generated by the TDD over a 30-year period, on which their estimate of reimbursable expenses is based, however the District will have an initial term of 40-years.

During the term of the TIF District the first 50% of sales taxes applicable to the 1.0% TDD sales tax will be captured as TIF EATS revenue and will be subject to reimbursing funds eligible under TIF statute. The remaining 50% of revenues generated will be captured as TDD, and will be limited to reimbursing TDD eligible expenses.

Table I provides the anticipated net present value (NPV) of the requested TDD assistance including the amount captured as TIF EATS.

**Table I**

<b>Transportation Development District Request</b>	<b>NPV</b>
TDD Revenues Captured as TIF EATS	\$4,132,191
Non-TIF TDD Revenues	\$5,858,619
<b>Total TDD Request</b>	<b>\$9,990,810</b>

**Community Improvement District Sales Tax** – The Developer has proposed the creation of a Community Improvement District (CID) implementing a 1% sales tax on taxable sales within the CID. The CID sales tax boundary includes the TIF District boundaries and the ballfields and existing gas station. The Developer has projected revenues being generated by the CID over a 30-year period, on which their estimate of reimbursable expenses is based, however the District will have an initial term of 40-years.

Similar to the TDD discussed above, during the term of the TIF District the first 50% of sales taxes applicable to the 1.0% CID sales tax will be captured as TIF EATS revenue and will be subject to reimbursing funds eligible under TIF statute. The remaining 50% of revenues generated will be captured as CID, and will be limited to reimbursing CID eligible expenses.

Table J provides the anticipated net present value (NPV) of the requested CID assistance including the amount captured as TIF EATS.

**Table J**

<b>Community Improvement District Sales Tax Request</b>	<b>NPV</b>
CID Revenues Captured as TIF EATS	\$4,132,191
Non-TIF CID Revenues	\$5,858,619
<b>Total CID Sales Tax Request</b>	<b>\$9,990,810</b>

**Community Improvement District Special Assessment** – The Developer has proposed the creation of a Community Improvement District (CID) imposing special assessments. The CID Special Assessment Boundary will include all lots containing single-family home and apartments located in Tract IX. The Special Assessment amount will be \$1,737 annually for each completed apartment unit, and \$400 annually for each completed single-family home. The CID Special Assessment will have a maximum term of 16-years for the apartments and 30-years for the single-family homes.

Once the CID Special Assessment is active and collected, the first \$300,000 in revenue will be remitted to the City for a period of 16-years, resulting in \$4,800,000 in revenue for the City. The Developer will receive the remaining CID assessment revenue following the remittance to the City. The estimated NPV of the amount Special Assessment revenue retained by the Developer, and eligible for reimbursement of CID eligible expenses is \$1,302,632.

**Chapter 100 Sales Tax Exemption** – The Developer is proposing the use of a Chapter 100 to provide a sales tax exemption on the purchase of construction materials for the project. This sales tax exemption will provide a cost savings to both the Developer and the third-party developers undertaking vertical building costs. The sales tax exemption is projected to result in a total project cost savings of \$6,687,499, which is projected to result in a savings of \$3,307,615 for the Developer and \$3,379,884 for the third-party developers.

**Chapter 100 Property Tax Abatement** – The Developer is requesting the use of Chapter 100 property tax abatement for two components of the project.

For the 216 multi-family units constructed in Tract IX, the Developer has requested a 100% abatement of the property taxes for a period of 16-years. These apartment units will be subject to the annual CID Special Assessment amount of \$1,737/unit for a period of 16-years.

Additionally, the Developer is requesting the use of Chapter 100 property tax abatement for the retail portion of the mixed-use building in Tract VI for a period of 23-years. The multi-family portion of the mixed-use building will be taxed normally. The Developer has estimated the property tax savings due to the Chapter 100 abatement will be approximately \$172,513 annually.

The Net Present Value (NPV) of the requested total abatement assistance is approximately \$2,772,003 based on a 5% interest rate.

Table K provides the anticipated sources that will be utilized to fund the redevelopment project.

**Table K**

<b>Sources:</b>	
TIF Assistance	\$17,621,846
Hotel Sales Tax Rebate and Guest Room Tax	\$6,677,509
TDD Sales Tax	\$9,990,810
CID Sales Tax	\$9,990,810
CID Special Assessments	\$1,302,632
Costs Incurred by Others	\$192,299,000
Developer Debt & Equity	\$90,269,212
<b>Total Sources*</b>	<b>\$328,151,818</b>

*\*Sources are shown prior to application of Chapter 100 sales tax savings.*

## 5. Return Analysis

Utilizing the operating pro forma prepared by the Developer we evaluated the need for assistance for the proposed development by comparing the potential return with and without assistance. The Developer provided a 10-year operating pro forma for the development based on a build-out and lease up period. The Developer's pro forma calculated an unleveraged Internal Rate of Return (IRR) after the 10-years of the pro forma. The return realized by the Developer is a result of the assumptions used in the creation of the operating pro forma, therefore a number of steps must be performed to analyze the reasonableness of the assumptions used.

