

FIRST AMENDMENT
TO THE
9TH & MAIN
TAX INCREMENT FINANCING PLAN

KANSAS CITY, MISSOURI

TIF COMMISSION APPROVAL:

N/A

DATE RESOLUTION No.

CITY COUNCIL APPROVAL:

4/12/18 180229

DATE ORDINANCE No.

SUMMARY

The 9th & Main Tax Increment Financing Plan (the “Plan”) contemplates the renovation and expansion of an office building for use as the headquarters for McCownGordon Construction LLC. This project includes the renovation of approximately 43,000 square feet of existing office space and the construction of an additional 6,500 square feet of new office space located at 850 Main Street, Kansas City, Missouri. Once completed, the improvements will result in a 4-story, 49,500 square-foot Class A office building (the “Project Improvements”). The First Amendment clarifies the amount of Economic Activity Taxes to be made available for the reimbursement of eligible Redevelopment Project Costs.

I. Specific Amendments

The Plan shall be amended as follows:

Amendment No. 1: Delete Section I., entitled “Summary” in its entirety and insert the following in lieu thereof:

I. SUMMARY

The 9th & Main Tax Increment Financing Plan (the “Plan”) contemplates the renovation and expansion of an office building for use as the headquarters for McCownGordon Construction LLC. This project includes the renovation of approximately 43,000 square feet of existing office space and the construction of an additional 6,500 square feet of new office space located at 850 Main Street, Kansas City, Missouri. Once completed, the improvements will result in a 4-story, 49,500 square-foot Class A office building (the “Project Improvements”). The proposed redevelopment area described by the Plan is generally bound by Eighth Street on the north, Main Street on the east, Ninth Street on the south and Baltimore on the west in Kansas City, Jackson County, Missouri (the “Redevelopment Area”).

The Project Improvements will be constructed on approximately one-half acre that is generally bound by a parking garage owned by the Catholic Diocese of Kansas City-St. Joseph on the north, Main Street on the east, 9th Street on the south and a driveway providing access from 9th Street to the parking garage owned by the Catholic Diocese of Kansas City-St. Joseph on the west in Kansas City, Jackson County, Missouri. The Plan further provides for the construction or reconstruction of such other public infrastructure improvements within the Redevelopment Area, which may consist of streetscape, signage, signaling, sidewalks and curbs and such other related public infrastructure improvements that support and enhance the Project Improvements (the “Public Improvements”).

The estimated Redevelopment Project Costs to implement the Project Improvements and Public Improvements are approximately \$18,745,545, plus costs of financing estimated to be \$29,190,393 for a total cost of \$47,935,938 of which the Redeveloper will finance \$45,622,236 through a combination of equity, debt and third-party financing. The estimated reimbursable Redevelopment Project Costs to implement the Project Improvements and Public Improvements are approximately \$2,313,702. The

Redevelopment Project Costs, including those that are reimbursable, are identified on **Exhibit 5**, attached to this Plan.

The total initial equalized assessed valuation of the Redevelopment Area according to 2017 tax records at the Jackson County Assessor's Office is approximately \$641,440. The current combined ad valorem property tax levy is projected to be \$9.40 per \$100 assessed valuation. Following the completion of all Project Improvements, it is estimated that the assessed value of the real property within the Redevelopment Area will increase to approximately \$1,308,510.

Pursuant to the Act, Economic Activity Taxes ("EATs") and Payment in Lieu of Taxes ("PILOTs") generated and collected within the Redevelopment Project Area may be used to pay Redevelopment Project Costs. The Redeveloper intends to seek certain tax incentives from the City that are available under Sections 100.010 – 100.200 RSMo. (the "Chapter 100 Incentive"), including the abatement of 75% of real property taxes, which will result in no PILOTs captured within the Redevelopment Project Area during such period.

If the proposed Chapter 100 Incentive is not approved by the City, any and all PILOTs generated, collected and deposited in the Special Allocation Fund shall not be utilized or pledged to the payment of Redevelopment Project Costs, but shall be deemed surplus and distributed to the affected Taxing Districts located wholly or partially within the Redevelopment Project Areas, as provided for in the Act.

The PILOTs, which are estimated to be generated on an annual basis, are shown on **Exhibit 6**, attached to this Plan.

