



CITY COUNCIL WORK SESSION
Wednesday, January 17, 2024 at 6:00 p.m.

CITY HALL
6200 MARTWAY

Meeting In Person and Virtually via Zoom

This meeting will be held in person at the time and date shown above. In consideration of the COVID-19 social distancing recommendations, this meeting will also be available virtually via Zoom (<https://zoom.us/join>). Information will be posted, prior to the meeting, on how to join at <https://www.missionks.org/calendar.aspx>.

If you require any accommodations (i.e. qualified interpreter, large print, reader, hearing assistance) in order to attend this meeting, please notify the Administrative Office at 913-676-8350 no later than 24 hours prior to the beginning of the meeting.

AGENDA

1. Milhaus Tax Abatement Request – Laura Smith

Additional materials will be uploaded to the packet prior to the Committee meeting.

City of Mission	Item Number:	1.
DISCUSSION ITEM SUMMARY	Date:	January 17, 2024
Administration	From:	Laura Smith

Discussion items allow the committee the opportunity to freely discuss the issue at hand.

RE: Review and Discussion of Mission Beverly Tax Abatement Request

DETAILS: In the Economic Development Revenue Bonds Act of 1961, codified as amended at K.S.A. 12-1740 *et seq.*, the Kansas Legislature created industrial revenue bonds (IRBs) as an economic development tool for cities to stimulate economic prosperity and to promote economic stability, by providing greater employment opportunities and diversification of industry. Cities, may consider, and issue IRBs when a proposed project furthers its economic goals. The statutes provide for the use of IRBs to grant a property tax exemption or to grant a sales tax exemption on the purchase of materials and some labor.

Mission’s tax abatement policy (Council Policy 116) was originally adopted in 2007. Prior to 2023 it had not been used for property tax abatement, but sales tax exemptions had been granted in connection with most major private redevelopment projects undertaken in Mission during the past 15-20 years.

In 2022 and 2023, two developers approached the City seeking to engage in a conversation about property tax abatement in connection with the development of multi-family projects. This prompted Council to direct Staff to undertake an update of the tax abatement policy with clearer parameters and guidance for both developers and the Governing Body which aligned with Council’s goals related to redevelopment and incentives. A new tax abatement policy (Council Policy 131) was developed, reviewed, and eventually adopted in July 2023.

With a new policy in place, in the fall of 2023 the Council reviewed, discussed and approved a property tax abatement/sales tax exemption for the 58/Nall Project being developed by MOJO Built, LLC. The project, a 77-unit multi-family project located at 58th Street and Nall, was granted a 70% tax abatement in accordance with the policy criteria.

With the 58/Nall project decided, Staff attention could then turn to the larger, multi-family project proposed by Milhaus, LLC. The Milhaus development team first approached the City in April 2022 regarding their interest in Mission and a 250+ unit multi-family project located between Beverly and Dearborn Streets, east of the Community Center. They planned to assemble multiple parcels, potentially even the City-owned Beverly Park. Since 2022, the project has been discussed and refined, including being presented in a neighborhood meeting in 2023. As it stands today, the project proposed includes:

Related Statute/City Ordinance:	K.S.A. 12-1740 <i>et seq.</i>
Line Item Code/Description:	NA
Available Budget:	NA

City of Mission	Item Number:	1.
DISCUSSION ITEM SUMMARY	Date:	January 17, 2024
Administration	From:	Laura Smith

Discussion items allow the committee the opportunity to freely discuss the issue at hand.

- 261 market rate apartment units
- \$75.3 million capital investment
- Assembly of eight (8) parcels (including Beverly Park)
- Construction of 5-story building with structured parking north of Martway
- Construction of 3-story building with surface parking south of Martway
- Approximately 1,500 sq ft of small retail on ground floor of north building
- Certification for one (1) Globe under the Green Globes sustainability program
- Upgrades to sanitary sewer and stormwater infrastructure systems
- No green space exchange
- Cash contribution of \$300,000 to City

The discussions with the developer continue to be very fluid, but we felt it was important to provide an update on the project and to begin to discuss the application of the tax abatement criteria as the Council considers whether it is appropriate to consider a public-private partnership for the Mission Beverly project. The work session packet includes

- City Council Policy 131 (final approved)
- Memo from Bruce Kimmel, Mission’s financial advisor
- Staff memo recapping the IRB process and current project parameters

The developer will be present to answer questions and Mr. Kimmel will join the meeting virtually. Staff will be looking for Council direction and guidance as we consider advancing the Milhaus project through the process.

