

Uneven Patchwork: Tax Increment Financing in Kansas City

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*Study commissioned by the Kansas City Area Chapter of ReclaimDemocracy.org
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citizen authority over corporations and reviving grassroots democracy.*

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Executive Summary

Kansas City, Missouri, like many other cities, uses Tax Increment Financing (TIF) as an economic development tool to attract and retain business and jobs. TIF, in theory, has the dual purpose of reducing adverse conditions like blight while enhancing the tax base. In a TIF project taxes are frozen at pre-TIF levels, and the property tax that would have been due on the increased value of the property is abated and diverted by the taxing authority (city, county, school district) to the TIF Commission which uses the money to cover its costs and to reimburse the project developer for costs covered in the TIF plan or to repay a revenue bond issued for the plan. This is called *payment in lieu of taxes* (PILOT)

Missouri is one of only nine states which also abate Economic Activity Taxes (EAT) and one of only four states which include earnings and profit taxes in addition to sales and use taxes in EATs. Kansas City, Missouri also allows Super TIF which permits the usual 50% abatement on EATs to rise to 100%.

This study of the record of Kansas City's TIF asked several specific questions: What is the overall pattern of approval of TIFs city-wide over time? For what purposes is TIF being used? How stringent are the tests used by the TIF Commission and the City Council to insure that TIF is only used where it will create the most needed economic development and not fund projects which would occur without incentives?

Findings

1. The use of TIF and particularly the inclusion of EATs has grown rapidly in Kansas City over the past few years. The amount of redirected tax revenues transferred to the TIF Commission has surged by 208% between fiscal 2000 and 2004. EATS grew by an equivalent 204%. That growth coupled with findings that actual revenues of TIF plans accounted for only 23% of projected revenues should create serious concerns among the citizens and elected officials.

2. EATs are difficult to calculate and administer. Lacking the use of a cost-benefit analysis, that would estimate the amount of substitution of economic activity as a result of TIF, EATs may simply be redirecting taxes away from another TIF or non-TIF business and thereby negatively affecting tax revenues.
3. Demographic characteristics of the Council Districts where TIF plans have been approved demonstrate that TIF is rarely utilized in areas of the City that are most in need of redevelopment:
 - 88% of TIF plans are in four Council Districts (1, 2, 4, and 6) which contain the two-thirds of the city's population who are the most affluent, best educated and least likely to be members of a minority group.
 - The two Council Districts (3 and 5) with one-third of the population who have the lowest income and the highest rates of poverty and unemployment receive only 12% of TIFs.
4. The vagueness of Missouri law creates a situation whereby the City is encouraged to overuse TIF without performing the necessary cost-benefit analyses or adequately insuring that *but for* the TIF, the project would not take place. This is increasingly putting the local public sector at financial risk.
5. The lack of an overall policy to guide the use of TIF means that TIF is not necessarily being used either in a responsible fiscal manner nor to achieve the best outcomes for the City's scarce resources.
6. There are problems in the current rules governing the TIF Commission which involve conflicts of interest, disclosure, and access of the public to the process of decision-making.

Recommendations:

1. If the Kansas City Council is to use economic development incentives to spur development, the poorer Districts need to be given additional consideration in the TIF process. The awarding of TIF or other incentives should be firmly grounded in a policy which sets priorities, adequately evaluates costs, benefits and risks and has clear goals shaped by an overall economic development plan.
2. The City needs to implement a comprehensive TIF policy such that TIF is used to achieve clear and substantial public benefits while protecting the financial condition

of the City. Consideration should be given to “social” as well as fiscal effects of the policy.

3. The TIF Commission should be funded through the general fund rather than by the Commission receiving a portion of the redirected tax dollars that are generated by approved TIF plans. By funding the TIF Commission through general funds, administrative and operating costs would be more transparent to the taxpayers of Kansas City and a built-in conflict of interest would be eliminated.
4. As a component of the TIF policy, the City Council should require the use of clawbacks which tie incentives to performance. Specified levels of performance, and the consequences for not meeting them, should be agreed upon by the City and the developer in a legally binding contract. Consequences for not meeting the specified performance measures would include, but not be limited to (1) rescission of the incentive and reimbursement of the incentives including abated taxes and (2) penalties and fines for firms that do not meet certain performance measures, (e.g., specified job creation targets or relocating after receiving incentives).
5. The Kansas City Council should limit TIF Project funding to PILOTs and cease funding TIFs with EATs until an empirical analysis is made of the shifting of economic activity as a result of the TIF. A proposed methodology for such an analysis is in the full report. Such analysis may determine that EATs are rarely a truly beneficial form of funding TIF Projects.
6. The process of discussion and decision-making for TIFs must encourage far greater public participation. TIF must be opened to scrutiny with public notice beyond what is required by law. Greater transparency should be a component of TIF policy to be developed by the City Council. To that end, we recommend that the City Council constitute a citizens advisory committee to participate in the TIF approval process.

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Tax Increment Financing in Kansas City: Uneven Patchwork

I. Introduction

Over the past few decades cities and other government entities have increasingly made use of economic development tools to attract or retain business. Tax Increment Financing (TIF) has become one of the most popular and powerful of these tools used by cities which have limited resources for economic development. A broad range of TIF laws are currently on the books in 48 states and the District of Columbia. TIF in theory has the dual purpose of reducing or eliminating adverse conditions like blight while enhancing the tax base. In Missouri, TIF was created by state statute, and it is administered by the City of Kansas City, Missouri through the TIF Commission.

TIF is a popular tool for local governments because it permits them to finance local economic-development plans without using current tax revenues. As such, TIF appears to be a low cost means to finance a city's economic development program. As this study will show, however, the use of TIF in Kansas City, like many other cities, has become so common that it's routinely expected by major developers. Furthermore, the record of TIF has had many unintended consequences which raise questions about the benefits and costs to the citizens, the accountability of the beneficiaries, as well as the future financial health of the City.

In its general form, TIF is straightforward. The TIF Commission holds public hearings and makes a recommendation for redevelopment of an area including specific development plans. The City Council considers approval of the plan, and, if approved, the developer proceeds with construction.

The development results in increased property value. The property tax that would be due on the increased value of the property is abated. The value of the abated taxes is called the increment. The owner of the property pays property tax on the original value of the property. The owner pays the taxes on the increment to the City which deposits them in the City's Special Allocation Account. These funds are then transferred to the TIF Commission.

This is called *payment in lieu of taxes* (PILOTs), and the TIF Commission uses the funds to pay for the cost of administering the TIF plan and to reimburse the developer for the cost of developing the property.*

In addition to PILOTs, increases in local *economic activity taxes* (EATs) such as utility, earnings, profits, and sales taxes can be made available to fund reimbursement of the redevelopment plan. Fifty percent of the increase in EATs from the TIF area is available to reimburse developers for the cost of developing the area. While forty-eight states have adopted the use of TIF as an economic development tool, nine states use EATs, and Missouri is one of only four states that have authorized the use of EATs that include taxes beyond sales or use tax based.

The Kansas City Council has approved the use of so-called “Super TIF.” Under a normal TIF plan, 50 percent of the local EATs increment is available for reimbursement of eligible costs. With a Super TIF, all of the EATs are available to the developer. This means that in Kansas City for a new retail store that receives a super TIF the EATs would include 100% of sales and earnings taxes generated by all customers and employees whether or not they are drawn from other pre-existing businesses.

If the new tax base would not have occurred but for TIF, local governments get something (funds for economic development) for nothing (no decrease in the funds available for other purposes). However, when the economic activity that is encouraged by TIF funding represents economic activity that would have occurred elsewhere in the metropolitan area, then from the point of view of local officials, it is simply an unneeded subsidy. The larger the geographic area, such as Kansas City, the more likely TIF can be viewed as simply another tool in the zero-sum competition for tax base that goes on in all parts of the country.

Traditionally, TIF has been employed to redevelop areas within the older business district of communities. These are the areas that have the greatest potential for growth in property value because the existing value is low. Initially, states restricted TIF projects to “blighted” or “substandard” areas within the community. However, over time, the requirements for such a designation were diluted and lost any real meaning. For example, the states of Iowa and Indiana dropped the “blighted” and “substandard” tests, and allowed TIF to be used in “Economic Development Areas.” Under the expanded criteria literally any project qualifies for TIF, i.e., public improvements such

* Note that the owner and the developer may or may not be two separate parties. Due to lack of transparency, however, it is extremely difficult to determine how the benefits of the TIF are shared among them.

as golf courses, and parks, and private projects such as housing, office buildings, hotels, and skywalks.

II. Tax Increment Financing Law in Missouri

Missouri's Real Property Tax Increment Allocation Redevelopment Act is a typical TIF statute. The statute requires a finding, under the redevelopment plan adopted by a municipality, that the redevelopment area as a whole is blighted, a conservation area, or an economic development area. Further, the redevelopment commission must find that, in addition to being a blighted area, a conservation area, or an economic development area, the area "has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing. (To view the entire statute, see <http://www.moga.state.mo.us/statutes/c099.htm>, Sections 99.800 to 99.865.)

According to statute, Missouri defines "blighted area," "conservation area" and "economic development area" as follows:

"Blighted area" is defined as an area which, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or societal liability or a menace to the public health, safety, morals, or welfare in its present condition and use."

"Conservation area", any improved area within the boundaries of a redevelopment area located within the territorial limits of a municipality in which 50 percent or more of the structures have an age of thirty-five years or more....

"Economic development area", any area or portion of an area located within the territorial limits of a municipality which does not meet the requirements of subdivision (1) and (3) ("blighted area and conservation area, respectively), and in which the governing body of the municipality finds that redevelopment will not be solely used for development of commercial businesses which unfairly compete in the local economy and is in the public interest because it will:

- (a) Discourage commerce, industry or manufacturing from moving their operations to another state; or*
- (b) Result in increased employment in the municipality; or*
- (c) Result in preservation or enhancement of the tax base of the municipality.*

PILOTs vs. EATs in Missouri

In the State of Missouri abated property taxes are frozen at the pre-TIF or project level for up to twenty-three (23) years. The PILOTs which represent incremental tax revenues are placed in a "Special Allocation Fund" for disbursement to the developer,

and the frozen portion is allocated among the taxing jurisdictions. In addition one-half of the incremental revenues generated by EATs (or up to 100% if the project is a Super TIF) may be used to pay for infrastructure and capital improvement costs. This expansion of the use of EATs has economic and political implications, and raises a great deal of controversy over the benefits and costs of TIF. A number of states (including Kansas) do not allow the redirection of EATs such as retail sales taxes to projects.

