EXHIBIT 2

CHAPTER 353 10/24/18

ECONOMIC DEVELOPMENT CORPORATION
Chapter 353 Program

BOARD MEETING MINUTES

DATE: May 23, 2018
TIME: 8:30 a.m.
PLACE: Town Pavilion, Jackson Room
1100 Walnut, 17th Floor, Kansas City, Missouri

1. **Roll Call.**

Present: Faiza Alhambra (*via telephone*)
Daniel Edwards
Steve Hamilton
Gabriel Okafor

Absent Pat Contreras

Staff: Greg Flisram, 353
Susan Tumey, 353
Dan Moye, EDC

Chapter 353 Legal Counsel Marti Schach, Schach Law Offices

Guests: Brian Rabineau, City of Kansas City, City Attorney
Kevin Masters, City of Kansas City, School District
Kevin Collison, City Scene KC
Jan Parks, CKCEDR
Bruce Eddy, Community Mental Health Fund
Nick Benjamin, Cordish
Angie Liles, Kansas City School District parent advocate
Jennifer Wolfsie, Kansas City School District parent advocate
Charlie Keegan, KSHB Channel 41
Lance Dorn, S.B. Friedman (*via telephone*)
Fran Lefor Rood, S.B. Friedman (*via telephone*)
Rich Cook, Stinson Leonard Street

Chairman Hamilton called to order the meeting of the Chapter 353 Advisory Board and declared a quorum as Commissioners Edwards and Okafor were present in person and Commissioner Alhambra was present by telephone

2. **Administrative** - *Review and approval of March 28, 2018 Meeting Minutes* (**Ex. 2**)

ACTION TAKEN: APPROVED THE MINUTES FOR MARCH 28, 2018 AS PRESENTED. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. OKAFOR, AND CARRIED UNANIMOUSLY.

3. **<u>Block 139 Chapter 353 Development Plan (Three Light)</u> –** *Consideration of Approval of Block 139 Chapter 353 Development Plan (Three Light)* (**Ex. 3A-3E**) (Dan Moye)

Mr. Hamilton advised that his former employer, Stinson Leonard Street, currently served as Cordish's attorneys. He said that he had performed work for Cordish prior to his retirement from the firm but that none was related to Three Light. He added that he had no financial or other connection with Cordish or Stinson since his retirement. Mr. Hamilton stated that there was no conflict of interest but wanted to notify the Board in case any Commissioners had concerns about the same. No Commissioner voiced a concern.

» **<u>Project Overview</u>**

- 300 unit apartment building with retail and amenity space to be built on a surface parking lot immediately west of Two Light at a cost of $120 Million (*Moye*)
  - Construction to begin in late December 2018 and end in 2020

» **<u>Financial Analyses – Overview</u>** [*all statements made by Ms. Rood unless otherwise noted*]

- Original analysis prepared in December 2016 found that project did not need incentives ("2016 Analysis")
- Updated analysis prepared in January 2017 after receipt of additional information from Cordish indicated that incentives were necessary ("2017 Analysis")
  - SBF performs an original analysis on all projects and then does or doesn't make revisions if additional information is forthcoming from the developer (*Moye*)
  - Budget figures in 2016 Analysis were preliminary
- S.B. Friedman ("SBF") was not involved with the project after January 2017, so any subsequent changes are not reflected in its two analyses
- Developer's incentive request was considered under pre-Ordinance levels at 100% for 10 years and 50% for the following 15 years

» **<u>Financial Analyses – Differences/Changes</u>** [*all statements made by Ms. Rood unless otherwise noted*]

- Cordish receives grants under its 2004 Master Development Agreement ("MDA") with the City ("City grants") for its downtown apartment units and parking spaces
  - 2016 Analysis found that City grants were sufficient to bring project to market appropriate returns and no tax incentives were necessary
  - 2017 Analysis was revised based on conversations with EDC staff about the number and size of the parking grant (*Dorn*)
  - Developer asserted that high construction costs for a structured downtown high-rise parking garage were the primary cause for additional incentives
  - Both scenarios assumed full receipt of City grants
- SBF reduced developer's $5,000,000 land contribution cost to project to the actual $200,000 purchase price under the MDA
- Conventional debt changed from 56% of total development costs in the 2016 Analysis to 61% in the 2017 Analysis, both of which are in range of new construction projects
- Interest rate of 4.75% in 2016 Analysis was increased to 5% in 2017 Analysis, both of which were in market ranges

- Developer inflated One Light's cash flow by 3% annually for three years in the 2016 Analysis to calculate the same for Three Light
  - Two Light was not used because it was still under construction at the time the 2016 Analysis was prepared
  - 2% was used in the 2017 Analysis
- Developer inflated Two Light's costs by 5% per year to arrive at estimates for Three Light
- Non-retail rents in 2016 Analysis were $2.30 per square foot which was above what was being achieved during the same time period
  - Revised to $2.25 per square foot in 2017 Analysis
  - Rents on Costar for One Light and Two Light were $2.16 and $2.52 per square foot respectively
  - Other downtown projects rents ranged from $2.15 to $2.30 per square foot
  - Retail rents were $30 per square foot, which is appropriate for the area
- Occupancy rate of 93% in 2016 Analysis was adjusted to 95% in the 2017 Analysis, which is typical for new construction projects
- Operating expenses revised from 21% of revenue at stabilization in 2016 Analysis to 25% in 2017 Analysis
  - Substantial increase in percentage basis
- Three Light reviewed on two unleveraged return metrics because financing was preliminary so the amount of developer equity was unknown
- Cumulative effect of these small but adverse revisions was substantial because they all negatively impacted the project's cash flow and returns

