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KANSAS CITY, MO 64108

October 21, 2019

Councilman Lee Barnes
City Hall, 22nd floor
414 E 12th St.
Kansas City, MO 64106

Dear Councilmember Barnes:

As you know, the Strata development team has been working on the Strata office project for more than five years. Since our deadline to report to the Council is coming up this Thursday, we want to report back on where we are and why it is critical to move forward now. There is generally a consensus among the City Council and the market that downtown needs new Class A office space. Kansas City has already lost job recruitment opportunities (Starbucks), not even on the list for who knows how many other projects and being out hustled in each of our competitive markets for sought after jobs due to our lack of available space.

Our proposal is to take air space that currently produces no taxes, no jobs and no activity and turn it into the first high rise Class A office building in downtown Kansas City in 30 years at no upfront cost to the City. None.

We have listened to the Council's direction for us on this project. Therefore, we have further modified our plan shown below to eliminate any City backstop and any participation in the Office Building to make this transaction a garage only deal for the City.

Original H&R Block Plan for the Site from 2004

As a reminder, H&R Block, and its partners, have definitive agreements from 2004 with the City requiring the following:

- Develop a 250,000-350,000 square foot office building and associated parking on the corner of 13th & Grand with agreed to limitations about impairing existing retail.
- Rely upon plans for this project that have been in place and known to all since 2004.
- Utilize infrastructure for this development that was built with the original construction of the on-site Power & Light retail and entertainment district.
- Use the then existing City approved financing plan, incentives and contracts for this project which included a TIF plan that required the City to build approximately \$85,000,000 of structured parking from its general fund without any parking revenues for the City as well as provide approximately \$50,000,000 of additional tax incentives to the developer.

Plan Changes Requested by Council

At the specific request of many of you we have approached Councilmember and Chairperson Shields with modifications and improvements to the existing plan within the 2004 agreement guidelines as follows:

- 250,000 sf. Class A office building (approximately 16 stories)
- 750 cars of structured parking built in the same location and manner as outlined in the 2004 agreements
- The elimination of the current TIF plan and the City's obligation to build parking out of the general fund with no revenue to support the debt service.
- A revised financing plan that:
 - o Requires no upfront cash or general fund investment from the City
 - o Creates 1,100 jobs.
 - o Allows the public sector to charge for parking and utilize all parking revenues that are necessary to cover debt service and other expenses.
 - o Provides the taxing jurisdictions with significant PILOT payment revenues (negotiated with and agreed upon with the jurisdictions) in order to meet "Lucas Ordinance" thresholds.
 - o Puts the City commitment in a last resort "backstop" position on the garage only to enable the most efficient, least costly financing for this element of the project.
 - o Creates a structure through Port KC that allows AIMS zone revenues from the state to significantly assist the City in paying for the debt service of the garage along with the earnings tax and parking revenues.

City Led Proposed Improvements Since Last City Council Meeting

In order to make this financing proposal possible, we have made significant further modifications of the already improved structure from the last City Council meeting. Specifically:

- Developer has eliminated its request for the City to participate in the \$27,000,000 office building backstop or be a participant in any cash flows of the Office Building.
- City participation is now only as a backstop in the privately financed \$36,000,000 parking garage.
- After debt service and other payments (Port KC, City portion of PILOT) are paid on the garage, excess revenues, if any, will be provided to the Developer whose financial obligations now include the entire office building costs.
- The City will maintain 25% of earnings tax on the entire project for 22 years to help pay for the parking garage and then recoup 100% of earnings taxes.
- Port KC will further reduce its payments an additional 10% annually from the project.

Benefits for the City and Taxing Jurisdictions

The end result is that while the City and Taxing Jurisdictions are currently obtaining zero revenue from the air space for the Strata project and under the 2004 agreements the City has significant general fund obligations for the creation of the project, we have developed a creative structure that will turn the project into a significant cash provider for the various public bodies at no upfront cost for the public and create 1,100 jobs.

Councilman Lee Barnes
October 21, 2019
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Conclusion

We have met multiple times with the affected parties and council members on this project over an extended period of time. Various tenants have been interested in the project but we have been unable to commit since we do not have our base line City approvals. It was an eye opener for various City leaders who recently went to Nashville and saw 2,500,000 square feet of downtown Class A office coming on line in the last couple of years and observe 2,500,000 square feet in multiple high-rise buildings under construction when Kansas City has none. Strata can be created through putting the City in a backstop position on a portion of the financing for the parking garage only with no upfront City investment. To compare the former H&R Block agreement this compares to an investment of the City using 100% general funds for significantly more parking at significantly more 100% out of pocket cost.