The estimated total Economic Activity Taxes generated within the Redevelopment Project Area, deposited into the Special Allocation Fund and, upon annual appropriation or upon being budgeted and transferred by the City Council, available to pay reimbursable Redevelopment Project Costs is approximately \$4,627,404, of which approximately \$2,313,702 may be used to reimburse eligible Redevelopment Project Costs, including interest certified by the Commission. Those Economic Activity Taxes, which are estimated to be generated on an annual basis, are shown on **Exhibit 6**, attached to this Plan and are limited to 50% of the net earnings taxes paid by businesses and employees, 50% of the net food & beverage taxes, 50% of the net utility taxes, 50% of the community improvement district as well as 50% of the City and County net sales taxes generated, collected and available during such period that tax increment financing is authorized by Ordinance. Any Economic Activity Taxes that exceed the the amount necessary to reimburse eligible Redevelopment Project Costs may be declared surplus by the City and distributed to the affected Taxing Districts located wholly or partially within Redevelopment Project Area as provided for by the Act.

Amendment No. 2: Delete Section V.D., entitled "Economic Activity Taxes" in its entirety and insert the following in lieu thereof:

- D. Economic Activity Taxes. The projected Economic Activity Taxes to be deposited in the Special Allocation Fund, in accordance with the Act, during the period Tax Increment Financing is authorized after the Redevelopment Project is approved by Ordinance are approximately \$4,627,404 as shown in Exhibit 6, of which approximately \$2,313,702 will be made available, upon annual appropriation or upon being budgeted and transferred by the City to the Special Allocation Fund, to pay eligible reimbursable Redevelopment Project Costs.

The anticipated Economic Activity Taxes to pay eligible Redevelopment Project Costs shall be limited to 50% of the net earnings taxes paid by businesses and employees, 50% of the net food & beverage taxes, 50% of the net utility taxes, 50% of the community improvement district as well as 50% of the City and County sales taxes generated and collected during such period that tax increment financing is authorized by Ordinance. It is assumed that net earnings and sales tax revenues will increase due to inflation in addition to the assumed increases due to job creation and business expansion. These assumed increases are reflected in Exhibit 6.

The amount of Economic Activity Taxes in excess of the amount necessary to reimburse eligible Redevelopment Project Costs, if any, may be declared as surplus by the City. The declared surplus will be distributed to the affected Taxing Districts in the Redevelopment Project Areas as provided for by the Act.

The Plan requires that all affected businesses and property owners be identified and that the Commission shall be provided with documentation regarding payment of Economic Activity Taxes by Redeveloper, its contractors, tenants and assigns. The Commission shall make available information to the City regarding the identity and location of the affected businesses. It shall be the obligation and intent of the City to determine the Economic Activity Taxes and to appropriate and/or budget and transfer such funds into the Special Allocation Fund, no less frequently than semi-annually and no more frequently than quarterly, in accordance with the Act.

Amendment No. 3: Delete Section XI of the Plan, entitled “But For TIF” in its entirety and insert the following in lieu thereof:

XI. “BUT FOR TIF”

Substantial public financing of the Project Improvements is identified within the Plan. This assistance is necessary to ensure successful redevelopment of the Redevelopment Area in order to serve the public purpose set forth herein. The purpose of affording public assistance is to accomplish the stated public purpose and not to subsidize otherwise economically viable Project Improvements. In order to ensure that the public assistance being provided does not subsidize an unreasonable level of earnings, the Commission has required an internal rate of return analysis be completed and presented to the Commission prior to approval of the Redevelopment Plan. The analysis demonstrates that the Redevelopment Area has not been subject to growth and development by private enterprise and the Project Improvements and Public Improvements within the Redevelopment Area would not reasonably be anticipated to be developed without the adoption of Tax Increment Financing (the “But-For Test”).

Acceptable investment returns to real estate investors depend on a large number of external factors and the nature of the specific investment, including, the property sector of land use; the life cycle of the property; local market conditions such as new development, major employers and their plans, demographics and the like; the overall risk associated with the property; inflation expectations, and numerous other factors. One method of determining the need for assistance and the sizing of the Tax Increment Financing assistance is to study the developer's internal rate of return ("IRR"). The internal rate of return takes into account both the annual income derived as cash flow as well as the potential return from a hypothetical sale of the private improvements at the end of the forecast period.

The Redevelopment Agreement shall contain provisions whereby the public may participate in the cumulative rate of return of the Equity Investment of the Redeveloper or any Affiliate of the Redeveloper that participates in the acquisition, financing or operation of the Project Improvements or the real property upon which the Project Improvements are located that is in excess of a 8% unleveraged annual rate of return on a cumulative basis. The Redevelopment Agreement shall provide if at the end of any calendar year, after completion of all of the Project Improvements, the net cash flow exceeds the cash flow necessary to generate said cumulative 8% unleveraged annual return on the Equity Investment for the current and all previous calendar years, 93.1% of such excess shall be retained by the Redeveloper and the remaining 6.9% of such excess shall be contributed to the Commission (the "Commission Share") which shall be used in accordance with the Act.

