
BOARD MEETING MINUTES

DATE: May 23, 2018
TIME: 9:30 a.m.
PLACE: Jackson Room, 17th Floor, Town Pavilion
1100 Walnut, Kansas City, Missouri

1. Roll Call.

Present: Faiza Alhambra (*via telephone*)
Pat Contreras
Daniel Edwards
Steve Hamilton

Absent: Gabriel Okafor

Staff: Greg Flisram, LCRA
Susan Tumey, LCRA
Lee Brown, EDC
Cathleen Flournoy, EDC
Bob Long, EDC
Dan Moye, EDC
Sandra Rayford, EDC

LCRA Legal Counsel: Brian Engel, White Goss

Guests: Andrew Bolton, 905 Broadway, LLC/Milliner Lofts
Muhannad Dinn, Abbott Properties
Craig Donnell, Abbott Properties
Bailey Hyatt, Abbott Properties
Kevin Masters, City of Kansas City, Public School District
Kevin Collison, City Scene
Robert Andrew, MAC Corporation/BA Property, LLC
Roxsen Koch, Platform KC Club/Polsinelli
Evan Walsh, Platform KC Club
Lance Dorn, S.B. Friedman (*via telephone*)
Michael Lampl, S.B. Friedman (*via telephone*)
Fran Lefor Rood, S.B. Friedman (*via telephone*)

Chairman Hamilton called to order the monthly meeting of the Board of Commissioners of Land Clearance for Redevelopment Authority and declared a quorum as Commissioners Contreras and Edwards were present in person and Commissioner Alhambra was present via telephone.

2. Administrative – Review and Approval of Meeting Minutes for April 25, 2018 (Ex. 2)

ACTION TAKEN: APPROVED THE MINUTES FOR APRIL 25, 2018, AS PRESENTED. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. CONTRERAS, AND CARRIED UNANIMOUSLY.

3. **Financial** – *Review and acceptance of Financial Report for the Month of April, 2018* (Lee Brown) (**Ex. 3**)

Mr. Brown advised about the April 2018 financial report:

- Not much financial activity in the month of April
- No 30-day past-due accounts on legal invoices
- Final financials for fiscal year 2017 before audit
- Bond issuance liability still needs to be recorded, which will adversely affect financial statements ending December 31, 2018

ACTION TAKEN: ACCEPTED THE FINANCIAL REPORT FOR APRIL, 2018, AS PRESENTED. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. CONTRERAS, AND CARRIED UNANIMOUSLY.

4. **Central Business District URA - 905 Broadway/Milliner Lofts** — *Consideration of Approval of the Second Amendment of the Redevelopment Contract with 905 BROADWAY, LLC* (Bob Long) (**Ex. 4A-4B**)

Mr. Long advised that the Milliner Loft project's:

- Redevelopment Agreement was originally approved on June 22, 2016
- First Amendment to the Redevelopment Contract was approved on March 22, 2017 to reschedule the project's completion date to June 30, 2018
- Developer is requesting a second amendment to extend the completion date to December 31, 2018 because of unexpected delays caused by structural and insurance issues
- Project is well underway and in accordance with what was originally approved

The Board had no questions or comments.

ACTION TAKEN: APPROVED THE SECOND AMENDMENT OF THE REDEVELOPMENT CONTRACT WITH 905 BROADWAY, LLC TO EXTEND THE PROJECT'S COMPLETION DATE TO DECEMBER 31, 2018. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. CONTRERAS, AND CARRIED UNANIMOUSLY. (*RES. NO. 5-1-18*)

5. **Central Business District URA** – *KC Club/Consideration of Approval of Redevelopment Contracts with MFH Properties, LLC* (Dan Moye) (**Ex. 5**)

» **SB Friedman Financial Analysis - Kansas City Club ("KCC")** (*All statements by Mr. Dorn unless otherwise noted*)

- **General**

- Phase 1 renovation of KCC began in 2015 which created the Brass & Baltimore event space and some additional lobby improvements
- Phase 2 will convert the KCC to a 144-room upscale hotel to be completed in 2018 [*Ms. Koch clarified in a later discussion that hotel completion would be in 2019*]