Sincerely,

Lathrop Gage LLP

By: 
Jerry Riffel

JDR/td

BLOCK 124 - STRATA
CITY BACKED - GARAGE ONLY

BLOCK 124 - STRATA - SUMMARY

Revision: 10/14/2018

	(Operation Years)				
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5

	(Operation Years)				
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5

Parking Garage Projected Cash Flow:					
Parking Revenue:		\$1,463,280	\$1,492,546	\$1,522,397	
Parking Revenue - 100%					
Occupancy; 750 Spaces; 1.25					
Diversity Factor; \$130/Mo. /					
Space; 2% Annual Growth					
Operating Expenses:		\$360,000	\$367,200	\$374,544	
Parking Operating Expenses-					
100% Occupancy; 750 Spaces;					
\$40/Mo. / Space; 2% Annual					
Growth					

Net Operating Cash Flow	\$1,103,280	\$1,125,346	\$1,147,853		
Cash flow Projected Distribution:					
LESS -City's Port KC Annual Payment	\$0	\$225,000	\$315,000		

LESS - City Share of Pilots	\$200,000	\$200,000	\$200,000		
Subtotal Garage Cash Flow	\$903,280	\$700,346	\$632,853		
Cash flow Projected Distribution:					
Garage Base Amount - 750 spaces	\$675,000	\$675,000	\$632,853		
at \$75/Mo.					

Garage Share of Excess at 50.00%	\$114,140	\$12,673	\$0		
CITY Share of Garage Cash Flow	\$789,140	\$687,673	\$632,853		
Port KC Share of Excess at 50.00%	\$114,140	\$12,673	\$0		

CITY SHARE OF GARAGE CASH FLOW	\$789,140	\$687,673	\$632,853		
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GARAGE SUMMARY					
CITY SHARE OF GARAGE CASH FLOW	\$789,140	\$687,673	\$632,853		

AIM Zone Projection
 Based on: 1,138 New Employees;
 \$75,000/Yr. Salary; 2% Annual Growth;
 Modified Tax Rate 5.4%; Occupancy 75% Yr.1
 and 90% Yr.2 +; 50% Share

Subtotal City Garage Share C.F. / AIMS	\$0	\$2,517,478	\$2,809,158	\$2,790,648	
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LESS Projected Debt Service	\$2,064,572	\$2,064,572	\$2,064,572	\$2,064,572	
Based on: \$36,000,000 Garage Cost plus					
placement costs; 3.50% interest; 30 Yr.					
Amortization					

Balance of Projected Funds	\$452,906	\$738,586	\$726,076		
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LESS - DEVELOPER DISTRIBUTION	100.00%	\$452,906	\$738,586	\$726,076	
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SUBTOTAL ALL	\$0	\$0	\$0	\$0	
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CITY SHARE OF RETAINED EARNING TAX	25.00%	\$160,051	\$195,878	\$195,796	
Based on: 1,138 New Employees; \$75,000/Yr.					
Salary; 2% Annual Growth; Occupancy 75% Yr.1					
and 90% Yr.2 +; 1% Tax Rat					

BLOCK 124 - STRATA
CITY BACKED - GARAGE ONLY

BLOCK 124 - STRATA - GARAGE Revision: 10/14/2019

PARKING GARAGE CONSTRUCTION BUDGET

	<u>Amount</u>	<u>Total</u>
Hard Costs		\$30,575,335
Soft Costs:		
Architectural/Engineering	\$1,529,000	
Development Fee	\$1,223,000	
Other Soft Costs	\$1,376,000	
Contingency	\$1,223,000	
Total Soft Costs	15%	\$5,351,000
SUBTOTAL GARAGE CONSTRUCTION		\$35,926,335
Construction Period Interest and Financing Costs		\$2,045,369
TOTAL GARAGE BUILDING COSTS		\$37,971,704

BLOCK 124 - STRATA
Investor Base Case with Revised Dunn Cost on 7/10/18
CITY BACKED - GARAGE ONLY

BLOCK 124 - STRATA - INCENTIVE SUMMARY Revision: 10/14/2019

Projected Project Cost (not including Tax Authority Owned Garage)	\$98,880,000
STRATA Investment	\$98,880,000
CITY Investment	\$0
100.00% Share	
0.00% Share	

SUMMARY

Total Sources	<u>Yrs. 1-30 Cash Available</u>
AIMZone	\$78,498,732
Garage Cash Flow	\$40,877,859
CITY Share of Earnings Tax	\$14,430,858
Office Building Payment of Pilots	\$2,250,000
Total	<u>\$134,057,449</u>

Total Uses

Garage Financing Debt Service	\$57,808,016	\$57,808,016
Developer Share of Cash Flow - Yrs. 1-30	\$42,496,622	\$42,496,622
Port KC Share of Garage Cash Flow - Yrs. 1-30	\$531,953	
City's Port KC Annual Payment - Yrs. 1-30	\$11,790,000	\$12,321,953
City's Pilot Obligation to Taxing Jurisdiction - Yrs. 1-22	\$4,760,000	
Office Building Pilot Obligation to Taxing Jurisdiction - Yrs. 1-22	\$2,250,000	\$7,000,000
CITY - Share of Cash Flow	\$14,430,858	\$14,430,858
Total		<u>\$134,057,449</u>