In the event that any Project Improvement is refinanced or sold, once all cost of the sale or refinancing have been paid, the private debt retired, the Redeveloper's Equity Investment is returned, the Commission shall receive the Commission Share of such residual proceeds that are in excess of an 8% unleveraged annual rate of return on a cumulative basis of the Redeveloper and its Affiliates of the total amount of Redevelopment Project Costs.

Redeveloper's operating proforma contemplates an initial rental rate of \$26.50 per square foot for the Project Improvements, with periodic increases during the term. Redeveloper's projections indicate that, based upon the level of net operating income generated from the Project Improvements, \$3,106,479 of assistance is necessary to make the Project financially viable.

The "But For" analysis prepared by SB Friedman and attached as Exhibit 10 concludes that the Project Improvements contemplated by the TIF Plan would not be implemented without TIF assistance, as the Project Improvements achieve a stabilized yield on total Redevelopment Project Costs of 6.2%, based upon the Redevelopment Project Costs set forth in Redeveloper's budget. SB Friedman's analysis provides a number of recommendations for consideration concerning certain costs and other elements of the Project, and, based upon changes in costs and a projected project rental rate of \$31 per square foot, ultimately recommends undiscounted TIF assistance of \$634,000. SB Friedman projects that, with its recommended rental rate and cost adjustments, the Project Improvements are estimated to achieve a stabilized 6.9% unleveraged annual rate of return. With the Developer's original request of approximately \$3,136,500 in requested undiscounted TIF assistance, SB Friedman estimates the Project Improvements would achieve an unleveraged annual rate of return of approximately 7.8%. SB Friedman further

suggests that the industry benchmark for the type of investment proposed by the Project Improvements should result in an unleveraged return of 7%. The calculations are based on developer assumptions or in certain instances alternative assumptions SB Friedman deems are appropriate.

SB Friedman has indicated that, if the Redevelopment Project Costs set forth in Redeveloper's budget were used, and a rental rate of \$28 per square foot (with periodic adjustments), then the Project would require the utilization of economic activity taxes for a period of 11 years for the Project Improvements and Public Improvements to be financially feasible. Staff, based upon the analysis of SB Friedman, cost and revenue assumptions provided by the Redeveloper and the projected benefit resulting from the Chapter 100 Incentive, estimates that sufficient economic activity taxes will be generated within the 13 years after the Redevelopment Project is approved and tax increment financing is authorized to reimbursement Redevelopment Project Costs in the amount of \$2,313,702.

The analysis prepared by SB Friedman and attached as Exhibit 10 concluded the Project Improvements contemplated by the Plan meet the "But-For Test." Exhibit 10 provides evidence of the "But-For Test" analysis conducted for these Project Improvements.

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Accepting the recommendations of the Tax Increment Financing Commission as to the First Amendment to the 9th and Main Tax Increment Financing Plan; and directing the City Clerk to send copies of this ordinance.

WHEREAS, pursuant to the Real Property Tax Increment Allocation Redevelopment Act, Sections 99.800 to 99.865 of the Revised Statutes of Missouri, as amended, the City Council of Kansas City, Missouri by Ordinance No. 54556 passed on November 24, 1982, and thereafter amended in certain respects by Committee Substitute for Ordinance No. 911076, As Amended, passed on August 29, 1991, Ordinance No. 100089, As Amended, passed on January 28, 2010, Ordinance No. 130986, passed on December 19, 2013, and Committee Substitute for Ordinance No. 140823, passed on June 18, 2015 (the "Enabling Ordinances"), created the Tax Increment Financing Commission of Kansas City, Missouri (the "Commission"); and

WHEREAS, on February 22, 2018, the City Council passed Ordinance No. 180124, which accepted the recommendations of the Commission to approve the 9th and Main Tax Increment Financing Plan (the "Redevelopment Plan") and to designate the Redevelopment Area described therein, which was determined to be a conservation area, as defined by Section 99.805 of the Act; and

WHEREAS, the First Amendment to the Redevelopment Plan, after due and proper notice required by Sections 99.825 and 99.830 RSMo, was introduced to the Council (the "First Amendment"); and

WHEREAS, the First Amendment to the Redevelopment Plan is meant to clarify the amount of Economic Activity Taxes available to reimburse certain Redevelopment Project Costs identified by the Redevelopment Plan; NOW, THEREFORE,

BE IT ORDAINED BY THE COUNCIL OF KANSAS CITY:

Section 1. That the First Amendment is hereby approved and adopted and the Redevelopment Projects contained therein are hereby authorized.