CFAA IMPACTS/CONSIDERATIONS: Access to quality housing for individuals of all ages, abilities and income levels is an important pillar of the Community for All Ages initiative. The proposed redevelopment projects currently seeking consideration of a property tax abatement will provide additional housing options for residents of Mission, contribute to the goals of increased density throughout the community, and address the removal of several blighted or aging properties.

Related Statute/City Ordinance:	K.S.A. 12-1740 <i>et seq.</i>
Line Item Code/Description:	NA
Available Budget:	NA

CITY OF MISSION, KANSAS

CITY COUNCIL POLICY MANUAL

POLICY NO. 131

POLICY RELATING TO THE GRANTING OF TAX ABATEMENTS

Section 1. Purpose. This Tax Abatement Policy is designed to create a positive business environment to stimulate economic growth and development in order to encourage capital investment, employment opportunities, and quality services for the benefit of the community. The objectives of the Tax Abatement Policy are:

- Attract and retain quality businesses for the community;
- Add and retain employment opportunities for residents;
- Attract projects to grow the local tax base;
- Diversify the local economy;
- Provide attainable housing opportunities; and
- Reward quality and environmentally “green” design

Section 2. Scope. This Policy shall apply to the granting of real property tax abatements in accordance with Kansas law. The granting of property tax abatements for real property is a privilege, not a right, and the City recognizes that use of such exemptions and incentives should be considered in a prudent, judicious, and selective manner based upon the economic and community benefits of an economic development project (a “Project”) to the City. No decision to grant or deny property tax abatements and/or tax incentives shall serve as precedent for any future decision with respect to the grant or denial of property tax abatements and/or tax incentives. The authority and decision whether or not to grant tax abatements is vested solely with the Governing Body, is entirely discretionary, and shall be considered on a case-by-case basis. The Governing Body is under no obligation to approve any requested bond issuance and/or tax abatement and reserves the right to deviate from the policies and criteria contained herein if, in the opinion of the Governing Body, circumstances exist to warrant such deviation, so long as such deviation does not conflict with Kansas law. This policy does not create any entitlement and property owners, applicants, and others are cautioned not to rely upon receipt of a tax abatement until all steps for granting an abatement have been approved, including but not limited to evaluation of all factors by the City and adoption of a Resolution of Intent after notice and public hearing; preparation of a cost-benefit analysis; and approval of a Performance Agreement and compliance of all terms and conditions therewith by the applicant.

Section 3. Policy Statement. To meet the economic development and other goals of the community, it shall be the policy of the City to typically provide a 45% real property tax abatement (such percentage referring only to mills that are eligible for property tax abatement under Kansas law) for portions of a Project that qualify for tax abatement under Kansas law so long as the Project meets the criteria established by the City and this Policy. It shall be the policy of the City that, regardless of the percentage amount of abatement an applicant may be eligible for, the maximum percentage of tax abatement provided for any Project shall not exceed 75% for 10 years, except in extraordinary circumstances.

It shall also be the policy of the City that economic development Projects shall have a positive financial impact on the community, and the City reserves the right to approve the cost-benefit analysis model used to determine the financial impact of the proposed Project. In the exercise of its discretion, the Governing Body of the City shall give consideration to the following factors when determining whether to grant property tax abatements.

- A. **Minimum Capital Investment.** The minimum capital investment required for consideration of a tax abatement is \$3,000,000. In order to receive the maximum tax abatement allowed under this policy, the minimum capital investment required is \$10,000,000. The term capital investment shall apply to the acquisition cost of land and building improvements, but not to personal property.
- B. **Existence of Economic Benefit.** The Project must be of economic benefit to the community and must provide a positive fiscal impact.
- C. **Type of Business.** The Project must be of a nature that is desirable and meets the development goals of the City.
- D. **Compatibility with Adopted Plans.** The Project must be consistent with the City's Comprehensive Plan, any applicable corridor plans, and other plans of the City that may be relevant to the Project.
- E. **Maintain Existing Tax Base.** Except in extraordinary circumstances, the amount of existing property taxes on the land and facilities shall not be reduced or abated.
- F. **Transfer of Ownership.** The owner or lessee of any property that is subject to a tax abatement shall not assign or transfer such exemption in connection with the conveyance of the property without the prior written consent of the City; such consent may be denied or subject to additional conditions or abatement adjustments in the City's sole discretion. Provided, however, that the foregoing shall not apply to conveyances to a parent, affiliate, or related entity.
- G. **Non-Litigation.** The Governing Body may choose not to consider an application for issuance of industrial revenue bonds if the applicant, its principals or officers, or any related, affiliated, or parent company of the applicant, is currently engaged in or has threatened a suit, action, or proceeding against the City.
- H. **Return on Investment.** The applicant may be asked to demonstrate that without the requested tax abatement, the Project, or certain features thereof, cannot be constructed with an appropriate return on investment.