### **Step One – Evaluate Project Costs:**

The first step in analyzing the return to the Developer is to determine if the costs presented are reasonable. We have discussed a portion of the costs above and have commented on the mechanics whereby cost savings on the private side could occur. If cost savings for the Developer's share occur absent any other changes, the Developer would realize a greater return than projected. In the following sensitivity analysis we examine the impact of cost savings on the projected rate of return without assistance.

### **Step Two – Evaluate Operating Pro Forma Assumptions:**

The second step in calculating the return to the Developer is to determine if the operating revenues and expenses of the proposed development are reasonable. The Developer projected average lease rates for the components they will be constructing/leasing, and pad sale price projections for the components they will be selling. The specific terms for both of these set of assumptions are confidential under the terms of a non-disclosure agreement requested by the Developer.

We reviewed the Developer's assumptions related to lease rates and pad sale prices and compared them with information for the Kansas City real estate market, and found the Developer's assumptions to be reasonable based on current assumptions. Additionally, within their pro forma the Developer adjusted the future pad sales to account for inflation in future years, as the pad sales are anticipated to occur over a period of 7-years. In the following sensitivity analysis we examine the potential impact of increased lease revenues and pad sale prices on the projected rate of return without assistance.

### **Step Three – Evaluate Hypothetical Sale Assumptions:**

The third step in analyzing the return to the Developer is to determine if the assumptions for the hypothetical sale of the asset are reasonable. The calculation of an internal rate of return requires the assumption of a hypothetical sale of the asset in the final year of the operating pro forma. The inclusion of this hypothetical sale is used purely for purposes of evaluating the return on the Developer's investment. The determination of the potential market value of the

project through a hypothetical sale is necessary as it allows for inclusion of the value of the asset into the rate of return calculation. The calculation of an IRR without the hypothetical sale would result in an understated return, as the return would not take into account the value of the real estate asset. The use of a hypothetical sale assumption is not indicative of the Developer's intention to sell the development in the final year.

The critical assumption when valuing the asset at the time of the hypothetical sale is the capitalization rate. The available net operating income divided by the capitalization rate results in the assumed fair market value of the asset. The Developer has used a capitalization rate of 7.50% for the project to calculate the hypothetical sale value, and has assumed a 4% cost of sale. In reviewing historical cap rate trends for retail developments, we feel the 7.50% capitalization rate is a reasonable assumption.

#### **Developer – Baseline Unleveraged Return Analysis:**

Table L below, shows the Developer's calculation for their base pro forma rate of return with and without the requested forms of assistance

**Table L**

Developer Pro Forma	Unleveraged IRR
Without Assistance	2.04%*
With Assistance	8.86%

*\*This amount was slightly higher in the Developer's pro forma as it includes the savings from the Chapter 100 Sales Tax Exemption in their without assistance analysis.*

#### **Springsted – Adjusted Unleveraged Return Without Assistance:**

Table M below, shows the Springsted Adjusted rate of return without assistance. The Springsted Adjusted return without assistance was slightly lower than the Developer's as it did not include the savings from the Chapter 100 Sales Tax Exemption

**Table M**

Springsted Adjusted Pro Forma	Unleveraged IRR
Without Assistance – SI Adjustment	1.6%

The rates of return identified above in the Developer Pro Forma and the SI Adjusted Pro Forma are reflective of the rate of return realized by the Developer

for the undertaking of the entire project, which incorporates development occurring both inside and outside of the TIF District Area.

The development proposal contains a mix of all types of development including, retail, industrial, mixed-use, multi-family, and residential development. In addition, the development proposal also includes the Developer constructing and operating a number of sports fields. The boundaries of the TIF District itself incorporate only the commercial/industrial and mixed-use aspects of the project, while the multi-family, residential, and sport field portions of the development proposal were excluded from TIF District. The Developer and SI Adjusted Pro Forma are reflective of the return realized by the Developer as a result of undertaking the project as a whole, and not just the specific portion within the TIF District Boundaries.

#### **Market Return Benchmark:**

To evaluate the rate of return required for a standalone un-incented project of this nature to be considered “feasible” we consulted the *RealtyRates.com Investor Survey, Fourth Quarter 2018*. This survey provides a resource to help determine feasibility of the project without incentives. According to the developers surveyed, the typical unleveraged market return necessary for them to pursue the new construction of a retail development of this nature falls in a range from 7.45% to 17.55%; with an average return of 13.02%.

#### **Sensitivity Analysis**

In order to answer the question “is the development likely to occur without public assistance” we analyzed the without incentive scenarios, using the Springsted Adjusted Unleveraged Return Analysis Pro Forma without assistance, for the project as a whole, as the basis for the sensitivity analysis. The sensitivity analysis is performed in order to understand the magnitude at which project costs would have to decrease, or conversely project revenues would have to increase, for the project to be considered feasible. For this sensitivity analysis we use a return of 8.50% as the feasible rate of return benchmark for performing our sensitivity analysis. This return benchmark of 8.50% was based on the Springsted Adjusted Return with assistance return, which was slightly lower than the Developer’s assumption with assistance of 8.86%, with both returns with assistance lower than the average return identified in the *Realty Rates Investor Survey*.