Section 2. That all terms used in this ordinance, not otherwise defined herein, shall be construed as defined in Section 99.800 to 99.865 of the Revised Statutes of Missouri, as amended (the "Act").

Section 3. That the Council hereby finds that:

- (a) Good cause has been shown for amendment of the Redevelopment Plan, and that the findings of the Council in Ordinance No. 180124, with respect to the Redevelopment Plan are not affected by the First Amendment and apply equally to the First Amendment;

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- (b) The Redevelopment Area, as amended by the First Amendment, as a whole is a conservation area, as defined by the Act. A Conservation Study undertaken by JLL, attached as Exhibit 11 to the Redevelopment Plan, provides evidence that fifty percent (50%) or more of the structures in the Redevelopment Area have an age of thirty-five (35) years or more and although the Redevelopment Area is not yet a blighted area, it nonetheless, is detrimental to the public health, safety, morals or welfare and may become blighted because of the following factors: obsolescence, overcrowding structures and community facilities, excessive land coverage, deleterious land layout and depreciation of physical maintenance;
- (c) The Redevelopment Area, as amended by the First Amendment, has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of the tax increment financing;
- (d) The Redevelopment Plan, as amended by the First Amendment, conforms with the City's current comprehensive plan and the implementation of the Redevelopment Plan will not change the existing zoning for the Redevelopment Project Areas. The Redevelopment Plan shall be subject to the applicable provisions of the City's Zoning Ordinance as well as other codes and ordinances as may be amended from time to time;
- (e) The areas selected for the Redevelopment Project include only those parcels of real property and improvements thereon which will be directly and substantially benefited by the Redevelopment Project improvements;
- (f) The estimated date of completion of the Redevelopment Project and retirement of obligations incurred to finance Redevelopment Project Costs, have been stated in the Redevelopment Plan, and are not more than 23 years from the adoption of any ordinance approving a Redevelopment Project within the Redevelopment Area;
- (g) A plan has been developed for relocation assistance for businesses and residences;
- (h) A cost-benefit analysis showing the impact of the Redevelopment Plan, as amended by the First Amendment, on each taxing district at least partially within the boundaries of the Redevelopment Area has been prepared in accordance with the Act; and
- (i) The Redevelopment Plan, as amended by the First Amendment, does not include the initial development or redevelopment of any gambling establishment.

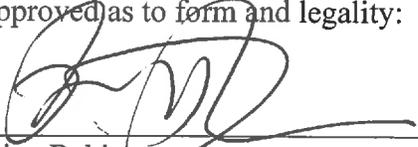
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Section 5. That the Commission is authorized to issue obligations in one or more series of bonds secured by the Special Allocation Fund established in connection with the Redevelopment Plan to finance Redevelopment Project Costs identified by the Redevelopment Plan and subject to any constitutional limitations, to acquire by purchase, donation, lease or eminent domain, own, convey, lease, mortgage, or dispose of, land or other property, real or personal, or rights or interests therein, and grant or acquire licenses, easements and options with respect thereto, all in the manner and at such price the Commission determines, to enter into such contracts and take all such further actions as are reasonably necessary to achieve the objectives of the Redevelopment Plan pursuant to the power delegated to it in the Enabling Ordinances. Any obligations issued to finance Redevelopment Project Costs shall contain a recital that they are issued pursuant to Sections 99.800 and 99.865, which recital shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 6. That pursuant to the provisions of the Redevelopment Plan, the City Council approves the pledge of all funds generated from the area described by the Redevelopment Project and that are deposited into the Special Allocation Fund established in connection with the Redevelopment Plan to the payment of Redevelopment Project Costs identified by the Redevelopment Plan and authorizes the Commission to pledge such funds on its behalf.

Section 7. That the City Clerk shall send a copy of this ordinance to the County Clerk and County Executive of Jackson County, Missouri.

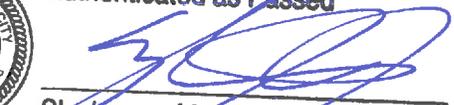
Approved as to form and legality:



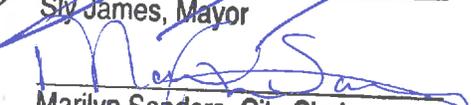
Brian Rabineau
Assistant City Attorney



Authenticated as Passed



Sly James, Mayor



Marilyn Sanders, City Clerk

APR 12 2018

Date Passed