» **SBF Recommendations**

- Conduct a certified review of construction costs and stabilized rents just prior to groundbreaking and a second one during construction
  - EDC could then revise the project's level of assistance if the project was experiencing cost savings or rent performance not shown in its proforma
- Require audited financials upon stabilization in year 5 of the project to determine if the project's actual returns and incentives should be reduced or terminated
- Require the developer to adhere to a defined development schedule to ensure that the project is developed under the policy goals and market conditions used to determine the project's need for incentive
- SBF does not usually make such recommendations but feels the public sector should share in upside of project, especially since City land contribution and public sector has participated in previous two projects which established market for this project

» **Board Considerations re Financial Analyses/SBF Recommendations**

- Payment of PILOTS included in SBF analyses (*Hamilton/Rood*)
- All SBF adjustments fell within normal ranges (*Hamilton/Rood*)
  - Original figures in 2016 Analyses were at high end while the 2017 Analysis figures were more conservative and at low end (*Dorn*)

- Rent rolls from One Light were provided to SBF as well as the developer's projections for Three Light (*Edwards/Dorn*)
    - Average rent for studios is $1,300, 1 bedrooms are $1,700 to $2,100, 2 bedrooms are $2,400, and the penthouses are $3,000 to $5,000 per month (*Alhambra/Rood*)
    - If Three Light outperforms the baselines outlined in the 2017 Analysis, it would not need financial assistance for the entire period (*Alhambra/Rood*)
- Clawback/SFB 5-year audit recommendation
    - County would have to determine how to clawback any monies if project's performance shows that tax incentives were not necessary (*Okafor/Flisram*)
    - City may have the authority to conduct annual reviews of this project under its redevelopment agreement with developer but not aware of any other projects which have been monitored for this reason (*Hamilton/Rabineau*)
    - Project may proceed even without incentives (*Okafor/Rabineau*)
    - Each project is analyzed separately and, while One Light has outperformed, it is too early to determine if Two Light has (*Okafor/Rabineau*)
    - Tax incentives provided to projects which don't need them reduces the amounts available to projects and areas which do (*Okafor/Rabineau*)
- SBF recommendations were available to the City Council when it approved the project's structure but were not incorporated (*Rabineau/Hamilton*)
- City will forego its portion of the $175,000 annual 25-year PILOT enabling other taxing jurisdictions to share a larger portion of the payments (*Hamilton/Rabineau*)
    - Developer will also be making contractual payments over $300,000 to the City which are not part of the PILOT

» **Affordable Housing/Midland Office Building ("Midland")**

- City restricted the development of Light buildings to six and Three Light through Six Light will each be 10% affordable (*Rabineau*)
- 100 affordable units will be in the Midland Office Building at 12th and Baltimore rather than the Light buildings (*Rabineau*)

» **Board Considerations re Midland**

- Sounds like maintaining the City's status quo by warehousing the poor people to one area and the rich in another (*Edwards/Rabineau*)
- City Council approved the Midland location for affordable housing when it approved the 13th Amendment to MDA in April 2018 (*Okafor/Rabineau*)
    - Developer was not asked to include an affordable housing component until recently and the Midland compromise was considered a better option than not having any affordable housing included in the project
- Neither City nor the LCRA are bound to grant any tax incentives to the developer (*Okafor/Rabineau*)
- City is contributing $2 Million to the Midland project for the first 100 units (*Edwards/Okafor/Rabineau*)
    - City is also contributing $17 Million to the Three Light project

» **Developer Response**

- One and Two Light incentives (*Benjamin*)
  - One Light – (1) parking paid by City; (2) $8 Million grant for apartments from City; (3) 100% tax abatement for 25 years; and (4) PILOT is $225,000 per year
  - Two Light – (1) parking paid by City; (2) $5 Million grant for apartments from City; (3) 100% tax abatement for 25 years; and (4) PILOT is $350,000 per year
  - Parking payments are mandated by the MDA
  - Costar projections of $1.10 to $2.20 a square foot for One Light were correct
  - One Light occupancy dipped to 87% last year
- Three Light incentives and risks (*Benjamin*)
  - Parking grants are being reimbursed
  - No incentive payments for apartments
  - Developer will incur financial losses from its assumption per the MDA 13th Amendment of two Power & Light parking garages from the City
  - Three Light project cannot proceed financially without tax savings of @ $220,000 - $250,000 per year
  - Banks will not finance if a clawback is possible if projections are met for one year but not the next
  - Construction costs and interest rates have risen

» **<u>Taxing Jurisdiction Response</u>**

- Developer's own public assisted projects are causing the competition necessitating Three Light's need for incentives (*Masters*)
  - If pool of people who want to live downtown at luxury prices is limited, adding more units challenges all of the projects

[*SBF terminated their participation in the meeting at this time*.]

