

**Minutes**

Audio Tape No. 682

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 6:00 P.M., on Monday, August 6, 2007. Councilmember Bussing led the Work Session as Presiding Officer.

**Councilmembers present:** Debra Filla, Scott Gulledege, Jim Rawlings, Gary Bussing, Gregory Peppes, James Azeltine, and Mike Gill.

**Mayor/Councilmembers absent:** Mayor Dunn and Lou Rasmussen.

**Staff present:** Scott Lambers, City Administrator  
Patty Bennett, City Attorney  
Franki Shearer, Assistant City Attorney  
Kathy Rogers, Finance Director  
Joe Johnson, Public Works Director  
Deb Harper, City Clerk  
Christy Wise, Deputy City Clerk

**Others present:** Roger Edgar, George K. Baum & Co.  
Jeff Alpert, Park Place Developers  
Melanie Mann, Park Place Developers  
Charles Miller, Lewis, Rice & Fingersh  
Jim Lahay, Stifel, Nicolaus & Co., Inc.  
Peter Czajkowski, Stifel, Nicolaus & Co., Inc.  
Laura Uhlmansiek, reporter for *The Kansas City Star*

**1. Opening Remarks**

Mr. Bussing called the Work Session to order at 6:15 P.M. He informed that Mayor Dunn is recusing herself from this session and future sessions that are related to the construction of the hotels at Park Place due to the appearance of a conflict of interest. Introductions were made by those present.

**2. Discuss Transportation Development District [TDD] for Park Place Development Improvement District [CIP #80453]**

Melanie Mann with Park Place Developers thanked the Council for once again allowing the opportunity to hold discussion regarding issues associated with the Transportation Development Districts [TDDs] of the development. Without the financial tools provided by the TDDs, Park Place would not be under construction at this time.

She reviewed that the Governing Body approved a \$12.5 million TDD in 2005. Since that time, the addition of two hotels, necessary parking structures, and increased project costs have precipitated a request for the development to receive partial funding from the creation of a transient guest tax [TGT or bed tax].

A handout recapping the timelines of the increasing projects costs was distributed by Ms. Mann. The document was created by Finance Director Kathy Rogers and has been updated by Park Place Developers. City Administrator Scott Lambers informed that the timeline was created for internal tracking purposes and illustrates how costs for the third parking structure have grown from \$3.5 million to \$4.2 million in the span of 45 days.

Ms. Mann suggested using the terms “garage A” for the structure currently under construction; “the Element garage” for the structure associated with The Element Hotel; and “garage B” for the structure that will be included in the next phase of retail development.

Mr. Bussing confirmed with Ms. Mann that updates made to the timeline have been reviewed by Ms. Rogers.

Ms. Mann advised Councilmember Filla that one hotel has always been planned for the development with the second hotel added following an overwhelming response from hotel developers interested in Park Place. Jeff Alpert, also with Park Place Developers, added that the hotels are Starwood Hotels, a company having direct experience with the area market as they also own a nearby Sheraton Hotel. The company’s decision to franchise two hotels within Park Place is highly significant in terms of the potential market.

Returning to the information on the handout, Ms. Mann continued that in June 2007, Staff expressed a comfort level with adding a bed tax to aid with financing for the Element garage. The current request has been updated to raise the developer’s net amount from \$14 million to \$18 million. The addition of the second hotel increased the TDD excise tax by 1%, bringing the gross revenue from \$12.5 million up to \$15.6 million. The City’s financial advisors have agreed that the bond issuances can be for a full 22-year term. Therefore, \$1.4 million will still be needed in order to fund the extra level within garage A, which was added to accommodate parking for guests of the Aloft Hotel, in addition to \$4.2 million for the Element garage.

Ms. Mann furthered that the project has incurred cost increases of approximately \$9.3 million since 2005. Of this figure, \$5.3 million is directly related to parking for the hotel. The developers are seeking to pay for these costs through the bed tax. With the exception of slightly more than \$1 million that is covered by the increased TDD excise tax, they will absorb the remaining amount of approximately \$3 million. She confirmed for Councilmember Azeltine that the overruns are related to construction costs only.

In discussions with Staff, Ms. Mann relayed that agreement has been indicated with the TDD proposal and financing for the Element garage. The remaining issue is the \$1.4 million needed for the extra level of garage A. She relayed that closing procedures with the developer of the Aloft Hotel is contingent upon approval of the bed tax. She informed Councilmember Filla that if the proposal is not approved by the Governing Body, renegotiations will be attempted with their banks.

Charles Miller of Lewis, Rice & Fingersh, legal advisor for Park Place Developers, confirmed for Councilmember Gill that the letter included as packet information is the exact proposal described by Ms. Mann. Another handout was distributed illustrating the technicalities of the three proposed bond series.

Councilmember Peppes arrived at 6:30 P.M.

Discussion took place regarding the funding sources of the three parking structures. Garages A and B will be financed through TDD sales tax and assessments while the Element garage and the extra level of garage A will rely upon transient guest tax revenue.

Jim Lahay with Stifel, Nicolaus & Company, financial advisor to Park Place Developers, informed Councilmember Gill that capitalized interest, cost of issuance, underwriting fees, and reserves account for the difference between the listed gross amounts and actual net to the developer. Approximately 5% of the gross amount figures will go toward third parties.

