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Olathe Gateway's bond issue defaults, even with Bass Pro

Premium content from Kansas City Business Journal by Steve Vockrodt

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Years of lower-than-expected revenue pushed bonds for the Olathe Gateway project into default.

Holdings of \$13 million in tax increment financing bonds for the retail project, which **Bass Pro Shops** anchors, were informed of the default on Sept. 1. The default came after a reserve fund dried up, leading to a \$175,000 shortfall on payments due at the beginning of the month.

Olathe began dipping into the reserve fund for the bonds a year ago.

Olathe officials pushed hard to land the project, and the area's first Bass Pro store, at 119th Street and Renner Road. But the city did not guarantee the TIF bonds and is not directly on the hook for payments.

"The (City) Council has been very emphatic policywise that we're not going to put tax dollars at risk for that project," city spokesman [Tim Danneberg](#) said.

That doesn't mean the city and its economic development efforts face no consequences.

"When it happens and it's reported, there's a risk — a reputational risk," said [David Frantze](#), a real estate development lawyer with **Stinson Morrison Hecker LLP** who did not work on the Olathe Gateway project.

Making matters worse for bondholders, no property is pledged as collateral on the debt.

TIF bonds are repaid by capturing increases in property and economic activity taxes generated by a project.

The city pledged 100 percent of the increase in property taxes and of its 1 percent general sales tax generated at the project to cover the Olathe Gateway bonds.

The bonds began generating revenue in 2007, and TIF revenue hit a high of \$636,991 the next year. But the project was expected to generate more than \$1 million in 2008, according to a pro forma that **Piper Jaffray** prepared before the bond sale.

And though projections increased for each subsequent year, the actual revenue the project generated declined steadily. In 2010, Olathe Gateway generated \$484,681 in incremental revenue — compared with the pro forma estimate of \$1.18 million.

The downward trend of Olathe Gateway's financial performance mirrors greater Johnson County's retail activity going into — and coming out of — the recession.

The \$112 million in retail tax receipts for the entire county in 2008 steadily dropped to \$105 million in 2010, according to the Kansas Department of Revenue.

"In broad strokes, talking about nationally even, retail is showing some bounce-back," said Carolyn Bagnall, director of research for **Cassidy Turley**. "But it's possible the difficulty is the business segment that Bass Pro is in. ... It may be that it's in a business area that hasn't caught on yet."

Mark Siffin of **Maefield Development**, whose company developed the Olathe Gateway site, could not be reached for comment.

Although Olathe officials hailed the arrival of Bass Pro, questions arose about the metropolitan area's ability to support Bass Pro sites in Olathe and Independence and a **Cabela's** in the Village West area of Kansas City, Kan.

Independence did guarantee TIF bonds for the Falls at Crackerneck Creek project, which features a Bass Pro store and also has failed to meet projections. The city paid \$3.5 million to cover a bond payment in February on the project at Interstate 70 and Missouri Highway 291.

Bass Pro took Independence to court to reclaim overpayments in rent and other charges it says the city improperly collected.

That trial, originally scheduled for an Aug. 30 bench trial in Jackson County Circuit Court, has been moved to Dec. 9.