Section 4. Abatement Criteria and Adjustments. Adjustments made to increase the total amount of abatement are intended to be provided as an extra incentive to exceed certain criteria when others may not be met and to fulfill certain goals of the community. The following are the criteria for adjustments to the total amount of abatement; the Governing Body reserves the right to require performance of one or more of the criteria in connection with any request for abatement.

- A. **Project Investment Adjustment.** It is a goal to strengthen the local economy through growth of the local tax base. Capital investments produce a long-term tax benefit to the community;

therefore a major Project may be eligible for an additional abatement percentage determined by the level of capital investment. Depending upon the Project's capital investment, an increase in the abatement may be considered as follows:

- a. Capital Investment of \$10,000,000 to \$24,999,999 may receive an adjustment of up to 5%;
 - b. Capital Investment of \$25,000,000 to \$49,999,999 may receive an adjustment of up to 10%; and
 - c. Capital Investment of \$50,000,000 and above may receive an adjustment of up to 15%
- B. Target Area Adjustment.** It is a goal to encourage development / redevelopment in distressed areas of the community. An abatement adjustment of up to 10% may be considered for Projects that locate in an area targeted for economic development or redevelopment. Target areas shall be determined from time to time by the Governing Body.
- C. Job Creation Adjustment.** It is a goal to create new high-quality employment opportunities for the community. An abatement adjustment of 5% to 10% will be considered depending on the new jobs a Project will create. To be considered for this abatement adjustment a minimum of 35 total jobs must be created in the first year of operation. To maintain this abatement adjustment, the company will be required to provide an annual certification of the number of employees and any other reasonable information requested by the City.
- D. Attainable Housing Adjustment.** It is a goal to offer attainable housing opportunities in the City. An abatement adjustment of up to 10% may be awarded based on the commitment of the applicant to make available dwelling units of varying sizes for occupants earning 60% or less than the Kansas City Area Median Income (AMI) at rental rates no greater than the maximum affordable rental rates published annually by the U.S. Department of Housing and Urban Development for a minimum of number of years as set forth in the Performance Agreement.
- E. Environmental Design Adjustment.** It is a goal to create quality and sustainable developments / structures throughout the City. The Governing Body, in its sole discretion, may require higher standards for the design of buildings and grounds, and materials used for Projects receiving property tax abatement. An abatement adjustment may be given to businesses whose new construction achieves a U.S. Green Building Council LEED Certification or comparable certification. This abatement adjustment shall range from 5% to 10% depending on the level of certification.
- F. Community Benefit Adjustment.** All applicants will agree to actively participate in the civic, charitable, educational, philanthropic, and economic development of the City of Mission as provided in the Performance Agreement. Such participation is expected, and shall not receive an abatement adjustment except in extraordinary circumstances.

Section 5. Commencement of Abatement.

The abatement term for Projects under authority of Section 13 of Article 11 of the Kansas Constitution shall begin in the calendar year after the calendar year in which the business commences its operations or the calendar year in which expansion of an Existing Business is completed, as the case requires. The abatement term for Projects under authority of K.S.A. 12-1740 through 12-1749 and 79-201a shall begin in the calendar

year after the calendar year in which the industrial revenue bonds are issued. Projects which include multiple phases shall have an expiration date for the commencement of the term of the abatement for all phases as determined by the Governing Body at the time of the adoption of the Resolution of Intent.

Section 6. Procedure. The Governing Body will consider granting a tax abatement pursuant to this Policy after receipt of a complete application in a form prescribed by the City together with the application fee. The application shall be submitted in sufficient time for staff to follow established procedures for publication of notice, to review the Project's preliminary site plans and building elevations, to prepare a fiscal impact analysis, and to contact the school district.

