Coalition for Kansas City Economic Development Reform

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EXHIBIT 3D
353 5/23/18

February 16, 2018

Mayor Sly James and Members of the City Council:

As a community-based organization, the Coalition for Kansas City Economic Development Reform has a committed interest in where and how economic revitalization happens in our city. Is the process transparent? Is the use of tax incentives racially equitable? Does it harm our schools, libraries and mental health service providers?

As an organization, we have a large number of concerns regarding the Three Light project the City Council will soon be considering.

In December of 2016, SB Friedman did a preliminary financial review of the project and concluded that, "the requested PIEA assistance does not appear to be needed in order to achieve market-level rates of return."

The Developer then adjusted the numbers and a second Financial Review was conducted by SB Friedman in February 2017. The following adjustments were made:

- Rent projects were lowered. The developer did not provide any specific new data or third-party independent analysis to support the revised assumptions.
- The 3% annual rent increase assumption was revised downward to 2% even though rents in downtown Kansas City are currently increasing at 3% per year and are projected to grow by at least 3% annually.
- All revenues, including residential rental revenues and non-rent revenues were adjusted downward from 3% to 2% annual inflation. No specific information was provided supporting the downward adjustment in the operating revenue escalation.
- Stabilized occupancy rate was decreased from a 95% occupancy stabilization rate in year 6 to a 93% occupancy stabilization rate in year 3. The developer indicated that this was due to an increasingly competitive luxury apartment market – one that the developer helped create with the building of One Light and Two Light. The industry standard occupancy rate is 95%. Anything less than 95% indicates the market may not be ready to support such a project.
- The interest rate on the Project's permanent load increased from 4.75% to 5%.

Each adjustment the developer made moved the project closer to being eligible for assistance. The cumulative outcome resulted in meaningful lower financial returns and a substantial effect on SB Friedman's assessment. If one accepts that these adjustments are valid, then, as the second SB Friedman review found, the project "would appear to require the full amount of requested PIEA assistance."

This juggling of numbers is not our only concern.

- This project received a score of 50 on the Advance KC scorecard; one point above the *Low Impact* rating.
- There is no provision for affordable units. It is our understanding that the developer made a commitment of 15% affordable housing.
- The public education portion, if all taxes were paid, would be approximately $14,714,467. With a 25-year abatement, the amount is reduced to about $2,716,000. Proportionate amounts would affect the libraries and mental health service providers. Must these taxing jurisdictions continue to subsidize new developments in un-blighted areas?

This project neither needs financial incentives, nor does it deserve them. Abatements should not continue for market-rate projects in well-established markets, and if developers want to build in a marketplace where there is high completion, they should do so – without incentives.

Our city cannot continue to cater to the rich. Building luxury apartments and hotels downtown must be balanced with providing jobs and affordable housing in all areas of our city – particularly those areas in greatest need. Our citizens deserve no less.

Jan Parks
Spokesperson for CKCEDR

JACKSON COUNTY
COMMUNITY MENTAL HEALTH FUND
EXCELLENCE • ACCOUNTABILITY • COMPASSION

February 21, 2018

TO: Chapter 353 Advisory Board

FROM: Bruce A. Eddy, PhD
Executive Director

I writing to express opposition to the 353 Advisory Board's financial support of the proposed Three Light project because it conflicts with the economic development priorities of Community Mental Health Fund.

My position is based on the ethical premise that public funds should not be used to subsidize luxury housing, particularly given the severe lack of affordable housing in Kansas City. The issue is especially severe for persons with disabilities such as chronic mental illness.

My opposition also comes in response to S.B. Friedman's independent analysis of the financial rationale for public incentives for Three Light. The analysis found scant justification for the incentives. And consistently, the Advance KC Scorecard found the project merited only one point above the "low impact" threshold. This was due to its sizable budget after city subsidies.

Deliberations of the recent City Council Finance and Governance committee revealed additional issues with the Three Light plan. Importantly, staff have communicated that approval is contractually required, however the City Attorney has apparently indicated that the reality is somewhat different, and that you may have other alternatives. A thorough review of the project also provides you an opportunity to assure that persons with disabilities and a range of income levels can find homes in a building receiving a large public subsidy.