While it may be politically expedient to expand the types of taxes that can be used to finance infrastructure and capital costs, this expansion complicates the economics of TIF. The objective of the statute is to use *incremental taxes*, that is, taxes that would not have been collected but for the project. With property taxes, it is simple to determine the incremental tax since property taxes are known and can be frozen.¹ With EATs, the process of determining what is incremental is a much more difficult process. In many TIF projects that use EATs, the claim of incremental sales is, in reality, simply a substitution of sales tax generated by an existing TIF project for sales tax that was being generated by a non-TIF project. In the Missouri implementation of TIF, there is no process to evaluate such substitution. It is, therefore possible, for a TIF to result in a reduction of tax revenues to the cities or counties which approve TIF projects. In a later section, we provide a methodology whereby jurisdictions may be able to quantify those substitution effects.

III. TIF Projects in Kansas City, Missouri – Number and Justification

According to the 2005 Kansas City, Missouri Tax Increment Financing Annual Report, there are a total of 86 TIF districts that have been established since 1988 (Appendix A). This listing contains multiple listings in the same TIF Districts. According to the March 2005 Performance Audit conducted by the City Auditor's Office of Kansas City, Missouri, there were 58 approved TIF plans in 2005. Chart 1 shows the cumulative growth in TIF plans in Kansas City, Missouri since 1988.²

¹ However, payments in lieu of taxes are not truly incremental in that it does not take account of the long term growth rates in property taxes that would occur without the TIF district.

² Performance Audit: Estimating Tax Dollars Owed to the TIF Commission. March, 2005.

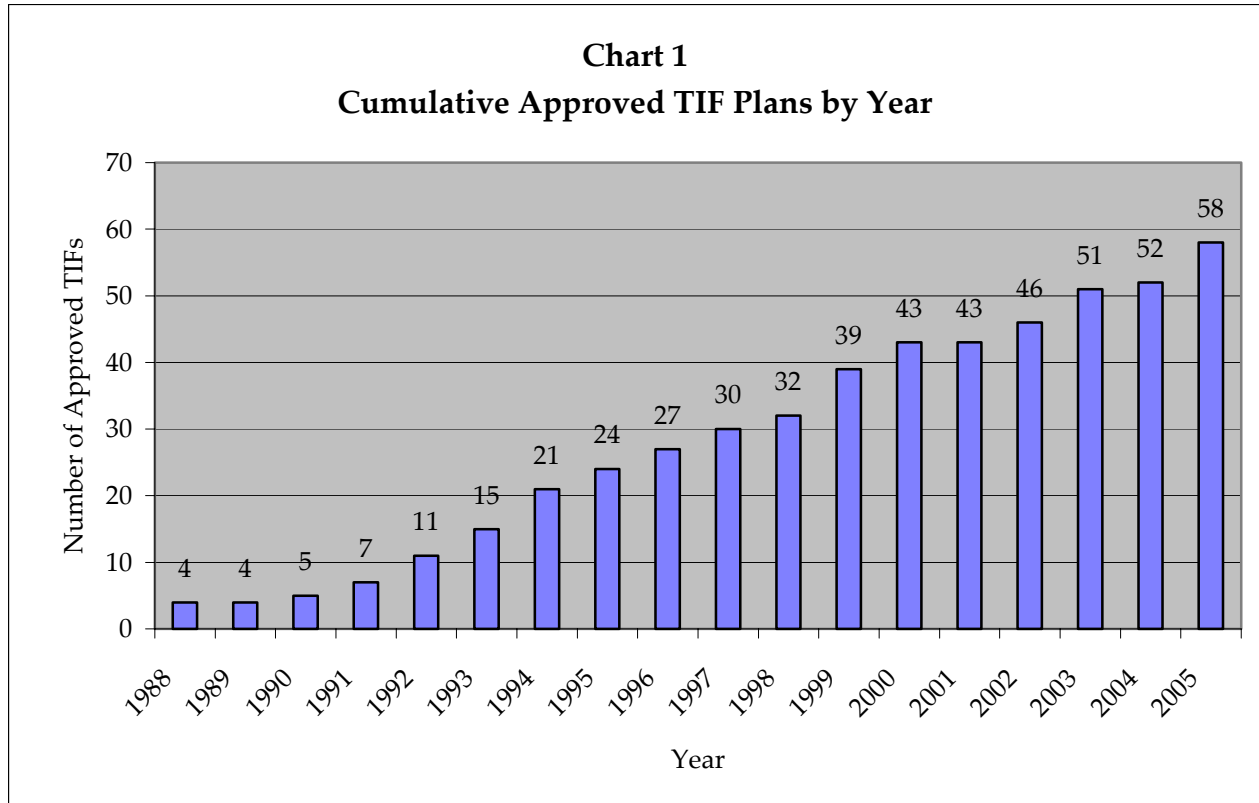


Chart 2 shows the results of a review of the 86 TIF districts contained and reviewed in the 2005 Annual Report, 48 or 53.9% were designated as “blighted areas,” 34 or 38.2% were designated as “conservation areas,” and 7 or 7.9% were designated as “economic development areas.”

The 2005 Annual Report also states that there are 6 categories by which the “but for” determination is made. These categories of the but-for determination are (1) project has unusual/extraordinary costs that made the project financially unfeasible in the marketplace, (2) project required significant public infrastructure investment to remedy existing inadequate conditions, (3) project required significant infrastructure investment to construct adequate capacity to support the program, (4) project required parcel assembly and/ or relocation costs, (5) all of the above, and (6) other.

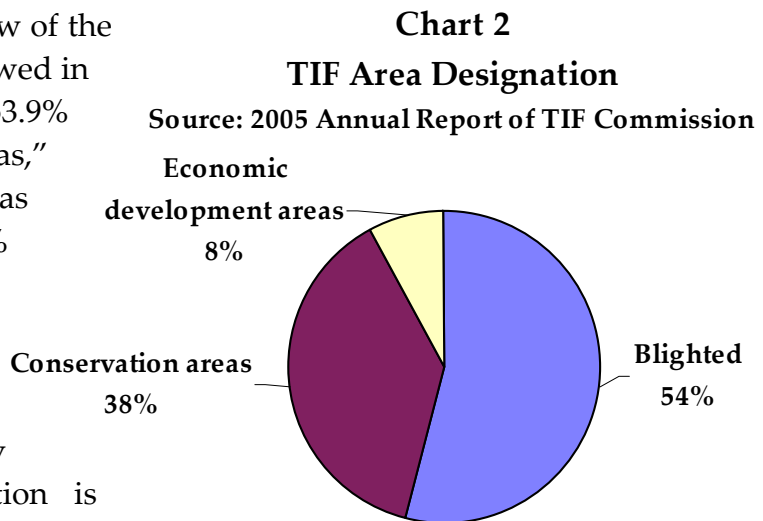
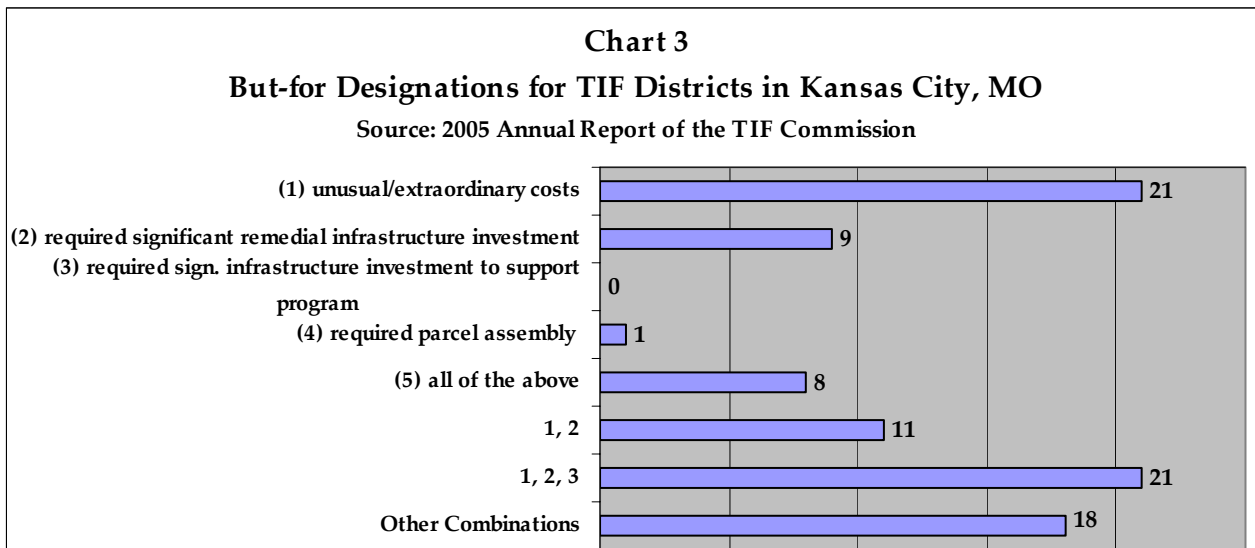


