Economic Development Tools
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Discussion Outline

• Economic Development Tools
  – Tax Increment Financing (TIF)
  – Community Improvement District (CID)
  – Construction Sales Tax Exemption via Industrial Revenue Bonds (IRB)

• How the City Decides Participation in Development

• Current Situation
How TIF Works

• TIF captures and uses all or a portion of new (incremental) local taxes created by a project

• Real Property Taxes
  – Diverts up to 100% of new property taxes
  – 20 mills for school finance NOT diverted
  – 1.5 mills for state NOT diverted

• City Sales Tax
  – Diverts up to 100% of City sales tax, utility franchise fees

• All local taxing districts included; duration of up to 20 years per TIF project area
The “Base” and the “Increment”

**Base**
Property Assessed Value - $1,000

Total Mill Levy - $100/$1000 of Assessed Value

Total Tax Revenue - $100

**Property Tax Increment**

Total Assessed Value After Development - $1,000,000

Total Mill Levy - $100/$1000 of Assessed Value

Total Revenue - $100,000

Less Base (100)

Less 20 Mills (20,000)

Less 1.5 Mills (1,500)

Total Increment - $78,400

$100 Base

$100 Base

$20,000 20 Mill School Finance

$1,500 1.5 Mill Kansas

$78,400 Property Tax Increment

Amounts Change Based On Valuation

Amount Remains Constant
Effect on School Districts

- Held Harmless at Base Property Tax Level
  - As are County, City, and other jurisdictions

- Receive 20 Mills on Increased Assessed Valuation from Redevelopment Project
Where Can TIF Be Used

• Eligible Areas for TIF Capture and Use:
  – blighted areas (including environmentally contaminated areas and 100-year floodplains)
  – conservation areas and pre-1992 enterprise zones
  – major commercial, entertainment, and tourism areas
  – bioscience development areas
  – intermodal transportation areas
What can TIF Pay For

• Costs necessary to implement the redevelopment project plan, including:
  – Land acquisition and site preparation
  – Public infrastructure
  – Landscaping and parking facilities
  – Other private development costs – but NOT building construction costs
  – Special purposes – e.g. multi-sport athletic complex and museum facilities
Funding Methods

• Developer Reimbursement ("Pay As You Go")
  – Developer funds approved TIF costs and is reimbursed as TIF is received

• Bond Financing
  – Special Obligation TIF Revenue Bonds
    • Limited obligation of City
    • Sometimes purchased or guaranteed by developer and re-sold once track record established
    • City CAN provide annual appropriation pledge

  – General Obligation TIF Revenue Bonds
    • Full faith and credit obligation of City
    • Amount that exceeds 3% of the assessed value of the City counts against bonded debt limit
Phase 1: Create TIF District

• Redevelopment District
  – Eligible area in which increment is collected
  – Defined by the City
  – County and School District have right to veto
  – Each Redevelopment District can have multiple Redevelopment Project Areas
Redevelopment Project Areas

- RPA 1: 2013-2033
- RPA 2: 2014-2034
- RPA 3: 2015-2035
- RPA 4: 2016-2036

Redevelopment District
Phase 2: TIF Plan and Project

• Redevelopment Project Plan
  – Overall blueprint for the assistance of development in a given redevelopment project area

• Redevelopment Project
  – Specific project described in Redevelopment Plan
  – Each Plan can address multiple private development projects, if applicable in that project area
Community Improvement Districts

- Available to any City or County
- Can finance just about anything – public or private development and operating costs
- Easy to form and broad use of funds
- Most costs must be incurred within the CID but can finance necessary infrastructure outside the CID
CID Formation & Financing

- Created by a petition of (1) owners of 55% of land area and (2) owners of 55% of assessed value of land, within the proposed CID
- Can impose special assessments
- Can impose up to a 2% CID sales tax
- May do “pay-as-you-go” CID – bond financing not necessary
Collection of CID Sales Tax

• Collection of CID Sales Tax may occur for 22 years from the date the State Director of Taxation begins collecting the sales tax.
• CID Sales Tax is collected in same manner as other sales taxes.
Effect on Other Taxing Districts

• No impact to current taxing jurisdictions – no diversion of current taxes
• Only new revenues used
• Can be used in conjunction with TIF or STAR Bond District, but Department of Commerce may request pledge of funds on STAR Bonds.
CID Establishment

- Publish Notice of Public Hearing twice in official newspaper
- Certified mail to all property owners in CID
- After Public Hearing, City may pass Ordinance creating CID
- 30 day statute of limitations to protest after publication of Ordinance creating CID
Industrial Revenue Bonds (IRBs)

- Generally used for property tax abatement and/or sales tax exemption on construction material
- Payable from lease payments made by the company to the City
- Cannot be full faith and credit bonds
- Eminent domain prohibited
- Property tax abatement prohibited in TIF Districts
Key Considerations for City Participation

1. Is the City willing to use TIF, CID, and/or other tools to assist private development?

2. If “YES” to #1, what is the appropriate incentive funding target, based on anticipated Developer and City returns on investment?

3. If “YES” to #2, does the incentive funding plan (bonds, pay-go, guarantees, etc.) provide an acceptable balance of City risk and reward?

4. If “NO” to #1, 2, or 3, what are the alternatives and how does the City wish to proceed?
Current Situation

• City Finances
  – Stormwater Bonds
  – Interest Cost Savings from 2014 Refundings
  – S&P “AA” Rating with Stable Outlook (July 2014)

• Gateway Development Agreement