- Developer Platform Ventures, LLC, f/k/a Mariner Real Estate Management, currently owns the KCC building and plans to hold it long-term
 - **Financing**
 - Construction costs and developer's fee estimated by McCown Gordon and within range of recent projects and comps
 - Friedman's adjustments to budget were recognizing the benefit of the STECM and unpacking developer's acquisition costs
 - 82% of construction financing is from conventional debt and ED5 financing
 - 12% of capital stack is cash equity from institutional and individual investors
 - Developer is also planning to finance \$3.2 Million of clean energy improvements with PACE financing and to secure historic tax credits from the State
 - **Cash Flow**
 - Developer's proforma aligned with the Colliers third-party market study it provided and was comparable with others in downtown Kansas City
 - Projected average daily hotel room rate in 2019 is \$192, increasing 3% annually
 - Developer assumed an aggressive stabilized occupancy of @ 76.8% as compared to the average downtown Kansas City rate of @ 72%
 - Exit cap rate changed to 8.5% because developer's 9.5% rate was too conservative
- » **SB Friedman Financial Analysis – Muehlebach Hotel** *(All statements by Mr. Dorn unless otherwise noted)*
- **General**
 - Developer plans to convert the Muehlebach to 117 apartments, 10% of which will meet affordability guidelines based on 80% AMI standards
 - Units are meant to partially replace the loft apartments which will be lost in the KCC conversion
 - Platform Ventures is entering into a partnership with the Muehlebach's current owner and is still working out the timeline for the project
 - **Financing**
 - Developer clarified that the low and out-of-range \$1.2 Million acquisition cost was the current owner's depreciable value in the building
 - No additional contributable land value was added to acquisition price
 - Friedman adjusted hard costs provided by third-party contractor to reflect STECM and reduced the developer fee to 4% of TDC
 - Developer's preliminary assumptions are 65% financing by conventional debt and 35% cash equity
 - **Cash Flow**
 - Projected rents were already in line with several non-luxury downtown projects but were very slightly reduced to reflect the 10% set aside of affordable units
 - Existing floor plate in old building so apartments won't have modern layouts
 - Targeting moderate income renters
 - Friedman adjustments included increasing real estate taxes per unit and lowering the terminal cap rate

» **SB Friedman Financial Analysis – Office/Parking Garage** *(All statements by Mr. Dorn unless otherwise noted)*

- **General**

- Project is new construction of a 360-stall parking garage and 4 story class A office building
- Developer is currently purchasing additional properties to assemble a large enough site and plans to begin construction shortly after the hotel's completion

- **Financing**

- Combined costs for the office and parking garage were within comparable ranges
- Friedman adjusted hard costs provided by third-party contractor to reflect STECM, reduced the developer fee to be in line with other two components, and separated the garage's acquisition cost from its prior inclusion with KCC's
- Financing sources were still preliminary, with the developer assuming 65% debt and 35% equity

- **Cash Flow**

- Friedman slightly increased developer's projected rent to be comparable to class A product because it is first new office construction in downtown area in several years and tax incentives were provided for new tenants
- New construction usually exceeds design features of existing product so can achieve higher rent (*Rood*)
- Remaining cash flow projections were reasonable
- Friedman also adjusted the terminal cap rate to be more in line with industry data
- City will contribute \$250,000 annually to the parking project for 20 years

» **SB Friedman Financial Analysis – Summary** *(All statements by Mr. Dorn unless otherwise noted)*

- Three separate project proformas with different financing sources and timelines were combined into one returns analysis
- Scenarios included:
 - 1% CID and STECM – returns were at low end of market ranges
 - Add in of parking grant achieves a midpoint benchmark return of 7.3%
- Developer's Assistance Request
 - STECM on construction materials for all 3 components
 - Reimbursement of CID tax on hotel component for 20 years
 - LCRA tax abatement for 25 years at Ordinance level (75% for 10 years and 37.5% for remaining term) on apartment and garage components
- Conclusions
 - Extended property tax abatement will require a sale/leaseback structure through the EDC/LCRA
 - Project would achieve low end of market appropriate returns with just the CID and STECM incentives
 - Add in of LCRA abatement achieved policy goals of affordable housing and free parking on nights and weekends without exceeding appropriate benchmark returns