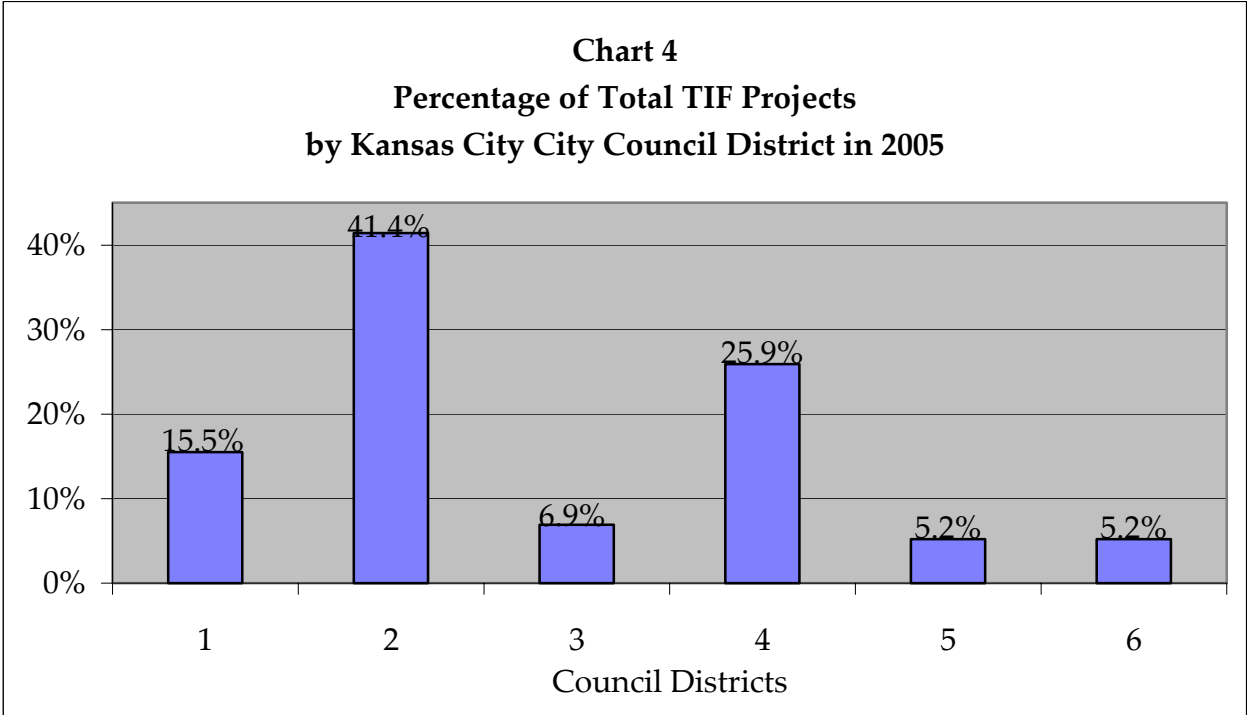
Chart 3 shows the distribution of the *but for* designations of the TIF projects in Kansas City, Missouri according to the categories designated by the TIF Commission. The *but for* categorization of (1) – project has unusual/extraordinary costs that made the project infeasible in the marketplace was the most prevalent and (2) project required significant infrastructure investment to remedy inadequate conditions accounted for 30 of 89 *but-for* determinations or 33.7% of the total.



IV. Socio-Economic Characteristics of TIF Districts in Kansas City, Missouri

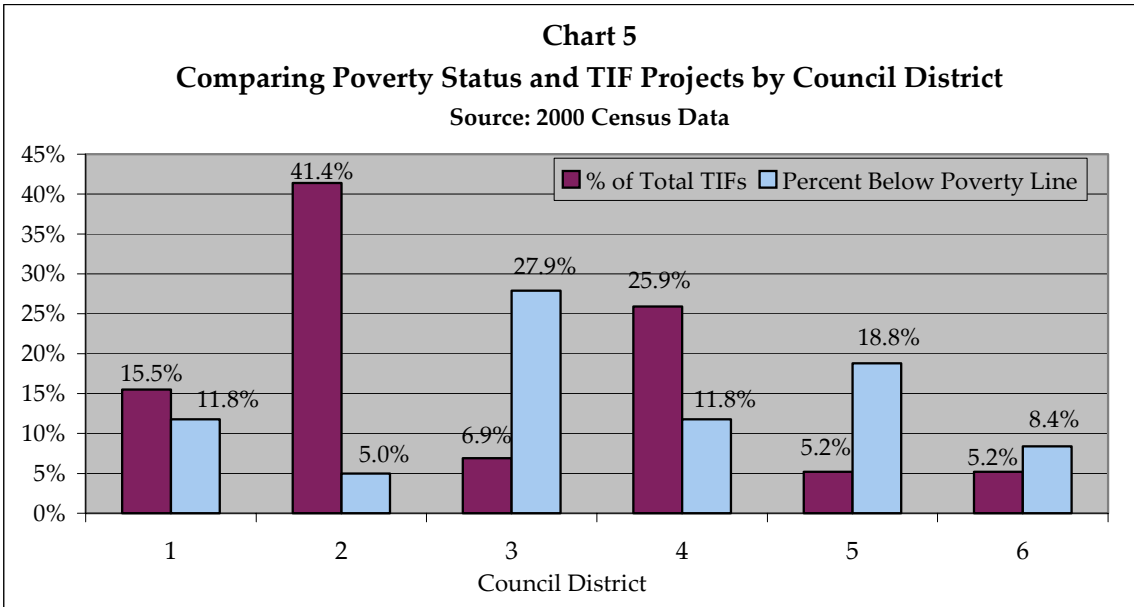
By matching City Council Districts and TIF Districts in Kansas City, Missouri, it is evident that TIFs are approved much more frequently in city council districts where residents are significantly wealthier, better educated, have higher rates of employment, and are predominantly white. The City Council Districts that are disadvantaged across a number of socioeconomic factors have been granted the fewest number of TIF projects and districts. This contradicts the original intention of TIF which was to be a tool for economic development by giving an incentive for investment in the blighted areas where the market system was not working. Chart 4 illustrates the percentage of the total number of TIF plans by Council District in 2005. It shows that 41.4% of all TIF plans are in the 2nd district which includes downtown north of I-670 and area north of the Missouri River primarily in Platte County. The 2nd District by all measures is the wealthiest in Kansas City.

On the other hand, Council districts 3 and 5, received only 6.9% and 5.2% respectively of TIF projects. They are located south of Independence Avenue and north of 87th St.

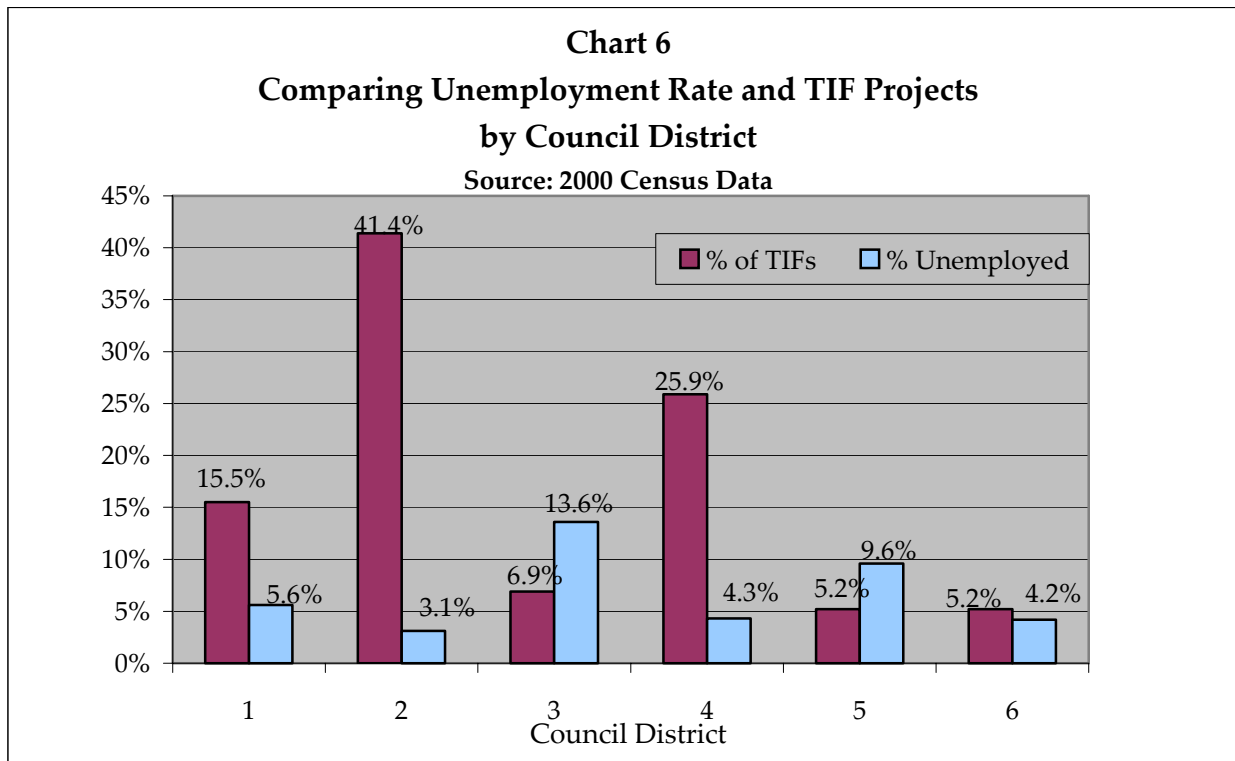


and from Troost east to the city limit. They include some of the poorest parts of town which are most in need of economic development.