Please communicate with the City Attorney's office regarding your alternatives. I also ask that you consider the needs of our citizens with disabilities, elders, and others with low incomes, as the priority for the large public financial incentives you are being asked to approve.

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Telephone: 816.842.7055 Fax: 816.842.7209
www.JacksonCountyCares.org

Three Light Financial Concerns

1. Compliance/Non-Compliance with City Ordinance 160383

Section 6. **Chapter 353**. That, in the absence of Extraordinary Qualifications, as hereinafter defined, the City Council shall not grant its approval to any development plan or substantial modification thereto recommend by the Kansas City Chapter 353 Advisory Board, unless such plan shall provide for not greater than a seventy-five percent (75%) abatement of real property taxes for the first ten years and thirty-seven and one-half (37.5%) for the following fifteen years, and which taxes shall, for the entire term, be measured by the assessed valuation thereof, inclusive of any improvements, as assessed by the applicable county assessor. The inclusion of such a term shall be regarded as substantial element of any plan so approved and shall be incorporated as a material term of any applicable contract.

Proposed Residential Building PILOT to taxing jurisdiction					Other KCMO ONLY Revenues
Year	Proposed PILOT	Residential Prop Tax	Abatement Level		EATS, Retail property, City property
1	175,000	795,121			1,305,717
2	175,000		78%		1,329,804
3	175,000	818,975			1,369,310
4	175,000		79%		1,394,837
5	175,000	843,544			1,435,653
6	175,000		79%		1,462,708
7	175,000	868,851			1,505,524
8	175,000		80%		1,534,193
9	175,000	894,916			1,579,119
10	175,000		80.5%		1,609,504
11	175,000	921,764			1,656,651
12	175,000		81%		1,688,854
13	175,000	949,417			1,738,342
14	175,000		82%		1,772,472
15	175,000	977,899			1,824,429
16	175,000		82%		1,860,603
17	175,000	1,007,236			1,915,161
18	175,000		83%		1,953,501
19	175,000	1,037,453			2,010,803
20	175,000		83%		2,051,440
21	175,000	1,068,577			2,111,634
22	175,000		84%		2,154,707
23	175,000	1,100,634			2,217,952
24	175,000		84%		2,263,607
25	175,000	1,133,653	85%		2,311,371
	$4,375,000	$23,702,427	82%		$44,057,893

- Of the $175,000 in PILOT payments to the taxing jurisdictions, approximately $108,640 is for KCPS.

- Approximately $2,716,000 will go to public education over the 25-year abatement (about 18%).
- Public education portion if all taxes were paid would be approximately $14,714,467.

- ~~The city does retain its share of the basic PILOT in additional to multiple other sources of revenue.~~
- The city has contracted to retain all "retail/commercial tax."
  - Can a municipality collect commercial property tax and limit distribution to other taxing jurisdiction by contract with the developer?
  - If it is legal, is this the right thing to do in this scenario? "Is it good for the children?"
- Pursuant to City Ordinance 160383, the EDC used the AdvanceKC Scorecard to determine the extent to which the project aligns with the City Council's priorities; the project received a Total Site Base Score of 50, which is the bottom score in the "Standard Impact" category.
- No updated blight study was completed, nor was a Cost Benefit Analysis completed for this $120 million dollar project.
- No blight study has been shared with the taxing jurisdiction.

2. SB Friedman Analysis

Pursuant to City Ordinance 160383, the EDC obtained a third party financial return analysis.