To understand the impact of the project cost assumptions, we performed a cost sensitivity analysis to determine the rate at which project costs would have to be reduced for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table N illustrates the development would need to realize a 32% reduction in project costs in order to be feasible without assistance. Given a 32% reduction in costs the project would have a rate of return of 8.7%.

**Table N**

Project Costs Sensitivity	Reduction in Project Costs	Rate of Return without assistance
	32%	8.7%

To understand the impact of increased revenues, we have performed a sensitivity analysis to determine the rate at which project revenues (lease income and pad sale prices) would have to increase for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table O illustrates the development would need to realize a 46% increase in project revenues for the project to be feasible without assistance. Given a 46% increase in lease revenues, the project would have a rate of return of 8.5% which falls into the reasonable range.

**Table O**

Project Revenue Sensitivity	Increase in Project Revenue	Rate of Return without assistance
	46%	8.5%

As a final step in the sensitivity analysis, and to understand the impact of a combined change in project costs and project revenues, we have performed a sensitivity analysis to determine the rate at which these areas would have to change for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table P illustrates the development would need to realize a combined 19% decrease in project costs and a 19% increase in project revenues for the project to be feasible without assistance. Given these changes in assumptions the project would have a rate of return of 8.7%.

**Table P**

Combined Sensitivity	Reduction in Project Costs	Increased Project Revenues	Rate of Return without assistance
	19%	19%	8.7%

The three tables above (Tables N, O, and P) indicate the magnitude at which project assumptions would have to change for the project as a whole to have a rate of return in excess of the 8.5% feasibility benchmark used in the sensitivity analysis. Absent changes of the magnitude outlined above, the project would not have a sufficient return to draw market investment. Only by assuming either increases in project revenues, decreases in project costs, or a combination

of the two does the return increase to a feasible level without public assistance. However, we project changes of the magnitude outlined above are unlikely to be realized, which indicates the proposed project, when viewed as a whole, would not likely be completed through private enterprise alone.

**Unleveraged Return With Assistance:**

Table Q below, shows the rate of return with varying levels of assistance. This return analysis is formulated on the Developer's baseline return, with the only adjustment being to assume a slightly different methodology for incorporating the assistance revenue within the pro forma. Springsted adjusted the with assistance pro forma to include the assistance coming into the pro forma annually in the manner in which pay-as-you-go TIF assistance is typically analyzed. The Developer had included the Net Present Value of the TIF assistance being capitalized into the project in five installments over the life of the TIF District. The Developer's methodology allowed for the timing the capitalization of the TIF revenue to potentially change the rate of return. The Springsted Adjusted with assistance return incorporates the assistance revenue stream into the project on a pay-as-you-go basis, which removes the potential impact on the timing of the capitalization. It also resulted in a slightly lower rate of return with assistance than the Developer's methodology.

**Table Q**

Springsted Adjusted Pro Forma – With Assistance – Total Development Area	Unleveraged IRR
With Chapter 100 Sales Tax Exemption	2.04%
With Chpt. 100 and TIF (PILOTS & EATS)	4.8%
With Chpt. 100, TIF, and CID (Sales Tax & Special Assessment)	6.4%
With Chpt. 100, TIF, CID, and TDD Sales Tax	7.7%
With Chpt. 100, TIF, CID, TDD, and Hotel Sales Tax Rebate	8.5%

## 6. "But For" Conclusion

The Developer is proposing the construction of approximately:

- 69,500 square feet of restaurant
- 6,500 square feet of quick service restaurant
- 15,000 square feet of retail
- Two mixed-use buildings containing 22,500 of mixed- use retail and 50 multi-family units
- A mixed-use building containing 45,000 sf retail and 100 multi-family units

Third party developers are proposing to develop approximately:

- 30,000 square feet of grocer
- 4 hotels with approximately 440 guest rooms
- 400,000 square feet of industrial space
- 4,700 square foot gas station
- 6 tournament quality youth baseball/softball fields
- 6,500 square feet of commercial space
- 700 residential units
  - 390 owner occupied residential units
  - 310 multi-family rental units

In addition, the Developer will undertake onsite improvements necessary to develop the site.

The Developer will bear all the risk until project completion and permanent financing is in place and continued operating risk thereafter. This level of risk demands a positive return with a comparable national market range of 7.45% to 17.55%, with an average of 13.02% as indicated in the *RealtyRates.com Investor Survey, Fourth Quarter 2018* report. As detailed above, the projected IRR to the Developer without assistance falls outside of the low-end of the range expected within the marketplace and significantly below the average return used as our feasibility benchmark. In comparison, the return with assistance is within the range, but below the average return.

Based on their assumptions for project cost and operating revenues, the development absent assistance is unlikely to be undertaken due to inadequate financial return. Therefore, we conclude the proposed project would not occur on this site at this time without a public subsidy.