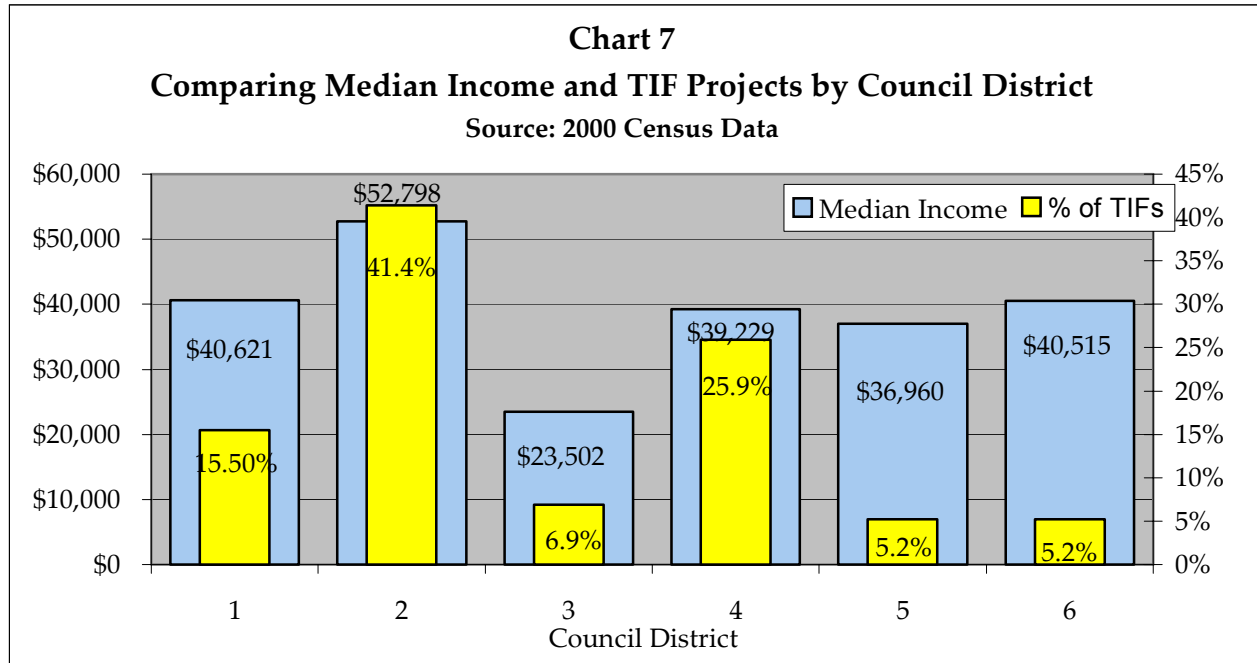
An examination of poverty status according to the 2000 Census by Council District shows that Council District 2 which has 41.4% of all TIF plans has the lowest poverty rate of all City Council Districts at 5.0%. Council District 3, which has only 6.9% of TIF plans has a poverty rate of 27.9%, or more than 5 times the poverty rate in Council District 2; Council District 5, which has only 5.2% of TIF plans has a poverty rate of 18.8%, or more than 3 times the poverty rate in Council District 2.



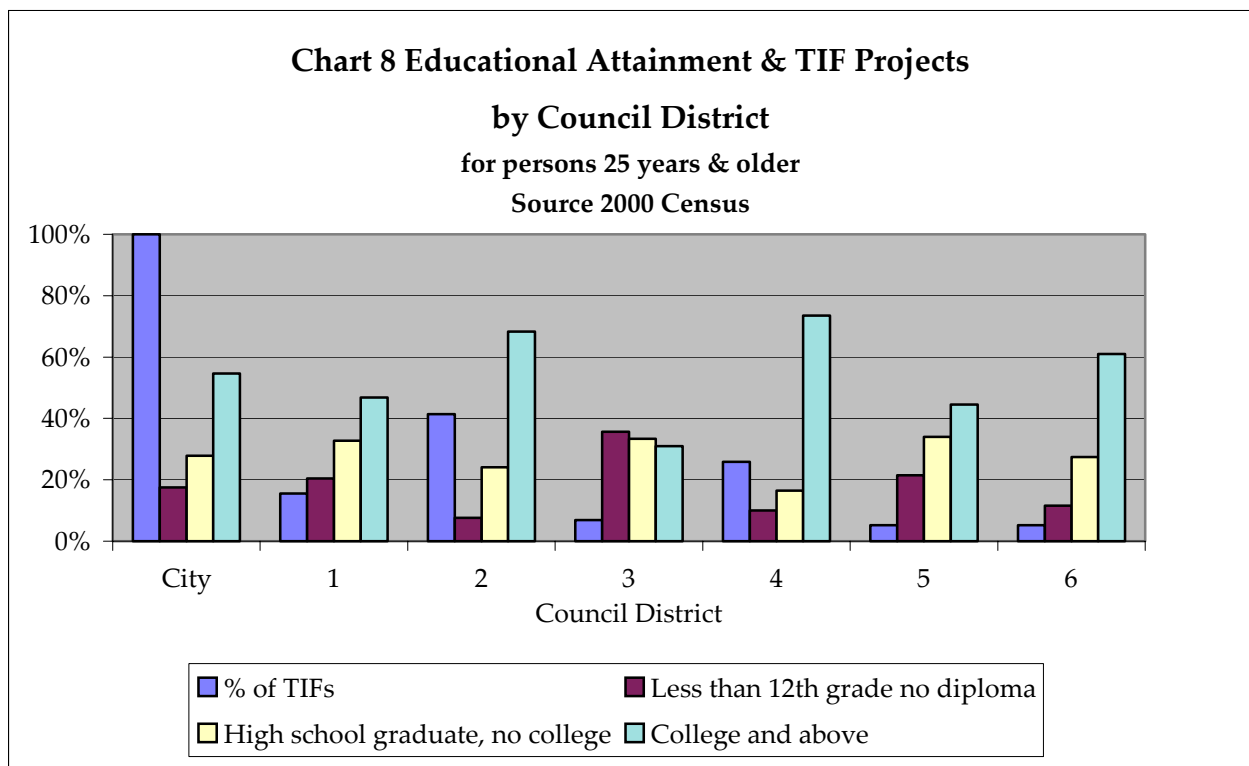
A similar demographic shows that the unemployment rate is substantially lower in Council District 2 than other City Council Districts; Council District 2 is the recipient of 41.4% of the TIF plans (Chart 6). According to Census 2000 data, the unemployment rate in Council District 2 was 3.1%; in Districts 3 and 5, which are the recipients of only 6.9% and 5.2% of TIF plans, respectively, the unemployment rate in Council District 3 was 13.6% and, in Council District 5, the unemployment rate was 9.6%. The unemployment rate in Council District 3 was over four times as high as Council District 2 and the unemployment rate in Council District 5 was over three times as high as Council District 2.



An examination of the median income by Council District (Chart 7) and the educational attainment by Council District (Chart 8) shows a similar disparity. Council District 2, which has 41.4% of the TIF plans in its District, has the highest median income of all Council Districts. The median income in Council District 2 is \$52,798. The median income in Council District 3 is \$23,502. The median income in Council District 2 is more than twice the median income in Council District 3, yet Council District 2 has six times as many TIF projects as Council District 3. The median income in Council District 5 is \$31,960. The median income in Council District 2 is more than one and half times the median income in Council District 5, yet Council District 2 has more than six times as many TIF projects than Council District 5.

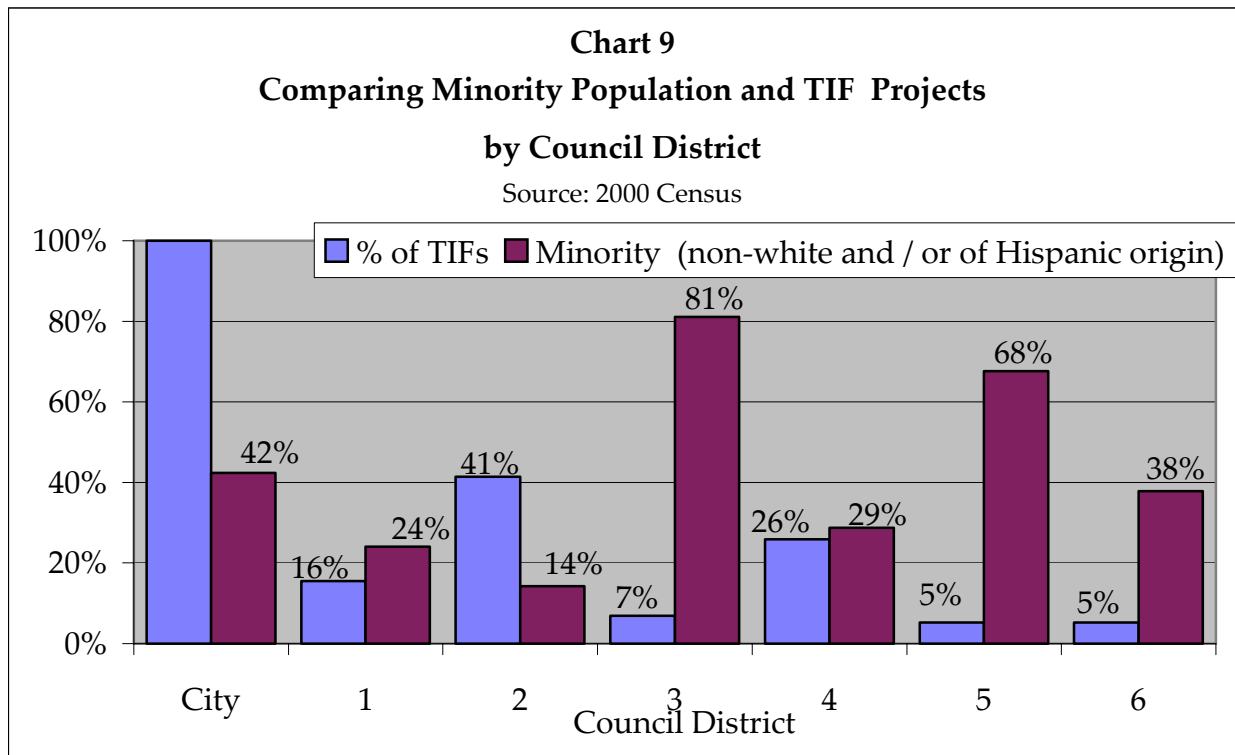


With respect to educational attainment (Chart 8), Council District 2, with the highest percentage of TIF plans has only 5.9% of its residents with a 9th-12th grade educational attainment, while Council District 3 had 25.8% of its residents with only a 9th-12th grade educational attainment. Council District 5, with only 5.2% of the TIF plans has 17.1% of its residents with a 9th-12th grade educational attainment.



In Council District 2, which has 41.4% of all TIF plans, 34.9% of its residents have some college, BA degree, or more; Council District 4, which has 25.9% of all TIF plans, 48.2% of its residents have a college, BA degree or more. At the other extreme, Council District 3, which has only 6.9% of TIF plans, only 7.1% of its residents have a college, BA degree or more, and Council District 4, which has only 5.2% of the TIF plans, only 14.7% of its residents have a college, BA degree or more.

Finally, minority status follows the same pattern (Chart 9). Districts 3, 5, and 6 with the highest minority population receive the least number of TIFs raising the question whether the City’s minority population is deriving benefits from the deferring of tax dollars for development.



These socio-demographic trends in the Council Districts show that those areas, which are the best off across a wide array of socio-economic characteristics, also have the largest share of TIF plans.