- The original preliminary financial review of the Three Light Development Project by SB Friedman was dated December 27, 2016.
- The developer originally requested a 25-year PIEA payment in lieu of taxes (PILOT) to make the project financially feasible. The developer had indicated that the costs associate with high-rise apartment construction and structured parking are driving the need for financial assistance, even with a grant from the City of $17.8 million.
- The preliminary financial review concluded in summary, the results of the Friedman analysis indicated that PIEA assistance does not appear to be necessary for the project to achieve viable market rates of return. SB Friedman had additional comments to support their findings as outlined in their "Conclusions and Recommendations" on page 7 of the original report.
- SB Friedman provided an Addendum to the Preliminary Financial Review on February 21, 2017, stating, "The Cordish Company (the "Developer") submitted new Project assumptions and an updated pro forma for a secondary review." Friedman provided the subsequent "Conclusions and Recommendations" based on the "new information."
  - One of the key items cited by the Developer as a concern to justify the decrease in rent assumptions is the large amount of supply entering the market and softening market conditions in general. A meaningful share of the competition for Three Light is from the One Light and Two Light developments, which previously received City and PIEA assistance. There is therefore a somewhat circular argument for assistance—market pressure from the Developer's own projects is reducing the projected Project cash flow, thus indicating a need for greater public assistance. In general, *SB Friedman* does not recommend providing long-term (25-year) assistance packages to address relatively recent/short-term concerns regarding absorption/oversupply.

- As a matter of policy, the PIEA may want to consider whether 25-year abatements should continue to be considered for market-rate projects in well-established markets or whether it is critical that a majority or all of the tax base increases start to flow to public coffers earlier in the life cycle of projects like Three Light. It is appropriate that One Light received a high level of public assistance (a City grant for each apartment unit built, PIEA assistance and a discounted land acquisition price) due to the development risk associated with introducing a new luxury residential product into an unproven market. However, One Light has performed at well over pro forma rents, meaning developer return projections have been exceeded. Following the overwhelming success of rents at One Light, Two Light received an adjusted assistance package with a higher PILOT, but also received City grants for each apartment unit and parking space, as well as the discounted land. While the Developer has requested PIEA assistance with an increased PILOT for Three Light (above the PILOT for both One Light and Two Light), the PIEA should consider whether the requested PILOT and duration of assistance is appropriate from a policy perspective, given that the luxury apartment market has been proven and downtown has been well established as a desirable neighborhood.

- The Project is in the very early stages of the development. In general, the Developer's revised information included a series of relatively minor changes in assumptions based on generalized concerns about the market. All of these changes were adverse to the Project's projected financial performance, and thus cumulatively result in meaningfully lower financial returns. This underscores the wide range of variables that may alter the Project's ultimate financial performance, depending on market conditions at the time the Project is ultimately built.

- In reading between the lines, it is apparent SB Freidman is cautioning the EDC and others in awarding a long-term incentive to the developer, especially at the risk of diverting money away from other non-city taxing jurisdictions.

3. Non-compliance with KCPS Board Policy 4.11
   - The requested incentive is in conflict with Board Policy, which states;

The Superintendent shall neither cause nor allow KCPS staff, employees, independent contractors or other KCPS representatives to promote, support, or sponsor development proposals that place KCPS, as a taxing jurisdiction dependent on revenue derived from property taxes, in fiscal jeopardy.

Without limiting the above and based on analysis and information available at the time of the projects/proposals the Superintendent shall not cause or allow KCPS to:

1. Support development projects and/or proposals that will not provide sustained economic growth for the KCPS community, or that do not advance the mission of KCPS.
2. Support projects/proposals for tax incentives and/or tax abatements unless it is clear such projects/proposals would not be undertaken "but for" the public assistance of tax abatements, TIF redirection of taxes, or other statutory incentive measures. ("But for" as described in a credible official public analysis.)
3. Support development projects and/or proposals where the abatement(s)/ incentive(s) exceed the length of time reasonably necessary for the project.

4. Support development projects and/or proposals that do not provide KCPS with payments in lieu of taxes (PILOTS) in an amount sufficient to offset the additional costs to KCPS as a result of the project.
5. Fail to cooperate with, or consider the positions, of the similarly situated taxing jurisdictions on development projects/proposals requesting tax incentives and/or tax abatements when analyzing the rationale for the request(s) on development projects/proposals.