» **Board Considerations**

- Purpose of informational only meeting is to give Board an understanding of the three-pronged project and to reduce length and complexity of future meetings (*Hamilton/Moye*)
 - Developer would also appreciate the feedback (*Hamilton/Flisram*)
- Financial analysis also presented to taxing jurisdictions which had no objections to the project based on Friedman's analysis (*Hamilton/Moye*)
- Only parking and office component is requesting LCRA property tax abatement (*Hamilton/Moye*)
- Converting KCC to hotel because it has some hotel features and has more space than the Muehlebach (*Hamilton/Walsh*)
- Each component of the project will have a separate legal description once the parcels are subdivided (*Hamilton/Moye*)

ACTION TAKEN: NONE; INFORMATIONAL ONLY

6. **Garfield URA - Independence Retail Plaza/2600 Independence Blvd** — *Consideration of Approval of Redevelopment Contracts with BA Property, LLC* (Cathleen Flournoy) (**Ex. 6A-6C**)

» **Financial Analysis**

- Developer BA Property, LLC is proposing a \$1.8 Million new construction of a 1,170 square foot space for retail and other providers, which will create 48 jobs (*Flournoy*)
- Developer originally asked for 100% abatement but inhouse financial analysis showed that return was too rich (*Flisram*)
 - Developer then provided additional information about its IRR and cash-on-cash restrictions and request was adjusted to 10-year 50% abatement (*Moye*)
 - 12.56% IRR may be higher than most projects, but given lack of comps and high-risk profile, staff recommends 50% abatement (*Flisram*)
 - Taxing jurisdictions approved 50% abatement for 10 years given the project's location and its potential to act as a catalyst for the area (*Flournoy*)

» **Board Considerations**

- Mr. Hamilton confirmed that there was no public comment on the project
- Developer currently owns the property but did not own it at the time of the fire (*Hamilton/Flournoy*)
- Marketing the site has not yet been aggressive because of uncertainties regarding tax abatement approval and subsequent inability to define rents (*Hamilton/Andrew*)
 - Owner is willing to take the risk to build the project as speculative with no pre-signed leases (*Hamilton/Andrew*)
- Financial commitment is tentative based on the receipt of some public assistance to minimize risk (*Hamilton/Andrew*)
 - Project will move forward once it receives City Council approval (*Andrew*)
- Developer has not yet met with HRD/City regarding M/WBE but will do so before construction begins (*Hamilton/Andrew*)
- Proposal for larger abatement

- Increase abatement to at least 75% so developer's proforma viewed more favorably by banks and to spark additional development in area (*Edwards/Contreras*)
- Concerns about changing recommendation are that (1) taxing jurisdictions are not present to consider change because assumed recommendation would be 50%/10 years and (2) but/for test shows that 50% is appropriate (*Hamilton/Edwards*)
- At its initial meeting with the developer, the school district recognized the need to incentivize the area to help its growth and development but also advised that its usual policy was to not favor incentives if need was not shown (*Edwards/Flournoy*)
- Project's need for larger assistance shown by 25% reduction of developer's projected rent revenues in staff's financial analysis (*Edwards/Moye*)
- Developer considerations about tabling the matter until next month to allow for further discussions with the taxing jurisdictions were (1) tenuous approval from lender based on 50% rather than 100% incentive and (2) construction timeline (*Hamilton/Andrew*)
- Board may or may not approve any motion to increase as it relies heavily on staff recommendation (*Hamilton/Andrew*)
- Developer's ultimate decision to continue with its request for 50%/10 years was based on its trust in staff's recommendation and to maintain project momentum (*Hamilton/Andrew*)

ACTION TAKEN: MR. EDWARDS MADE A MOTION, SECONDED BY MR. CONTRERAS, TO APPROVE 75% TAX ABATEMENT FOR TEN YEARS FOR THE INDEPENDENCE RETAIL PROJECT AT 2600 INDEPENDENCE BLVD. THE MOTION FAILED BY THE FOLLOWING VOTE:

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

APPROVED 50% TAX ABATEMENT FOR TEN YEARS FOR THE INDEPENDENCE RETAIL PROJECT AT 2600 INDEPENDENCE BLVD. MOTION MADE BY MR. CONTRERAS, SECONDED BY MS. ALHAMBRA, AND CARRIED UNANIMOUSLY. (*RES. NO. 5-2-18*)

7. **13th & Locust URA** - *Interstate Building - Project Status Update* (Brian Engel)

» **Board Considerations**

- Settlement Agreement
 - Settlement Agreement has been fully executed so the Board does not need to enter closed session to discuss the settlement (*Hamilton/Engel*)
 - Board members were individually polled by legal counsel and unanimously agreed to accept developer's proposed settlement (*Hamilton/Engel*)
- Amendment to Redevelopment Contract

- First Amendment, previously approved by the Authority, to extended the project's completion date to June 30, 2018 was never executed (*Hamilton/Engel*)
- Developer's second request to extend the project's completion date to September 30, 2018 will become the First Amendment (*Hamilton/Engel*)
- Board members declined to enter closed session to discuss the amendments although they were legal matters (*Contreras/Edwards/Hamilton*)

ACTION TAKEN APPROVED THE SETTLEMENT AGREEMENT BETWEEN THE AUTHORITY AND THE DEVELOPER INTERSTATE BUILDING, LLC, WHICH REQUIRED PAYMENT BY THE DEVELOPER OF DAMAGES IN THE AMOUNT OF \$51,000 PLUS REIMBURSEMENT OF THE AUTHORITY'S LEGAL FEES IN ORDER TO RESOLVE THE NOTICE OF DEFAULT ISSUED BY THE AUTHORITY ON MAY 5, 2018. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. CONTRERAS, AND CARRIED UNANIMOUSLY. (*RES. NO. 5-3-18*)

APPROVED AN AMENDMENT OF THE REDEVELOPMENT CONTRACT BETWEEN THE AUTHORITY AND INTERSTATE BUILDING, LLC REGARDING THE INTERSTATE BUILDING PROJECT AT 417 EAST 13TH STREET IN THE 13TH & LOCUST URA EXTENDING THE PROJECT'S COMPLETION DATE TO SEPTEMBER 30, 2018. MOTION MADE BY MR. EDWARDS, SECONDED BY MR. CONTRERAS, AND CARRIED UNANIMOUSLY. (*RES. NO. 5-4-18*)

8. Administrative.

- Executive Director's Report** - *Active Projects Tracking System Report (Ex. 8A)* (Greg Flisram)
 - Mark Twain Tower
 - Staff is tracking project which continues to languish (*Flisram*)
 - Development group is apparently undergoing some sort of divorce, prompting recent newspaper article regarding the building's legal foreclosure (*Flisram/Contreras*)

ACTION TAKEN: NONE; INFORMATIONAL ONLY

Mr. Dinn, Mr. Donnell, and Ms. Hyatt of Abbott Properties asked that the Board grant them a few minutes to convey information about the company and how it operated. Mr. Hamilton agreed but asked that they contact staff to be put on the agenda for any future presentations.

- Want to open lines of communication between Abbott Properties ("Abbott") and the Authority to ensure working together efficiently and effectively (*Hyatt*)
- HRD MBE/WBE goals

- Abbott differentiates itself from other developers in that it self-performs 60% of its work inhouse which lowers financing and construction costs and keeps tenant rents at a reasonable level (*Dinn*)
- HRD goals set on 100% of project value become a requirement rather than a goal and are difficult to meet for self-performing developers (*Dinn*)
- Abbott is local company with national presence and plans to keep its headquarters in Kansas City but is unable to meet goals set on 100% of project value (*Donnell*)
- Understand that the Authority doesn't set the goals but Abbott wants to work with the agency and HRD as well as to retain its business model (*Donnell*)
- Uniform Affirmative Action Policy ("UAA")
 - City Council plans to vote tomorrow on a version of the proposed policy, which will determine who is responsible for what aspect of the HRD program (*Hamilton*)
 - Several different proposed policy versions between various City agencies, including version approved by the T&I Committee which included a provision to give more credit for self-performing (*Engel*)

9. **Adjourn.**

There being no further business, the meeting was adjourned at 11:40 a.m.

Greg Flisram, Executive Secretary