Chart 10 and Map 1 present a summary of the demographics of TIF in Kansas City:

Chart 10 Summary of Demographics of TIF in Kansas City

Council District	1	2	3	4	5	6
# of TIFs (%)	15.5%	41.4%	6.9%	25.9%	5.2%	5.2%
Percent below Poverty line	11.8%	5.0%	27.9%	11.8%	18.8%	8.4%
Unemployed (%)	5.6%	3.1%	13.6%	4.3%	9.6%	4.2%
Minority (non-white and/or Hispanic origin)	24.1%	14.2%	81.1%	28.8%	67.6%	37.8%
Median Income	\$40,621	\$52,798	\$23,502	\$39,229	\$36,960	\$40,515
Educational Attainment						
Less than 9th grade	6.7%	1.8%	9.8%	2.8%	4.4%	2.8%
9th to 12th grade, no diploma	13.8%	5.9%	25.8%	7.2%	17.1%	8.8%
High school graduate, no college	32.7%	24.1%	33.4%	16.5%	34.0%	27.4%
College, but less than BA degree	27.6%	33.4%	23.8%	25.2%	29.8%	34.0%
College, BA degree or more	19.2%	34.9%	7.1%	48.2%	14.7%	27.0%

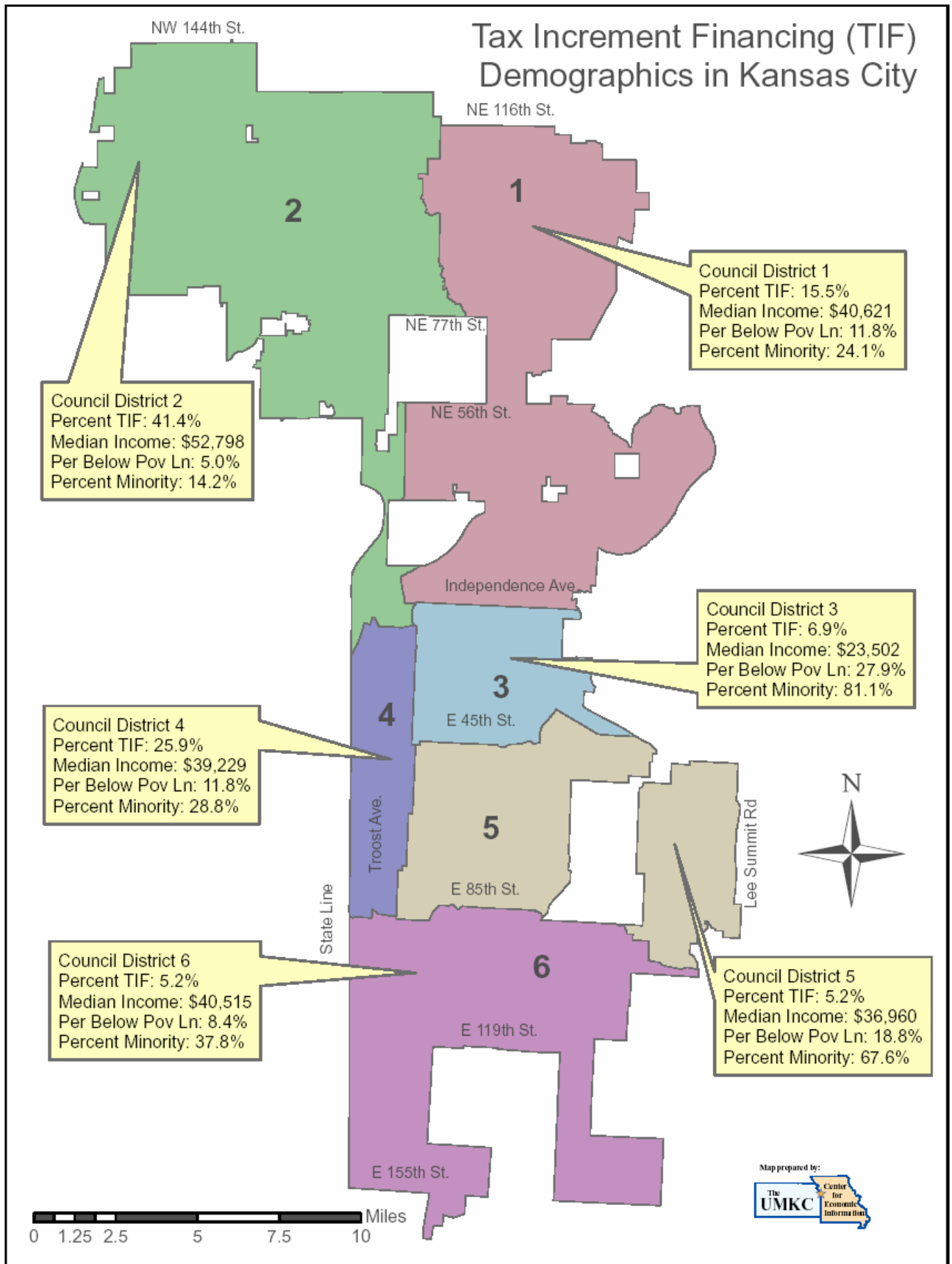
V. Analysis of TIF Policy in Kansas City, Missouri

The issue of whether economic incentives stimulate economic activity is a source of much current debate. The underlying economic issue is whether incentives stimulate economic activity or simply reallocate resources.³ The literature is clear on the aspect of abatement policy that it should only be granted selectively and not indiscriminately.

A number of studies on site location decisions indicate that incentives are not a priority of relocating businesses (Rondinelli, 2000 and Friar, 1999). Most of the studies that have been conducted to determine the significance of incentives in companies' site location decisions conclude that incentives are not a priority criteria (e.g. not in the top five criteria). In a study by John McKay (1994), labor, infrastructure site issues, location, and training ranked higher than financial incentives in a company's location decision.

³ This issue has gained notice because of several cases involving large incentive packages: South Carolina "gave BMW \$100 million, Alabama gave Mercedes Benz \$250 million and Hyundai \$125 million, Indiana gave United Airlines \$300 million, and Kentucky gave Toyota \$125 million. Mississippi gave Nissan cash payments for 10 years, equal to 4% of gross payroll, along with a 50% corporate income tax credit for job training.

Tax Increment Financing (TIF) Demographics in Kansas City



In a study by Georgia State University (2001), they found that quality of life issues such as availability of trainable labor, easy access to transportation, availability of skilled labor, and quality of the elementary and high-school systems were deemed far more important in location decisions than economic development tools such as the availability of financial and infrastructure incentives.

In order to understand how businesses make location decisions, the State of Louisiana asked respondents to rate a number of factors in terms of their importance when opening new locations or moving existing operations.⁴ The factors were grouped in four categories: (1) workforce issues, (2) business costs, (3) political atmosphere, and (4) quality of life considerations. Workforce issues included availability of skilled labor, labor productivity, and labor costs. Business costs included access to transportation, proximity to markets, construction costs, and energy costs. Political atmosphere included, among another things, tax exemptions and state & local tax incentives. Responses overwhelming gave workforce issues primary importance. The availability of skilled labor, labor productivity, and labor costs were the most important considerations in business location decisions. Business costs such as proximity to major markets, public safety, and access to transportation (via highways, railroads, and airports) followed workforce issues in importance. Considerably further down the list were state and local government short-run measures like corporate tax rates, state & local economic incentives, and tax exemptions.

These studies suggest that investment in workforce development and infrastructure may be more effective economic development tools than incentives. If the City Council does use TIF as a tool to stimulate economic development that serves the interests of those citizens of Kansas City most in need of good jobs and good neighborhoods, then it must target TIF in a way that limits its use to projects with a compelling need for assistance. In June, 2001, discussions regarding a TIF policy were introduced as Resolution 010924. The elements of the proposed policy were intended to ensure that *"TIF is used to achieve clear and substantial public benefits while protecting the financial condition of the City."*⁵ Since these proposed policy directions for TIF were introduced in 2001, no further actions have been taken to implement a TIF policy which makes the process more transparent or the results more beneficial.

⁴ The Public Policy Research Lab. Louisiana Business Image Survey. January 24, 2005.

⁵ Review of Submitted Budget for Fiscal Year 2005. page 14.

Problems with the Missouri law

The vague purposes and loose criteria in the Missouri law encourage an overuse of TIF and can lead to its use where not warranted. In a report by the Brookings Institution, stated, “because of the vagueness in the Missouri Statute, Missouri law incites abuse.”⁶ This is a real concern in Kansas City as the record of TIFs shows many are granted in more affluent districts and subsidize retail development through the abatement of future sales and earnings tax revenues.

The three allowable purposes for which TIF can be applied in Missouri (as defined on p. 3) are blight, conservation, and economic development. Blight is defined as a fully developed area with a significant percentage of substandard or vacant housing or activity in a targeted industry. Allowable spending categories often include activities related to low-income housing or industry retention. The statute’s vagueness on determination of blight results in the use of TIFs to improve properties which are not blighted in any conventional sense of the word.

In addition, most states, including Missouri have a catch-all purpose called “economic development area”. This is often the loophole that enables non-stressed places that do not meet the *but for* blight and/or conservation area to use TIF.

Most states including Missouri require that TIF only be used to subsidize economic development that would not occur *but for* the subsidy. The intent of the *but for* clause, in theory, is to prevent TIF funds from being used to simply shift economic activity around a region in a zero-sum game for a larger tax base. Unfortunately, the *but for* clause is unavoidably vague and difficult to verify in Missouri and other states.

The difficulty of enforcing the *but for* requirements in Missouri makes it important that policymakers at the local level more carefully define TIFs allowable purposes. One way in which policymakers can minimize the costs associated with violations of the *but for* clause is to target TIF projects more carefully to geographic areas that are struggling or where development or redevelopment is expensive but desirable for social reasons (high unemployment, etc). Another proposal would be to limit subsidies to activities that private markets do not serve well, such as low income housing. The difficulty in enforcing and policing the intent of the *but for* clause is one of the primary reasons that

⁶ Thomas Luce, Aermegis, Inc. “Reclaiming the Intent: Tax Increment Finance in Kansas City and St. Louis Metropolitan Areas.” A Discussion Paper Prepared for The Brookings Institution Center on Urban and Metropolitan Policy, April, 2003.

vague allowable purposes like “economic development” create the potential for TIF to be misused.