Kevin E. Masters
Director, Government Relations
KC Public Schools

<Scott.Wagner@kcmo.org>; Teresa Loar - City of Kansas City (teresa.loar@kcmo.org) <teresa.loar@kcmo.org>
Cc: Debbie Siragusa <debbiesiragusa@kclibrary.org>
Subject: Three Light Luxury Development Subsidies

Dear Mayor James and City Council,

The Kansas City Public Library wishes to register its opposition to the proposed subsidies of the Three Light development. The City has increasingly designed an economic development program and a tax structure that subsidizes real estate for wealthy, frequently out of town owners, with tax dollars meant for social services. Commercial property owners have learned from the City they no longer need to assume any responsibility as taxpayers or citizens.

The "but for" test is met in the Three Light proposal by the statement that Three Light must be subsidized in order to compete with Two Light and One Light. Every middle school child must be able to see the devastatingly bad logic and the implication that therefore subsidies will never end; that all development in Kansas City must be subsidized, or development will stop.

The Library supported the initial Power and Light program—though it was negotiated and finalized away from public scrutiny, and therefore gave away too much to the developer—an ongoing problem for the city as witness the initial airport "negotiation". The initial development did at least meet the 'blight" test. Three Light clearly does not.

It is equally NOT economic development and would pass no serious scorecard combining development and community benefit. There are virtually no permanent jobs that don't replace other jobs somewhere in the metro as the tenants of Three Light are simply young upscale singles moved from –with subsidy— other unsubsidized parts of the city.

As we continue to fund these developments with property tax dollars that should have gone to the schools, libraries, mental health treatments, blind pensioners and community colleges there are three bad public policy results.

1. Our tax system was designed to share the burden equally between commercial and residential property owners. We are moving to a system that it is closer to %70 residential and %30 commercial. That redistributes the tax burden in an unequal and regressive way.
2. Almost all the subsidies go to the wealthiest developers or corporations, many of them out of town, or living in Johnson County. Again a regressive and in some ways just plain dumb, redistribution of Kansas City Missouri taxes.
3. These taxes would have been used for social services that primarily benefit the poor, minority, economically and educationally challenged residents of Kansas City.

In short, at a time when everybody in the United States is concerned about inequality the members of the Kansas City Council over the last four or so councils have created one of the most regressive tax systems in the United States.

BUILDING a COMMUNITY OF READERS

Crosby Kemper III
Director, The Kansas City Public Library | 816.701.3601 | crosbyk@kclibrary.org

Join us in Building a Community of Readers!

From: Debbie Siragusa <debbiesiragusa@kclibrary.org>
Sent: Thursday, March 22, 2018 1:03 PM
To: Dan Moye <dmoye@edckc.com>
Subject: FW: Three Light Luxury Development Subsidies

Hello Dan:

Can you please include this email in the upcoming 353 Board Packet.

Thank you!

Debbie

BUILDING a COMMUNITY OF READERS

Debbie Siragusa
Deputy Director of Administration / Chief Financial Officer, The Kansas City Public Library | 816.701.3515 | debbiesiragusa@kclibrary.org

Join us in Building a Community of Readers!

From: Crosby Kemper III
Sent: Thursday, March 22, 2018 9:20 AM
To: Alissia Canady (alissia.canady@kcmo.org) <alissia.canady@kcmo.org>; Dan Fowler (dan.fowler@kcmo.org) <dan.fowler@kcmo.org>; Heather Hall (heather.hall@kcmo.org) <heather.hall@kcmo.org>; Jermaine Reed (jermaine.reed@kcmo.org) <jermaine.reed@kcmo.org>; Jolie Justus (jolie.justus@kcmo.org) <jolie.justus@kcmo.org>; Katheryn Shields (katheryn.shields@kcmo.org) <katheryn.shields@kcmo.org>; Kevin McManus (kevin.mcmanus@kcmo.org) <kevin.mcmanus@kcmo.org>; Lee Barnes (lee.barnes@kcmo.org) <lee.barnes@kcmo.org>; Mayor Sly James (sj@kcmo.org) <sj@kcmo.org>; Quinton Lucas (quinton.lucas@kcmo.org) <quinton.lucas@kcmo.org>; Scott Taylor (scott.taylor@kcmo.org) <scott.taylor@kcmo.org>; Scott Wagner (Scott.Wagner@kcmo.org)