Based on each application and such additional information as may be requested by the City, the City shall prepare or cause to be prepared a fiscal impact analysis of the proposed tax abatement on the City, County, and State of Kansas. Prior to formal action on each Resolution of Intent, the Governing Body shall conduct a public hearing to be scheduled at least seven days after publication of notice or as otherwise provided by law. Notice of the hearing shall also be sent to the Johnson County Clerk's Office and the Shawnee Mission School District.

Section 7. Performance Agreement. The Performance Agreement will set forth the terms and conditions of the granting of the tax abatement, including the amount the applicant must pay "in lieu" of the abated taxes to reach 100%. For example, if the taxes eligible for abatement are \$1,000 and a tax abatement of 75% (\$750.00) is granted, the applicant will be required to pay \$250.00 each year in lieu of such taxes.

- A. Continued Compliance.** The Performance Agreement will provide that any granted tax abatement is subject to annual review and determination by the City Administrator that the conditions qualifying the business for the abatement continue to exist. The City at any time may review information provided by the owner, its lessee, or State of Kansas, or may request additional information to determine compliance with the Performance Agreement. If the Governing Body finds that the business or Project is not in compliance, then the tax abatement may be modified pursuant to the Performance Agreement or eliminated as the Governing Body deems appropriate. Each Performance Agreement shall contain a notice and waiver stating that the City reserves the right to grant future tax abatements on comparable Projects in amounts different than the exemption or abatement granted in the Performance Agreement. Such notice and waiver shall include a provision that the applicant waives any right to request a modification or amendment of such exemption or abatement based upon such differences.
- B. Clawbacks.** Each Performance Agreement shall provide that the percentage of property tax abatement or the abatement term shall be scaled back if the applicant has not incurred the required capital investment within the time set forth therein or has otherwise not complied with any or all of the requirements of the Performance Agreement. Further, the Performance Agreement may address the consequences of selling the Project during the tax abatement period.
- C. Costs.** It shall be the responsibility of the applicant to reimburse the City in full for all costs and fees associated with economic analyses and bond issuance, including an application fee of \$2,500.00 and the fees of the City financial advisors, consultants and bond counsel.

Section 8. Origination Fee Schedule. Origination fees assessed by the City (as authorized by K.S.A. 12-1742 as amended) are the responsibility of the applicant. This fee is due upon closing of the debt issue, and will be reduced by the amount of the application fee. The fee is calculated as outlined in the tables below.

Commercial Property Debt Issues

Par Amount of Bond Issue	Fee Calculation
First \$10 million	.0025 of par amount
Second \$10 million	\$25,000 + .0020 of par amount over \$10 million
Amounts in excess of \$20 million	\$45,000 + .0010 of par amount over \$20 million
Refunding Bond Issues	Fee is 50% of the amount that would be calculated for a new money issue of the same par amount
MAXIMUM FEE is \$250,000 (including both new money and refunding portions of issue.)	

Multi-Family Housing Debt Issues

Par Amount of Bond Issue	Fee Calculation
First \$10 million	.0040 of par amount
Second \$10 million	\$40,000 + .0020 of par amount over \$10 million
Amounts in excess of \$20 million	\$60,000 + .0010 of par amount over \$20 million
Refunding Bond Issues	Fee is 50% of the amount that would be calculated for a new money issue of the same par amount
MAXIMUM FEE is \$250,000 (including both new money and refunding portions of issue.)	

Section 9. Sales Tax Exemption on Building Materials and/or Personal Property. The Governing Body may consider issuance of industrial revenue bonds for the sole purpose of enabling a project to obtain a sales tax exemption certificate on its building materials, taxable labor and/or personal property (with no real property tax abatement). This consideration may include many factors which may induce the City to issue such bonds. These factors include, but are not limited to, whether a project will result in the adaptive re-use of an underutilized property; whether a Project is included in a tax increment financing district (TIF) or community improvement district (CID); and whether the Project will bring significant capital investment to the City. The Governing Body may decline to consider issuance of bonds to obtain a sales tax exemption certificate on building materials, taxable labor and personal property for project costs of less than the minimum Investment Amount under Section 3. The Governing Body may adjust or waive the origination fees above for industrial revenue bonds issued solely for sales tax exemption.