Public sector at risk

Evaluation of a proposed TIF project is crucial because the local public sector is increasingly being put at financial risk. A proper project evaluation contains two crucial ingredients: A thorough appraisal of the financial viability of a project; and the evaluation of its underlying economic development value.

Additionally, the Missouri statute states that the cost-benefit analysis that is required must include a study of the fiscal impact on each taxing district within the boundaries of the redevelopment plan. Missouri Revised Statutes, Section 99.810 (5) states:

“A cost-benefit analysis showing the economic impact of the plan on each taxing district which is at least partially within the boundaries of the redevelopment plan. The analysis shall show the impact on the economy if the project is not built, and is built pursuant to the redevelopment under consideration. The cost benefit analysis shall include a fiscal impact study on every affected political subdivision, and sufficient information from the developer for the commission established in section 99.820 to evaluate whether the project as proposed is financially feasible.”

The purpose of a cost-benefit analysis would be to make all costs more transparent. These costs are not transparent to the public under the current operating agreement between the TIF Commission and City Council. A properly done cost-benefit analysis would require all administrative costs to be transparent and accounted for. In addition, a cost-benefit analysis would require explicit accounting for soft program costs as well, including, but not limited to, professional services contracts, architectural costs, legal fees, marketing, and pre approval costs.⁷

One way in which local jurisdictions can ensure proper evaluation of a TIF project is to require that TIF Districts only use revenue bonds. The use of revenue bonds forces TIF projects to pass a market test. Potential investors must be shown the viability of the project itself, not simply the financial viability of the issuing government. If an adequate evaluation of a proposed project is not available or the evaluation implies that the risk of default is significant, then investors are likely to require junk-bond returns that imply high interest rates which would increase the overall costs of the project. Revenue bonds are not without risk as there is, in many cases, a pledge by the local

⁷ In the *Performance Audit- Component Units' Legal Services Procurement and Monitoring* issued by the Office of the City Auditor in September, 2006, legal fees incurred by the Tax Increment Financing Commission of Kansas City, Missouri were the largest of all component units in the city. In Fiscal Year 2006, they incurred legal fees of \$635,444, or 29.3% of all legal fees incurred.

jurisdiction to pay should lease and other revenue payments be insufficient to meet debt service. For example, in 2005, Fitch Ratings assigned an underlying “AA” rate to the City of Kansas City, Missouri’s \$30.9 million special facility revenue bonds (MCI Overhaul Base Project). According to Fitch, the “AA” rating reflected the city’s pledge to appropriate city revenues as the ultimate source of repayment should the lease and other revenues prove insufficient to meet debt service.

In addition to evaluating a TIF project on the financial projections, a potential TIF should also be evaluated on how well it serves local land-use needs and the net economic benefits that it generates for the jurisdiction. The fact that a project is financially viable does not necessarily imply that it represents the best use of available resources (such as land and public funds) or even that it is worth doing. For example, a project that results in retail development that increases the tax enough to offset the public costs of the project (e.g. financially viable) may also consume land that may be used for other purposes while generating only very low paying or temporary jobs with no real possibility of advancement for the workers who get those jobs. A TIF policy would help to ensure that a TIF project blends in with the long term use patterns and development plans in the City and that it does not shift the burden of costs of education, health care, and social services to the public that are generated by the project but not paid for because taxes have been abated.

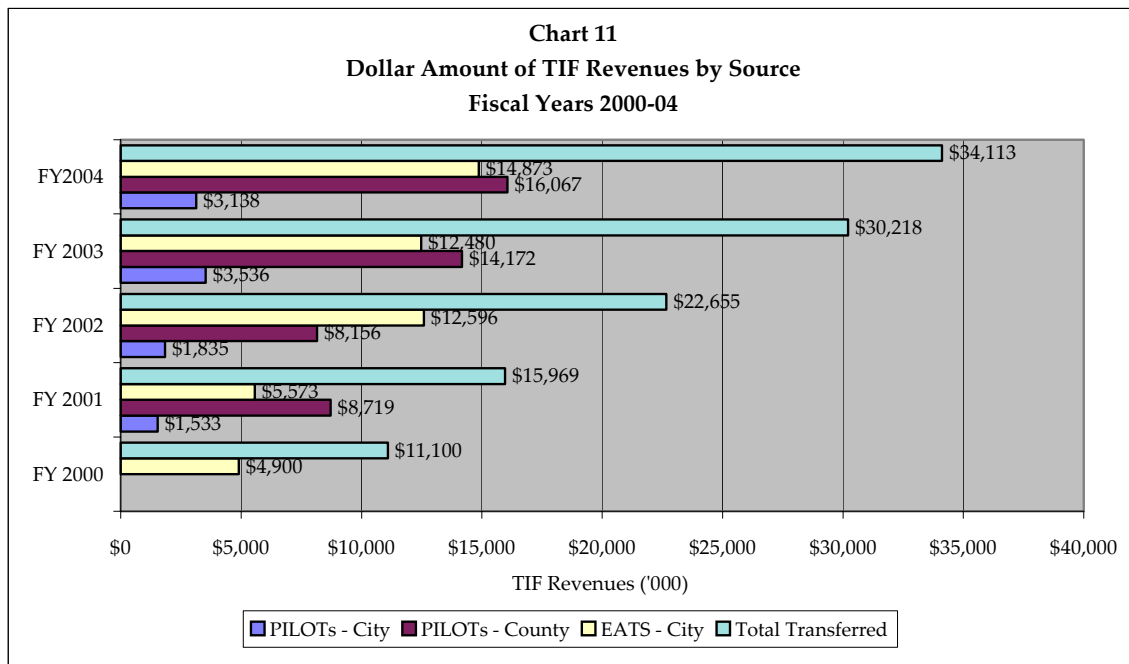
The Kansas City Council approved TIF plans that total \$224 million in projected reimbursement costs by 2006, yet the city has no policy that defines the objectives of the TIF program. The Kansas City Council needs to develop a comprehensive plan for the TIF policy that would allow Kansas City, Missouri to establish priorities for the application of TIF.

There are a number of risks associated with the use of TIF if the City of Kansas City, Missouri has no comprehensive plan for the application of TIF. The City Auditor’s office has identified a number of risks associated with economic development incentives should there be no comprehensive policy. The risks that were identified are:

1. “Tax Increment Financing could be used when the approval of a TIF plan is unnecessary. The application of the but-for test is unavoidably vague and does not provide assurances to the taxpayers that TIF is necessary or appropriate to achieve economic development at a given location.
2. “If the City of Kansas City does not have a comprehensive strategy for the application of TIF, then TIF could be applied to projects of low priority, while projects that could have been benefited from the application of a TIF District, go unnoticed.

3. "TIF projects could perform below expectations. For example, there are no performance measures or penalties if developers do not deliver to City what they had stated.
4. "Economic activity that is available for the City could be "captured" by the redevelopment.
5. "TIF can distort location decisions in ways that reduce the overall growth in the city. For example, TIF subsidies harm the growth outside TIF Districts to a greater extent than they did within the TIF Districts.⁸
6. "TIF can be misused or overused to the extent it results in a long-term negative impact on the budget flexibility of the City. Given the dramatic increase in TIF expenditures in Kansas City, Missouri, it is very important that the City have the tools to monitor the effective use of TIF."⁹

The amount of redirected tax revenues that are transferred to the TIF Commission has grown rapidly since 2000 (Chart 11). In fiscal year 2000, Kansas City, Missouri transferred \$11.1 million to the TIF Commission; in fiscal year 2004, Kansas City, Missouri transferred \$34.1 million to the TIF Commission. This represents a 208.4% increase from fiscal years 2000 to 2004.¹⁰



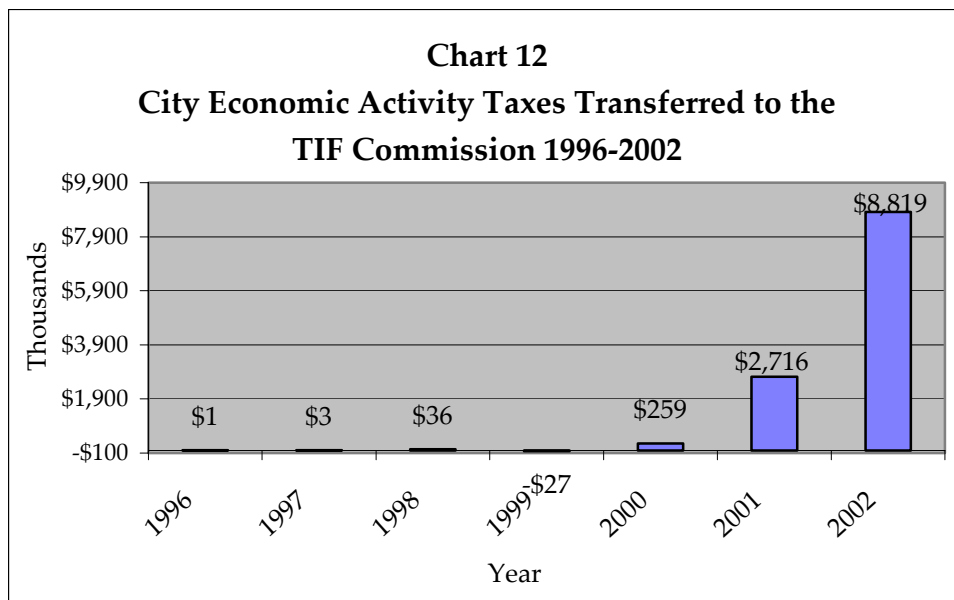
⁸ The Effects of Tax Incremental Financing on Economic Development. Richard Dye and David F. Merriman. The Institute of Government and Public Affairs. University of Illinois. September 1999.

⁹ Preliminary Budget for 2001-2002. Office of the City Auditor.

¹⁰ Office of the City Auditor, Kansas City, Missouri.

More alarming is the growth in EATs over this same period. As stated previously, few jurisdictions allow the use of EATs due to the fact that substitution effects are not accounted for and it may be a zero sum game. From fiscal year 2000 to 2004, EATs transferred to the TIF Commission increased from \$4.9 million in fiscal year 2000 to \$14.9 million in fiscal year 2004. This represents a 202.9% increase over this period.