BLOCK 124 - STRATA
 Investor Base Case with Revised Dunn Cost on 7/10/18
 CITY BACKED - GARAGE ONLY

BLOCK 124 - STRATA INCENTIVE SUMMARY Revision: 10/14/2019

Projected Project Cost	\$98,880,000
STRATA Investment	\$98,880,000
CITY Investment	\$0
	100.00% Share
	0.00% Share

Year	A I M Zone (Advance Industrial Manufacturing Zone)		Projected Garage Cash Flow			Office Building Share of Pilot Obligation	CITY - Earnings Tax -Share	TOTAL SOURCES
	Occupancy	Proceeds	Cash Flow	CITY - Share	Port KC Share			
Year 1	0% Occ.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 2	0% Occ.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 3	75% Occ.	\$1,728,338	\$1,103,280	\$789,140	\$114,140	\$100,000	\$160,031	\$3,091,649
Year 4	90% Occ.	\$2,115,485	\$1,125,346	\$687,673	\$12,673	\$100,000	\$195,878	\$3,536,709
Year 5	90% Occ.	\$2,157,795	\$1,147,853	\$632,853	\$0	\$100,000	\$199,796	\$3,605,444
Year 6	90% Occ.	\$2,200,951	\$1,170,809	\$520,809	\$0	\$100,000	\$203,792	\$3,675,552
Year 7	90% Occ.	\$2,244,970	\$1,194,225	\$544,225	\$0	\$100,000	\$207,867	\$3,747,062
Year 8	90% Occ.	\$2,289,869	\$1,218,110	\$568,110	\$0	\$100,000	\$212,025	\$3,820,004
Year 9	90% Occ.	\$2,335,666	\$1,242,473	\$592,473	\$0	\$100,000	\$216,265	\$3,894,404
Year 10	90% Occ.	\$2,382,380	\$1,267,322	\$617,322	\$0	\$100,000	\$220,591	\$3,970,293
Year 11	90% Occ.	\$2,430,027	\$1,292,669	\$642,669	\$0	\$100,000	\$225,002	\$4,047,698
Year 12	90% Occ.	\$2,478,628	\$1,318,522	\$668,522	\$0	\$100,000	\$229,502	\$4,126,852
Year 13	90% Occ.	\$2,528,201	\$1,344,892	\$694,392	\$0	\$100,000	\$234,093	\$4,208,186
Year 14	90% Occ.	\$2,578,765	\$1,371,790	\$720,265	\$0	\$125,000	\$238,774	\$4,294,329
Year 15	90% Occ.	\$2,630,340	\$1,399,226	\$746,140	\$0	\$125,000	\$243,550	\$4,383,116
Year 16	90% Occ.	\$2,682,947	\$1,427,211	\$772,015	\$13,605	\$125,000	\$248,421	\$4,473,579
Year 17	90% Occ.	\$2,736,606	\$1,455,755	\$797,890	\$27,877	\$125,000	\$253,389	\$4,565,664
Year 18	90% Occ.	\$2,791,338	\$1,484,869	\$823,765	\$42,434	\$125,000	\$258,457	\$4,659,357
Year 19	90% Occ.	\$2,847,164	\$1,514,567	\$849,640	\$57,283	\$125,000	\$263,626	\$4,750,357
Year 20	90% Occ.	\$2,904,108	\$1,544,858	\$875,515	\$72,429	\$125,000	\$268,899	\$4,842,865
Year 21	90% Occ.	\$2,962,190	\$1,575,755	\$901,390	\$87,877	\$125,000	\$274,277	\$4,937,222
Year 22	90% Occ.	\$3,021,434	\$1,607,271	\$927,265	\$103,635	\$125,000	\$279,762	\$5,033,467
Year 23	90% Occ.	\$3,081,862	\$1,639,416	\$953,140	\$0	\$0	\$1,141,430	\$5,862,708
Year 24	90% Occ.	\$3,143,500	\$1,672,204	\$979,015	\$0	\$0	\$1,164,259	\$5,979,963
Year 25	90% Occ.	\$3,206,370	\$1,705,648	\$1,004,890	\$0	\$0	\$1,187,544	\$6,099,562
Year 26	90% Occ.	\$3,270,497	\$1,739,761	\$1,029,765	\$0	\$0	\$1,211,295	\$6,221,553
Year 27	90% Occ.	\$3,335,907	\$1,774,557	\$1,054,640	\$0	\$0	\$1,235,521	\$6,345,985
Year 28	90% Occ.	\$3,402,625	\$1,810,048	\$1,079,515	\$0	\$0	\$1,260,231	\$6,472,904
Year 29	90% Occ.	\$3,470,678	\$1,846,248	\$1,104,390	\$0	\$0	\$1,285,436	\$6,602,362
Year 30	90% Occ.	\$3,540,091	\$1,883,174	\$1,130,315	\$0	\$0	\$1,311,145	\$6,734,410