- Three Light should be covered by cap Ordinance with 25% PILOT in years 1-10, a 50% PILOT in years 11-25, and a review of the project's 5-year finances to determine if a clawback was necessary (*Masters*)
  - Developer's combined payments of the PILOT and to the City are above 25% (*Moye*)
  - Section 17 of the cap Ordinance states that amendments to existing agreements are exempt from the Ordinance (*Rabineau*)
- Circular nature of self-competition and the lack of information about developer's payments to the City should also be considered by the Board (*Masters*)
- City's forbearance of PILOT payments in various years does not greatly increase the benefit for other taxing jurisdictions (*Edwards/Hamilton/Masters*)
- City needs to include other taxing jurisdictions in its already initiated discussions about Four Light (*Masters*)
- Project design is outmoded and obsolete because it comes from the 2004 MDA and is an economic and social liability (*Eddy*)
- Project incentives should be similar to the caps used by St. Louis and limited to 15 years (*Parks*)
- Kansas City needs more mixed income housing, not the segregated housing proposed by this developer (*Parks*)
- Loss of taxes from luxury projects is an especially heavy blow to schools (*Liles*)

» **<u>Board Discussions</u>**

- Staff recommends support of the project as requested (*Flisram*)
  - Affordable component was not proposed to the developer until after the financial review
  - Staff remains committed to affordable housing in the Kansas City area
  - Inclusion of affordable units within Three Light may not be achievable through subsidy or without large financial contributions from the City
  - City needs density, which requires subsidy, to compete with larger cities for jobs
- Developer's MBE/WBE goals have been established for Three Light (*Hamilton/ Benjamin*)
- Oppose project:
  - City agreement to the separate affordable component is an embarrassment as it signals continued adherence to segregating communities (*Edwards*)
  - Density can be created by incentivizing less expensive projects (*Edwards*)
  - Proposed plan does not includes SBF recommendations regarding clawbacks or audits (*Okafor/Moye*)
- Support project:
  - City Council has already approved the separate affordable housing component (*Hamilton*)
  - PILOT reduces tax abatement to less than 75% (*Hamilton*)
  - Project provides some monies to City and taxing jurisdictions (*Hamilton*)
  - Developer assuming responsibilities for two Power & Light garages (*Hamilton*)
  - Developer and City deeply invested in Power & Light district which won't survive without people willing to spend money (*Hamilton*)
  - Without contractual payments from developer, City would have to find other funds to pay its project debt (*Hamilton*)

ACTION TAKEN: MR. HAMILTON MADE A MOTION, SECONDED BY MS. ALHAMBRA, TO APPROVE A RESOLUTION RECOMMENDING A FINDING OF BLIGHT BY THE CITY COUNCIL IN THE PROPOSED BLOCK 139 CHAPTER 353 REDEVELOPMENT PLAN AREA AND RECOMMENDING CITY COUNCIL APPROVAL OF THE BLOCK 139 CHAPTER 353 REDEVELOPMENT PLAN. THE MOTION FAILED BY THE FOLLOWING VOTE.

MS. ALHAMBRA	AYE
MR. EDWARDS	NAY
MR. HAMILTON	AYE
MR. OKAFOR	NAY

MR. OKAFOR MADE A MOTION, SECONDED BY MR. HAMILTON, TO APPROVE A RESOLUTION RECOMMENDING A FINDING OF BLIGHT BY THE CITY COUNCIL IN THE PROPOSED BLOCK 139 CHAPTER 353 REDEVELOPMENT

PLAN AREA AND RECOMMENDING CITY COUNCIL APPROVAL OF THE BLOCK 139 CHAPTER 353 REDEVELOPMENT PLAN INCLUSIVE OF THE S.B. FRIEDMAN RECOMMENDATIONS AS OUTLINED ON PAGES 5 AND 6 OF THEIR FEBRUARY 21, 2017 FINANCIAL REPORT TO THE BOARD. THE MOTION PASSED BY THE FOLLOWING VOTE.

MS. ALHAMBRA	AYE
MR. EDWARDS	NAY
MR. HAMILTON	AYE
MR. OKAFOR	AYE

(*RES. NO. 5-1-18*)

4. **<u>Administrative</u> -** *Consideration of Open Meetings Policy and 353 Handbook/Policies & Procedures for Advisory Board* (Greg Flisram/Marti Schach) (**Ex. 4A-4B**)

ACTION TAKEN: TABLED APPROVAL OF THE OPEN MEETINGS POLICY AND 353 HANDBOOK/POLICIES & PROCEDURES FOR ADVISORY BOARD TO A FUTURE MEETING.

5. **<u>Administrative</u> –** *Executive Director's Report* (**Ex. 5**) (Greg Flisram)

ACTION TAKEN: TABLED TO A FUTURE MEETING

ADJOURN

There being no further business, the meeting adjourned at 9:10 a.m.

Greg Flisram, Secretary