The City Auditor’s office also reported the City EAT transfers to the TIF Commission for the fiscal years 1996-2002. (Chart 12). In 2000, the City of Kansas City transferred \$258,783 to the TIF Commission; in 2002, the City of Kansas City transferred \$8,818,620 to the TIF Commission.



The City Auditor’s Office has repeatedly voiced concern that the growth in TIF expenditures will have a long-term impact on the level of general program expenditures. In the Preliminary Budget for 2001-2002 prepared by the City Auditor’s office, TIF was projected to be 6.1% of general municipal program expenditures in 2002-2003. TIF expenditures had been 0.8% of general municipal expenditures in 1996-97.¹¹ The TIF share of earnings tax revenue has grown to 2.6% compared to 0.7% over the same period, and the share of sales tax collections has grown to 6.3% in 2002-2003 compared to 0.9% in 1996-97.

¹¹ Preliminary Budget for 2001-2002. Submitted to Mayor Kay Barnes, November 11, 2000.

Given the increasing share of TIF expenditures in the General Municipal program expenditures, it is critical that the City Council develop a public policy to manage the growing use of this incentive.

Other concerns

Audit results show that TIF plans are not meeting their projections. In an analysis of TIF plan projections versus actual results, the City Auditor's office reported that almost all plans had not met their projections. Actual revenues of all plans only accounted for 23% of projected revenues. Almost 50% of the plans did not meet 50% of their projected revenue streams. A potential reason for this may have been the time lag between projected revenues and actual revenues and the City Council approval date of many of the plans. In order to examine this time lag phenomenon, the City Auditor's office changed the first year of projections of the plan to 1 year after the date the Council approved the TIF plan. After the adjustment to incorporate the time lag, actual versus projected revenues only increased to 29% from 23%.

Another area of concern is the manner in which the TIF Commission is presently funded. The TIF Commission should be funded through the general fund. This is contrary to the current operating arrangement between the City Council and the TIF Commission. The present arrangement between the City Council and the TIF Commission for its funding provides a built-in conflict of interest. As presently structured, the TIF Commission takes a portion of the redirected tax dollars that are generated by the approved TIF plans in order to cover administrative costs and operating costs. By funding the TIF Commission through the general funds, those administrative and operating costs would become more transparent to the taxpayers. Additionally, the way the present operating arrangement between the City Council and the TIF Commission is structured, many of the current program costs are kept "of the books." Funding of the TIF Commission through the general fund would make the TIF program compete for city funding subject to the same budgetary and financial controls as other entities. Additionally, requiring that funding for the TIF Commission go through the general budget process would ensure more transparency to the public in terms of soft program costs such as professional services contract, architectural costs, legal fees, marketing, and pre approval costs.

In a review of 21 plans examined by the City Auditor's office for the 1998 TIF study, they found that the assessment of TIF plans was difficult and not easily quantifiable (Appendix B). Additionally, the majority of the specific objectives are repeated in every plan. The impetus for this analysis was that the city had conducted a study of actual revenues and projected revenues earlier and found that actual revenues were far less than projected revenues. More importantly, none of the specific objectives included job

creation as a formal objective, including the Gateway project. While TIF projects currently routinely include data on projected job creation and retention, there is no accountability for goals not met or audit of claims of job creation.

VI. Local Government Budgetary Impacts of TIF

Tax increment financing results in a reallocation of community resources and has specific budgetary impacts on local budgets. When a decision is made to grant a TIF district, the taxes continue to be collected, but are earmarked for project specific uses. To the extent that these uses vary from the uses to which the taxes would have been used in the absence of TIF, there is a reallocation of resources. The reallocation has geographic, economic activity, and inter-jurisdictional effects.

The Kansas City Council needs to develop the tools to calculate the budgetary impact, particularly of EATs. Based on what would have occurred in the absence of TIF, site use, and economic activity, a methodology has been developed to identify four types of projects and their budgetary impact on local governmental units.¹² The four cases examined were:

1. Exactly the same project would have occurred without TIF.
2. The same project, but at a different site within the jurisdiction, would have occurred without TIF.
3. A project with a different economic use would have occurred at the same site without TIF.
4. No project would have occurred without TIF.

The original intent of TIF would result in only category 4 cases. The increasing popularity of TIF has made it likely that categories 2, 3, and even 1 have occurred. For each category we examine the impact of TIF on:

- A. Property tax revenue of involved governmental units;
- B. Other revenue sources of involved governmental units;
- C. Spending of involved governmental units (including administrative costs);
- D. Multiplier effects

¹² Tax Incremental Financing in the State of Missouri. L. Kenneth Hubbell and Peter J. Eaton.

Case 1

If the same project would have been undertaken on the same site without TIF, none of the property taxes which are generated by the TIF district are truly incremental. For all involved governmental units, that property tax revenue which is attributable to improvements at the project site is now earmarked for uses which are specific to the project. Since those improvements would have occurred without TIF, the impact on revenue is negative to all involved governmental units. For each involved governmental unit (city, county, school district, park district, etc.) the quantity of the direct negative impact is equal to the value of improvements times the appropriate levy. To the extent that these negative revenue impacts prevent governmental investments which have positive multiplier effects, the total negative effect will be greater than the direct negative effect.

There will be an additional negative impact on governmental revenues if other governmental revenue sources are also granted TIF status. The negative impact is equal to the incremental revenue from other governmental sources associated with the project. The magnitude of the impact depends upon the implementation parameters. One such parameter would be the type of other revenue sources which can be granted TIF status. Another relevant parameter is the percentage of the other revenue source which can be earmarked for TIF projects. If the other revenue sources are shared with other governmental units, then those units also stand to lose revenues.

On the spending side of the budget, the absence of TIF implies the necessity of spending on infrastructure by involved governmental units. Because Case 1 assumes that the identical project would have occurred at the same site without TIF, it makes sense to assume as a best case that, as a whole, the direct-cost savings due to the presence of TIF exactly offset the direct revenue losses. In this case, TIF cannot be seen as an engine for development, since an identical project would have occurred without TIF. If the cost savings are less than the revenue loss, this would constitute a fiscal drag for governmental units as a whole.

The above paragraph does not mention the cost of administering the TIF program. If the program administration is paid for with 'incremental' taxes, this is an obvious cost that would not exist in the absence of TIF. The outcomes from category 1 mean that participating governmental units have fewer resources available than with TIF. The cost of administering the program is thus a net fiscal drag.

Typically, the presence of TIF does not result in cost savings which are proportional to the revenue losses of the involved governmental units. A school district, for example, is

unlikely to have reduced spending as a result of a TIF project. The presence of TIF therefore has a differential impact on the budgets of different governmental units, and implies a reallocation of resources among the different involved governments. Under Case 1, for at least some governmental units, TIF will therefore create a fiscal drag.

Case 2

If a project is granted TIF status at a particular location and the same project would have occurred without TIF but at a different location within the same jurisdiction, then additional benefits and/or costs which are associated with the TIF location must be considered. From the perspective of the budgets of the involved local governments as a whole, the starting point is the net fiscal drag equal to the cost of administration explained in Case 1 above. The negative impact will be ameliorated to the extent that the growth of TIF associated governmental revenues is larger than would have taken place in its absence. The negative impact would be worsened if the growth of TIF associated governmental revenue is smaller than would have taken place in its absence. This is an empirical question.

The geographical reallocation which occurs in Case 2 may mean that a different group of governmental jurisdictions are affected. For example, the involved special districts, such as school and park districts, will change as the location of the project changes.

Case 3

If a project is granted TIF status at a particular location within the jurisdiction, and a different project would have been undertaken on the same site without TIF, then part of the TIF set aside may be truly incremental. In addition, it is often argued that by promoting economic development, TIF results in positive spillover economic benefits.

If these positive spillover economic benefits occur, then the non-TIF property values, and particularly those near TIF sites, should increase, and there will be a positive impact on the property tax revenue of all governmental units. The changes in property tax revenue due to TIF are truly incremental to the extent that other non-TIF projects would not have been undertaken at the same site.

Because Case 3 introduces alternative economic uses as well as potential governmental revenue effects due to substitution which do not occur in the Cases 1 or 2, a formal model is proposed.

Define:

- IMP_{TIF} = the value of improvements from the project which is granted TIF status;
- IMP_{NTIF} = the value of improvements from the non-TIF alternative (net of govt. spending);
- X_{TIF} = the change in property value of non-TIF sites due to the TIF project;
- X_{NTIF} = the change in property value of non-TIF sites due to the non-TIF alternative;
- R_{iP} = the property tax levy for governmental unit i;
- I_{iP} = the property tax increment for governmental unit i,
- S_{iP} = the set aside from property taxes for governmental unit i;

Then the true site specific property tax increment for governmental unit i is:

$$I_{iP} = R_{iP}(IMP_{TIF} - IMP_{NTIF}) + R_{iP}(X_{TIF} - X_{NTIF}),$$

while the site specific set aside from property taxes for governmental unit i is:

$$S_{iP} = R_{iP}(IMP_{TIF})$$

It follows that:

$$\sum_i I_{iP} = \sum_i R_{iP}(IMP_{TIF} - IMP_{NTIF}) + \sum_i R_{iP}(X_{TIF} - X_{NTIF}), \text{ and}$$

$$\sum_i S_{iP} = \sum_i R_{iP}(IMP_{TIF})$$

With other revenue sources there is an additional complicating factor. The activities which occur in the TIF project may be in competition with similar activities elsewhere in the jurisdiction. For example, if a retail development is granted TIF status, the sales from that development will compete with other retail outlets. If local sales tax revenue is subject to TIF, then to the extent that retail sales in the TIF project reduce retail sales in non-TIF retail outlets, there will be a reduction in sales tax revenue to all the jurisdictions dependent upon this source. Similar reductions could occur for utility, tourist, and earnings tax revenues.

