P&L bonds coverage 'very skinny'

KC's 'bold risk' may require infusion from general fund

By Jim Davis. Kansas City Business Journal: December 22, 2006.

The Power & Light District, now being built in downtown Kansas City, has long been touted as an extraordinary project.

Kansas City taxpayers better hope the district sizzles because they're financially staked to its success.

If the urban entertainment complex doesn't meet projections but instead merely matches sales at comparable destinations, Kansas City's general budget will have to fill a gap that could be in the tens of millions of dollars.

The bonds financing the project leave little room for error. District revenues are projected to cover 104 percent of the bonds' debt service.

Kansas City CFO Deb Hinsvark called this coverage "very skinny" and said she prefers at least 120 percent. But Hinsvark said the Power & Light bonds are "a good, calculated risk."

"Occasionally," she said, "a bold risk has to be taken, a bold move has to be made."

Kansas City Councilman Troy Nash said he understood how the council was tying the city's fortunes to the district by issuing more than $295 million in bonds in 2005 and 2006.

"To argue there are no risks involved would be foolish," said Nash, chairman of the council's Planning, Zoning and Economic Development Committee. "We're hopeful that the project will pan out."

Kansas City Mayor Kay Barnes wouldn't discuss the bonds with the Kansas City Business Journal. Barnes, through a spokeswoman, referred questions to the Finance Department.

Former City Councilman Jim Rowland said the council relies on forecasts and other imperfect information to make financing decisions.

"There is this balance between being a visionary and driving things, but also being a realist and a pragmatist," said Rowland, who left the council in 2005. "Everything that we (on the council) do, typically, has ramifications in the next decade or two decades or three decades. And that's the difficult part; that's the strategic part of being a policymaker -- understanding the consequences of what you're doing today on the next generation."

The city's previous experience with downtown economic development financing has been mixed.

Bonds issued to finance the Muehlebach Tower addition to the Kansas City Marriott Downtown consistently have required general fund money. The deficit has averaged about 20 percent and totaled more than $5 million through 2005, said Dan Bagunu, the city Finance Department's development finance manager.

Also suffering a shortfall have been bonds tied to what's now the Radisson Hotel & Suites-City Center. But a 20 percent miss in the fiscal year that ended April 30 was covered by previous years' reserves.

Hinsvark traced the Muehlebach bonds' troubles to timing. When the hotel addition opened in 1997, she said, Bartle Hall hadn't been renovated, and Downtown offered conventioneers little else. The Marriott, which ranks No. 1 on the Kansas City Business Journal's list of the Top Area Hotels based on its nearly 1,000 rooms, "was a convention center hotel before its time," Hinsvark said.

Bonds backing the Power & Light District are to be repaid with an unmatched array of taxes.

All local taxes generated by the project will help finance $130 million in public improvements, such as parking garages. The district also is the first beneficiary of the Missouri Downtown and Rural Economic Stimulus Act, better known as Modesa, which will make a similar diversion of state taxes to pay for $100 million more of construction. Public money is projected to cover more than 80 percent of the district's estimated total cost.

An analysis of the district for the city by C.H. Johnson Consulting Inc. projected annual sales at $358 a square foot in 2005 dollars. By comparison, the Urban Land Institute reports that shopping complexes not anchored by department stores, such as the Power & Light District, generate median annual sales of $271 a square foot.

Anita Kramer, the institute's director of retail development, said the Power & Light District could significantly exceed the median because it probably will draw traffic from a wide radius -- 300 miles, the district's backers hope.

But competition for this spending is growing. Kansas City's retail market exceeded the national average retail space per capita by more than 30 percent in 2000, according to C.H. Johnson. Since then, several large shopping centers have opened. The most recent additions -- The Legends at Village West in western Wyandotte County and Zona Rosa in Kansas City, North -- aspire for regional followings like that of the Country Club Plaza, long considered Kansas City's top such draw.

Sales on the Plaza, No. 4 on the Business Journal's list of the Top Area Shopping Centers with 1 million leasable square feet, exceeded $500 a square foot in 2005.

The Cordish Co., which is developing the Power & Light District, is nationally renowned. The Power Plant in Cordish's hometown of Baltimore ranks No. 3 on the Baltimore Business Journal's list of the most popular tourist attractions. Power Plant Live, a companion destination, ranks No. 5. Together, almost 11 million people visited the projects in 2005, the year on which rankings were based.

Cordish's other projects include Bayou Place, which opened in 1997 in Houston. The $22 million entertainment complex, described by Fodor's travel guide as Houston's largest, includes a multiplex movie theater and an indoor amphitheater for live performances, along with a Hard Rock Cafe and other restaurants and clubs.

Angie Bertinot of Central Houston Inc., an advocacy group similar to the Downtown Council of Kansas City, said Bayou Place is fully leased and opening a second phase of offices. Bertinot said traffic has rebounded with new commercial tenants after having spawned activity in the surrounding theater district, billed as the United States' second-largest, behind New York City's.

"We've always considered Bayou Place to be a catalyst," she said.