BLOCK 124 - STRATA
Investor Base Case with Revised Dunn Cost on 7/10/18
CITY BACKED - GARAGE ONLY

BLOCK 124 - STRATA - INCENTIVE SUMMARY Revision: 10/14/2019

Projected Project Cost STRATA Investment CITY Investment	(not including Tax Authority Owned Garage)	100.00% Share 0.00% Share	\$98,880,000 \$98,880,000 \$0
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Year	TOTAL Sources	FINANCING			Port KC C.F. Distribution	City's Port KC Payment	City's Pilot Obligation	Office Pilot Obligation	CITY Earnings Tax Share
		Garage	Developer C.F. Distribution	C.F.					
Year 1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year 3	\$3,091,649	(\$2,064,572)	(\$452,906)	(\$114,140)	\$0	(\$200,000)	(\$100,000)	(\$100,000)	\$160,031
Year 4	\$3,536,709	(\$2,064,572)	(\$738,586)	(\$12,673)	\$0	(\$200,000)	(\$100,000)	(\$100,000)	\$195,878
Year 5	\$3,605,444	(\$2,064,572)	(\$726,076)	\$0	(\$225,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$199,796
Year 6	\$3,675,552	(\$2,064,572)	(\$657,188)	\$0	(\$315,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$203,792
Year 7	\$3,747,062	(\$2,064,572)	(\$724,623)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$207,867
Year 8	\$3,820,004	(\$2,064,572)	(\$793,407)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$212,025
Year 9	\$3,894,404	(\$2,064,572)	(\$863,567)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$216,265
Year 10	\$3,970,293	(\$2,064,572)	(\$935,130)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$220,591
Year 11	\$4,047,688	(\$2,064,572)	(\$1,008,124)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$225,002
Year 12	\$4,126,652	(\$2,064,572)	(\$1,082,578)	\$0	(\$450,000)	(\$200,000)	(\$100,000)	(\$100,000)	\$229,502
Year 13	\$4,232,186	(\$2,064,572)	(\$1,160,983)	\$0	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$234,093
Year 14	\$4,314,329	(\$2,064,572)	(\$1,239,994)	\$0	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$238,774
Year 15	\$4,398,116	(\$2,064,572)	(\$1,306,981)	\$0	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$243,550
Year 16	\$4,483,579	(\$2,064,572)	(\$1,374,912)	(\$13,605)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$248,421
Year 17	\$4,570,750	(\$2,064,572)	(\$1,444,201)	(\$27,877)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$253,389
Year 18	\$4,659,664	(\$2,064,572)	(\$1,514,876)	(\$42,434)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$258,457
Year 19	\$4,750,357	(\$2,064,572)	(\$1,586,965)	(\$57,283)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$263,626
Year 20	\$4,842,865	(\$2,064,572)	(\$1,660,496)	(\$72,429)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$268,899
Year 21	\$4,937,222	(\$2,064,572)	(\$1,735,498)	(\$87,877)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$274,277
Year 22	\$5,033,467	(\$2,064,572)	(\$2,064,706)	(\$103,635)	(\$450,000)	(\$275,000)	(\$125,000)	(\$125,000)	\$279,762
Year 23	\$5,131,708	(\$2,064,572)	(\$2,301,132)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,141,430
Year 24	\$5,231,963	(\$2,064,572)	(\$2,397,446)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,164,259
Year 25	\$6,099,562	(\$2,064,572)	(\$2,495,686)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,187,544
Year 26	\$6,221,553	(\$2,064,572)	(\$2,595,892)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,211,295
Year 27	\$6,345,985	(\$2,064,572)	(\$2,698,101)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,235,521
Year 28	\$6,472,904	(\$2,064,572)	(\$2,802,354)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,260,231
Year 29	\$6,602,362	(\$2,064,572)	(\$2,908,693)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,285,436
Year 30	\$6,734,410	(\$2,064,572)	(\$3,017,127)	\$0	(\$450,000)	\$0	\$0	\$0	\$1,311,145
Total	\$134,057,449	(\$57,808,016)	(\$42,496,622)	(\$531,953)	(\$11,790,000)	(\$4,750,000)	(\$2,250,000)	\$0	\$14,430,858

Summary - T. Sources \$134,057,449 T. Debt \$100,304,638 T. Port KC \$12,321,953 T. Tax Auth. \$7,000,000 T. City \$14,430,858