Section 10. Authority of the Governing Body. The Governing Body reserves the right to deviate from this Policy, but not any procedural requirements of Kansas law, when it considers a Project to be of exceptional benefit to the City or extraordinary circumstances prevail such that the Governing Body believes such deviation is in the best interests of the City.

Section 11. Repeal. City Council Policy No. 116, “Policy Relating to the Issuance of Tax Abatements,” is hereby repealed.

Section 12. Effective Date. This Policy shall take effect on the 19 day of July 2023.



MEMORANDUM

Date: January 17, 2024
To: Mayor and City Council
From: Laura Smith, City Administrator
RE: Milhaus Tax Abatement Request

Background

Under Kansas law, various economic development incentives are available to assist cities in achieving their economic development goals. In the Economic Development Revenue Bonds Act of 1961 (the “Act”), codified as amended at K.S.A. 12-1740 *et seq.*, the Kansas Legislature created industrial revenue bonds (IRBs) as an economic development tool for cities to stimulate economic prosperity and to promote economic stability, by providing greater employment opportunities and diversification of industry. Cities may consider IRBs for projects which further their economic goals. The statutes provide for the use of IRBs to grant a property tax exemption and/or to grant a sales tax exemption on the purchase of materials and taxable labor. A brief overview of the differences is highlighted below:

- **Sales Tax Exemption.** Upon approval of a Resolution of Intent, the applicant may obtain a sales tax exemption certificate which may be used by the applicant and its contractor(s) to purchase construction materials, machinery and equipment, or other taxable services if purchased or reimbursed with the proceeds of the revenue bonds. The purchases are then exempt from sales tax which might be charged by any taxing entity. The current sales tax rate in the City is 9.725% and is comprised of 6.50% allocated to the State, 1.475% allocated to the County, and 1.75% allocated to the City.
- **Property Tax Exemption.** Upon issue of revenue bonds, property that is acquired or constructed with the proceeds of revenue bonds may be 100% exempt from property taxation, except for a school district’s capital outlay levy (in an amount not to exceed 8 mills) for a period of up to ten years. Although the abatement is always for 100% under State law, the City may require the applicants to make payments in lieu of taxes. Kansas law requires all payments in lieu of taxes to be distributed to all taxing jurisdictions on a pro-rata basis, according to the jurisdiction’s allocable mill levy rate.

When considering a request for a property tax abatement, the IRB Act requires the Issuer (City) to prepare a cost benefit report, conduct a public hearing, adopt an ordinance authorizing the issuance of the revenue bonds and follow certain other procedural requirements prior to issuing revenue bonds.

City of Mission Tax Abatement Policy

Mission's tax abatement policy (Council Policy 116) was originally adopted in 2007. Prior to 2023 it had not been used for property tax abatement, but sales tax exemptions had been granted in connection with most major private redevelopment projects undertaken in Mission during the past 15-20 years.

In 2022 and 2023, two developers approached the City seeking to engage in a conversation about property tax abatement in connection with the development of multi-family housing projects. This prompted Council to direct Staff to undertake an update of the tax abatement policy with clearer parameters and guidance for both developers and the Governing Body which aligned with Council's goals related to redevelopment and incentives. A new tax abatement policy (Council Policy 131) was developed, reviewed, and eventually adopted in July 2023.

The new policy more clearly defines the purpose, scope and objectives for consideration of abatement requests. It establishes a baseline standard of a 45% real property tax abatement, assuming a project meets all criteria outlined in Section 3 **and** demonstrates a need for the assistance as evaluated by the City's financial advisor. A minimum capital investment of \$3 million is required for a project to be considered, and a capital investment of at least \$10 million is necessary to receive an abatement up to the cap (75%). The policy outlines additional criteria and potential adjustments (over the 45% baseline) that could be earned by a developer. Council Policy 131 also allows one or more of the criteria be mandated in order for a project to receive consideration.

The criteria were developed to provide some flexibility for both the City and developers, allowing each project to be evaluated on a case-by-case basis. Additionally, the criteria or percentages can be adjusted over time to accurately reflect the City's highest redevelopment and community investment priorities. The policy is generally capped at a 75% abatement; however, it does provide an opportunity for the Council to grant a higher abatement percentage if there are extraordinary circumstances or community benefit.