Roger Edgar with George K. Baum & Company, financial advisor to the City, stated when projecting maturity dates versus accelerated repayment dates, the coverage ratio is very important in providing a margin of safety. The current projected coverage is 1.35 for the sales tax and 1.1 for the assessments. A higher coverage factor will reduce the size of the bond issue and will also facilitate faster repayment.

Mr. Lahay explained the 1.43 coverage ratio assumption associated with the transient guest tax revenue for Councilmember Azeltine. The analysis included the number of hotel rooms (333), the room rate of \$135 per night, a 65% occupancy rate, and a 12-year payoff of the bond series. All of this information translated to the 1.43 coverage ratio, which will be used when placing the bonds.

Ms. Mann informed Councilmember Gulledge that the translation was deduced from conservative projections provided by the hotel developer. She stated the Sheraton Hotel currently has an average daily rate [ADR] of \$170.

Mr. Alpert reported further market study information. He noted that the hotels within Park Place will be very competitive for a variety of reasons, including the fact that it will be the only hotel environment with restaurants and a movie theater within walking distance. The uniqueness of the locality will provide a strong marketing advantage.

Mr. Miller reviewed that the revised proposal is for a 7% transient guest tax with 5.5% used as security for the bonds and 1.5% allocated to the City. Approximately \$2 million of revenue will be provided to the City.

Ms. Mann stated it is also important to be competitive in terms of the bed tax. Overland Park just increased their tax to 9%. Including the 1% excise tax, the hotel developer is very comfortable with the proposed TGT of 7%.

Mr. Lambers recalled that following the Work Session in June, Staff prepared a Development Agreement requiring \$3.575 million in transient guest revenue to finance the garage for the Element hotel. The developers' request has increased to \$4.2 million in the intervening 45 days. As a result of the increase, it is his recommendation to go forward with the proposed second development agreement of \$4.2 million with an increased bed tax rate from 6.5% to 7%. The additional 0.5% will be captured to offset the increased costs of the parking structure. Although he is comfortable with the amount needed to build the structure and raising the bed tax, he views the projected 12-year payoff as optimistic.

Mr. Lambers continued that the existing Development Agreement of \$12.5 million should be increased to the level requested by the developers based upon current expense estimates. The bond amount will be dictated by revenue generated over a three-month period of sales tax activity as opposed to the current projections. It is his preference to amend the existing Development Agreement to provide the Governing Body the ability to include the transient guest tax revenue as it will be funding a portion of garage A. Ideally, the revenue generated by the TGT should go towards the annual debt service payments and the reserve requirements for the coverage of the Element garage with the balance towards debt service for parking structure A up to the requested \$1.4 million. Once this goal has been reached, any possible excess revenue could be used to payoff the Element garage early. He voiced concerns regarding the pure projections versus reality and revenue shortfalls. He reminded that TGT revenue is municipal money, therefore the City will greatly benefit following payoff of the bonds.

Mr. Bussing stated there will be no action taken this evening; however, the objective is to provide direction for Mr. Lambers as he proceeds in negotiations with the developers.

Mr. Lambers noted that the current charter ordinance provides for a transient guest tax rate of 6.5% and will require amending. He recommends that the authority be increased to 9%, which would equal the current Overland Park rate.

Councilmember Filla agreed with Mr. Lambers' recommendations. Discussion took place regarding the changes that would occur to the bond terms for garage A in order to fully identify all of the revenue for this structure.

Councilmember Gill stated the addition of the hotels will provide an enormous opportunity for the City as it will allow the collection of transient guest tax revenue. It is in the City's best interest to further the relationship/partnership with Park Place Developers, which has worked extremely well thus far. He voided agreement with the developers' proposal.

Councilmember Azeltine stated he opposes increasing the amount of the original Development Agreement as it will set a bad precedent. As a City, we should not assume incremental increases in construction costs after a Development Agreement has been set in place. He is in favor of funding the parking structure of the Element Hotel with TGT and adding \$1.4 million for garage A to the second bond series.

Conversation occurred regarding the requested increase to the original Development Agreement.

Councilmember Gullede disagreed with increasing the amount of the existing Development Agreement and agreed with funding the Element garage and sixth level of garage A with TGT revenue.

Mr. Alpert pointed out that part of the requested increase represents cost overruns while another portion is needed to design garage B, which may not be built for 1-3 years. Potential increased costs for the design process are built into the figure.

Mr. Lambers confirmed for Mr. Bussing the original estimates for the structures as being \$6.2 million for garage A and \$6.3 million for garage B. Mr. Alpert verified that the currently inflated figures are due to cost increases.

Continued discussion took place regarding coverage and funding of the bonds.

Mr. Bussing suggested that Mr. Lambers and Ms. Rogers continue working with Park Place Developers on an agreement with a clear presentation prepared for the next Work Session concerning the topic.

Mr. Lambers confirmed for Councilmember Azeltine that an amendment to the Development Agreement will not cause the need for revised final plans of the hotel projects.

There being no further business, the Work Session adjourned at 7:30 P.M.

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Christy Wise, Recording Deputy City Clerk