The policy speaks generally to the procedures, including the obligation of the developer

to cover costs incurred by the City in the evaluation of a request, and establishes the bond origination fees to be paid by the developer should a tax abatement be granted.

Tax Abatement Request – 58/Nall

With a new policy in place, staff and Council attention could then turn to evaluating the specific components of individual developer requests or applications. In the fall of 2023, the Council reviewed, discussed and approved a property tax abatement/sales tax exemption for the 58/Nall Project being developed by MOJO Built, LLC. The project, a 77-unit multi-family project located at 58th Street and Nall, was granted a 70% tax abatement in accordance with the policy criteria outlined in the table below.

58/Nall Tax Abatement Percentage Allocation

Baseline – Meets Policy Criteria	45%
Capital Investment Adjustment	5%
Target Area Adjustment	10%
Attainable Housing Adjustment	7.5%
Environmental Design Adjustment	2.5%
Total Abatement Percentage	70%

The 58/Nall project was required to include both an attainable housing component and a sustainability certification.

Tax Abatement Request – Mission Beverly Project

With the 58/Nall project decided, Staff attention could then turn to the larger, multi-family project proposed by Milhaus, LLC. The Milhaus development team first approached the City in April 2022 regarding their interest in Mission and a 250+ unit multi-family project located between Beverly and Dearborn Streets, east of the Community Center. They planned to assemble multiple parcels, potentially even the City-owned Beverly Park. From the outset of the conversations, Milhaus clearly communicated their intention to ask for a 100% property tax abatement.

Throughout 2022, the project’s concept and scope were more fully developed through conversations with staff, the Mayor and City Council. This included the potential to expand the project to include the Martway office buildings to the south. As Council priorities – such as attainable housing and sustainability – were discussed, Milhaus was consistently transparent in their statements that they did not plan to incorporate attainable housing into the project. Staff and Council were also very transparent in communicating that the

loss of Beverly Park could potentially be considered in exchange for similarly sized green space in or around the general vicinity of the project.

The preliminary project renderings were presented to the public in March 2023, at a neighborhood meeting. Overall, the project was generally well received. By assembling multiple parcels and incorporating the Martway office buildings, the building heights on the parcels across the creek from single family residential to the south were reduced from prior redevelopment proposals and seemed more palatable to the neighbors.

Like the 58/Nall request, consideration of Milhaus' tax abatement request for the Mission Beverly project was suspended in 2023 until the new Council policy could be approved. As conversations resumed in the fall of 2023, the new tax abatement policy was shared with Milhaus, and Milhaus has been working with Bruce Kimmel, the City's independent municipal advisor, as he reviewed the project's pro-forma. Bulleted below is a brief recap of the project as currently proposed:

- 261 market rate apartment units
- \$75.3 million capital investment
- Assembly of eight (8) parcels (including Beverly Park)
- Construction of 5-story building with structured parking north of Martway
- Construction of 3-story building with surface parking south of Martway
- Approximately 1,500 sq ft of small retail on ground floor of north building
- Certification for one (1) Globe under the Green Globes sustainability program
- Upgrades to sanitary sewer and stormwater infrastructure systems
- No green space exchange
- Cash contribution of \$300,000 to City

The discussions with the developer continue to be very fluid, but we felt it was important to provide an update on the project and to begin to discuss the application of the tax abatement criteria as the Council considers whether it is appropriate to consider a public-private partnership for the Mission Beverly project. It is important to note that, like any other economic development incentive, the decision to approve the tax abatement tool is completely discretionary, and no decision to grant or deny property tax abatement and/or tax incentives serves as a precedent for any future decisions. This work session is the first opportunity to seriously re-engage in the conversations surrounding this project.

A memo from Mr. Kimmel, which outlines the evaluation of the project's underlying need for assistance, is included in the packet. Mr. Kimmel highlights information related to the internal rate of return and identifies the potential need for up to a 75% abatement. The memo also notes that the developer has requested consideration of a tax abatement

above the cap, at 85%.

Staff has applied the policy criteria and percentage adjustments to the current project and believe it tentatively warrants the following tax abatement percentages.

Mission Beverly Tax Abatement Percentage Allocation

Baseline – Meets Policy Criteria	45%
Capital Investment Adjustment	15%
Target Area Adjustment	10%
Attainable Housing Adjustment	0%
Environmental Design Adjustment	2.5%
Total Abatement Percentage	72.5%

The Council will recall that consideration of a tax abatement requires a cost-benefit analysis. This study, which is conducted in accordance with the City policy and statutory provisions, estimates the economic impact of the project taking into account the public costs (tax abatement and other) and the public benefits (property tax base, sales tax base, and other spin-off benefits). The work session packet does not include a Cost Benefit Analysis for the project. Preliminary analyses were done which demonstrated positive results for all taxing jurisdictions, including Mission. The cost-benefit model will need to be updated to ensure it conforms with the current project components and will be shared in the next round of discussions for the project.

Next Steps

The work session packet includes the following:

- City Council Policy 131 (final approved)
- Memo from Bruce Kimmel, Mission’s financial advisor
- Staff memo recapping the IRB process and current project parameters

The developer will be present to answer questions and Mr. Kimmel will join the meeting virtually. Staff will be looking for Council direction and guidance as we consider advancing the Milhaus project through the process.

Memo

To: City of Mission, Kansas
From: Bruce Kimmel, Senior Municipal Advisor
Date: January 15, 2024
Subject: **Mission Beverly Apartment Project – Updated Proforma Analysis**

Ehlers, the City’s development finance advisor, has engaged with Milhaus Development LLC, the Developer of the proposed 261-unit Mission Beverly Apartments at Beverly and Martway, to analyze the Developer’s fiscal projections and proposed Industrial Revenue Bond (IRB) sales tax exemption and property tax abatement.

This memo is meant to inform the City’s discussion of the Developer’s request for the City to abate 85% or more of the eligible property taxes to be generated by the project, for a period of 10 years. The Developer has submitted to Ehlers a comprehensive set of financial projections detailing its assumptions for the development budget, debt and equity plan, and operating revenues and expenses – and projecting the project’s return on investment. Ehlers evaluated each assumption and calculation, asked the Developer to provide further detail in certain areas, and determined that:

- the project financing plan was practically sound, with no missing or unconnected pieces that caused us to question the project’s fundamental viability;
- the Developer’s development and operating cost estimates were reasonable and comparable to similar apartment projects with which Ehlers is familiar; and
- there was a demonstrated economic gap and rationale for a portion of the Developer’s proposed Industrial Revenue Bond (IRB) sales tax exemption on project construction materials and 85% property tax abatement, in order to achieve a market rate of return.

As indicated above, Ehlers’ analysis indicates it is unlikely that the Developer will undertake the project as envisioned without some degree of tax abatement. For example, with only the sales tax exemption and no abatement, we estimate the Developer’s internal rate of return (IRR) upon a hypothetical sale of the project at 14.2%, vs. an industry threshold of 15-20% for market-rate multifamily projects. An abatement level of 75% for 10 years, meanwhile, yields an IRR of 17.0%. We conclude, therefore, that a tax abatement of up to 75% (i.e. the City’s policy maximum barring extraordinary circumstances) is fiscally warranted for this project.

Please note that the IRR analysis used here differs from the estimated cash-on-cash returns that Ehlers used to evaluate the 58/Nall project’s need for abatement assistance. The Mission Beverly proforma assumes the project is sold once it is fully leased and stabilized – that is, following the second year of operations. The Developer notes that it assumes an early sale for all of its projects due to the possibility that its outside investors may want to get their equity back (and their share of the sale proceeds) sooner than later. And also that it may retain the project in its portfolio for an indefinite period, should market economics warrant this approach instead.

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In addition, this proforma assumes all loan principal is repaid upon the sale of the property, vs. amortized over time. For these and other reasons, the cash-on-cash method would not yield a valid estimated return for Mission Beverly unless Ehlers were to alter this project's proforma significantly. IRR, meanwhile, is another widely used metric, it suits Mission Beverly's situation more appropriately, and is a measure that Ehlers will seek to include in our analyses of City of Mission projects going forward.

The Developer intends to finalize its project plan, budget, and funding sources this year and break ground in January 2025. As such, it's likely that some changes will improve the project's fiscal outlook and others will worsen it – the net effect of which is impossible to predict at this time. That said, experience tells us that negative changes typically offset positive ones, and that this project's return on investment is likely to remain close to what is projected now.

Please contact me at bkimmel@ehlers-inc.com or 651-697-8572 with any questions about this memo, and thank you for the opportunity to be of assistance to the City.