We define:

- ORS_{jTIF} = incremental other revenue source j from the project which is granted TIF status;
- ORS_{jNTIF} = incremental other revenue source j from the non-TIF alternative (net of govt. spending);
- R_{ij} = rate of taxation for other revenue source j for governmental unit i;

β_j = the proportion of incremental other revenue source j which is set aside for the project;
 IS_{ij} = the portion of increment set aside from revenue source j for governmental unit i ;
 INS_{ij} = the portion of the increment accruing from revenue source j to governmental unit i .
 D_{ij} = the loss of other revenue source j for governmental unit i due to competition with non-TIF activities in the jurisdiction;
 I_{ij} = the increment for the j th other revenue source for governmental unit i ;
 S_{ij} = the set aside from revenue source j for governmental unit i ;
 Then the true increment from the j th other revenue source for governmental unit i is:

$$I_{ij} = IS_{ij} + INS_{ij} - D_{ij}, \text{ where}$$

$IS_{ij} = \beta_j R_{ij}(ORS_{jTIF} - ORS_{jNTIF})$, and $INS_{ij} = (1 - \beta_j)R_{ij}(ORS_{jTIF} - ORS_{jNTIF})$,
 while the set aside from other revenue source j for governmental unit i is:

$$S_{ij} = \beta_j R_{ij}(ORS_{jTIF}).$$

If T is the sum of incremental tax revenues from all sources, then

$$T = \sum_i \sum_j I_{ij} + \sum_i I_{iP} = \sum_i \sum_j IS_{ij} + \sum_i \sum_j INS_{ij} + \sum_i I_{iP} - \sum_i \sum_j D_{ij}$$

Assuming once again that the set asides are equivalent to cost savings for governmental units, and defining N as the net impact on the budgets of governmental units as a whole:

$$N = T - \sum_i \sum_j S_{ij} - \sum_i S_{iP} - C, \text{ where } C \text{ is the cost of administration of the TIF project.}$$

Substituting from above, we have:

$$\begin{aligned}
 N &= \sum_i \sum_j IS_{ij} + \sum_i \sum_j INS_{ij} + \sum_i I_{iP} - \sum_i \sum_j D_{ij} - \sum_i \sum_j S_{ij} - \sum_i S_{iP} - C \\
 &= \sum_i \sum_j INS_{ij} - \sum_i \sum_j D_{ij} - \sum_i \sum_j \beta_j R_{ij}(ORS_{jNTIF}) + \\
 &\quad \sum_i R_{iP}(X_{TIF} - X_{NTIF}) - \sum_i R_{iP}(IMP_{NTIF}) - C
 \end{aligned}$$

The same inter-jurisdictional reallocations can occur in this situation as discussed in Case 1. The theoretical possibility of TIF acting as a fiscal drag on at least some governmental units continues to exist under Case 3.

Case 4

If no project would have occurred in the absence of TIF, then IMP_{NTIF} , ORS_{NTIF} and X_{NTIF} become 0. Then $I_{iP} = S_{iP}$ and $IS_{ij} = S_{ij}$. If we continue to assume that the set asides are equivalent to cost savings for governmental units, then the net impact of TIF on the budgets of governmental units as a whole simplifies to:

$$\begin{aligned} N &= T - \sum_i \sum_j S_{ij} - \sum_i S_{iP} - C, \\ &= \sum_i \sum_j IS_{ij} + \sum_i \sum_j INS_{ij} + \sum_i I_{iP} - \sum_i \sum_j D_{ij} - \sum_i \sum_j S_{ij} - \sum_i S_{iP} - C \\ &= \sum_i \sum_j S_{ij} + \sum_i \sum_j INS_{ij} + \sum_i S_{iP} - \sum_i \sum_j D_{ij} - \sum_i \sum_j S_{ij} - \sum_i S_{iP} - C \\ &= \sum_i \sum_j INS_{ij} + \sum_i R_{iP} (X_{TIF} - X_{NTIF}) - \left(\sum_i \sum_j D_{ij} + C \right). \end{aligned}$$

The net impact of TIF on the budgets of governmental units as a whole is positive as long as the cost of administering the program plus the losses due to competition of TIF with non-TIF revenue sources is less than the net gain in property tax revenue due to TIF plus the revenue accruals from other revenue sources.

VII. Conclusions and Recommendations

Conclusion 1

This analysis has shown that TIF plans are very unevenly distributed with 88% placed in four Districts (1, 2, 4, and 6) which contain the two-thirds of the city's population who are the most affluent, best educated and least likely to be members of a minority group. Meanwhile the two Council Districts (3 and 5) with one-third the population who have the lowest income and the highest rates of poverty only receive 12% of TIFs. Despite this, the rules of TIF don't exempt the residents of Districts 3 and 5 from sharing either the risks or the costs of TIF. In fact since they get far fewer projects, they share an unequal burden of the impact on the city budget from TIFs taking property in other Districts off the tax roles.

The uneven patchwork of TIF has resulted from a process which awards incentives on a case-by-case basis which is driven by developers, not elected officials, and which has ended up approving 41% of TIF projects in just one Council District: the Second. Yet, Council District 2 is performing much better than other Council Districts across a number of socioeconomic characteristics. In Council District 2, 5.0% of the population live below the poverty level, while in Council Districts 3 and 5, 27.9% and 18.8%, respectively, live below the poverty level. In Council District 2, the unemployment rate

was 3.1%, while the unemployment rate in Council Districts 3 and 5 was 13.6% and 9.6%, respectively. In Council District 2, only 5.9% of its residents have a 9th-12th grade educational attainment, while Council Districts 3 and 5 have 25.8% and 17.1% of its resident with only a 9th-12th grade educational attainment.

Recommendation 1

If the Kansas City Council is to use economic development incentives to spur economic development, the poorer districts in the City need to be given additional consideration in the TIF Process. The awarding of TIF or other incentives should be firmly grounded in a policy which sets priorities, adequately evaluates costs and benefits as well as risks, and has clear goals shaped by an overall economic development plan.

Conclusion 2

The Missouri statute states that a cost-benefit analysis that is required by Section 99.810 must include a study of the fiscal impact on the jurisdiction. The purpose of the cost-benefit analysis would be to make all costs more transparent. All of the costs are not transparent under the present operating agreement between the TIF Commission and the City Council. Additionally, a properly done cost-benefit analysis would require explicit accounting for all soft program costs including, but not limited to, professional services contract, architectural costs, legal fee, market, and pre approval costs.

Additionally, a potential TIF project should be evaluated on how well it services local land use and the net economic benefits it generates for the City. The fact that a project is financially viable does not necessarily mean it is the best use of available resources.

The City of Kansas City has approved TIF plans that total \$224 million in projected reimbursement costs by 2006, yet there are no clearly defined objectives for the TIF program.

Recommendation 2

The City needs to implement a comprehensive TIF policy such that TIF is used to achieve clear and substantial public benefits while protecting the financial condition of the City. In June, 2001, preliminary discussions occurred regarding the implementation of a TIF policy in Resolution 010924. Policymakers should only use these incentive programs with clear benefits over costs. These costs and benefits should not only look at the fiscal effects of a proposed incentive program; they should also examine “social” effects as well.

Conclusion 3

The present arrangement between the City Council and the TIF Commission provides a built-in conflict of interest. As presently structured, the TIF Commission takes a portion of the redirected tax dollars that are generated by the approved TIF plans in order to cover administrative costs and operating costs. This type of funding mechanism provides a perverse incentive for excessive use of TIFs.

Additionally, the way the current operating agreement is structured, many of the current program costs are kept “off the books.”¹³ Hidden costs are more difficult to control from the City’s perspective and less transparent to the taxpayer.

Recommendation 3

The TIF Commission needs to be funded through the general fund. By funding the TIF Commission through general funds, those administrative and operating costs would become more transparent to the taxpayers of Kansas City. The requirement that funding of the TIF Commission go through the general budgetary process would ensure more transparency to the public in terms of soft program costs such as professional services contract, architectural costs, legal fees, marketing, and pre approval costs.

Conclusion 4

Analysis by the City Auditor’s office shows that TIF plans are not meeting their objectives. An analysis of TIF plans showed that almost all of the plans were not meeting their projections. In their analysis, they stated that actual revenues of TIF plans accounted for only 23% of projected revenues. Almost 50% of the plans did not meet 50% of their projected revenue streams.

Recommendation 4

As a component of the TIF policy, the City Council should require the use of clawbacks. Clawbacks are an economic term that ties incentives to performance. Specified levels of performance, and the consequences for not meeting them, should be agreed upon by the City and the proposed TIF granted in a legally binding performance contract. Consequences for not meeting the specified performance measures include, but are not

¹³ Office of the City Auditor. Performance Audit Review of the Submitted Budget For Fiscal Year 2005. March, 2004. Page 15.

limited to (1) rescission of the incentive and reimbursement of the incentives including abated taxes, (2) penalties and fines for developers/businesses that do not meet certain performance measures (e.g. specified job creation targets) or which relocate after receiving incentives.

Conclusion 5

EATs have grown dramatically since 2000. The use of Super TIFs which capture up to 100% of EATs is partially responsible for the increase in EATs incentives. In 2000, Kansas City EATs transfers to the TIF Commission were \$258,783. In 2002, Kansas City EATs transfers to the TIF Commission were \$8,818,620. When economic activity occurs in a TIF district that is partially or totally funded by EATs that would have occurred elsewhere in the City, the TIF District is partially capturing tax revenue that would have been available to fund city services. The City and the TIF Commission need to implement a methodology to capture the substitution of economic activity when a TIF is funded by EATs

Recommendation 5

Kansas City should limit TIF project funding to PILOTs and stop funding TIFs with EATs until the Kansas City Council has been provided with an empirical analysis of the estimate of the shifting of economic activity as a result of the TIF. This analysis would provide a quantifiable estimate of the truly incremental economic activity as a result of the EATs.

In a report by the City Auditor's Office, 39 of the 48 states that authorize TIF funding do not permit the use of other taxes such as sales, earnings, and utility taxes. TIF funding that permits the use of sales, earning, and utility taxes is problematic as it is difficult to determine accurately the increment because of substitution effects related to the shifting of economic activity.

Recommendation 6

Finally, the process of discussion and decision-making for TIFs must encourage far greater public participation. TIF must be opened to public scrutiny beyond what is required by law with adequate notice and information and full debate to foster greater public accountability. This recommendation should be a component part of a TIF policy that the City undertakes, and in developing such policy, the City should constitute a citizens advisory committee to make recommendations.

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Appendix A - Chart of TIF Projects by Type, But for Designation and Financing Method

Tax Incremental Financing

Kansas City, Missouri

NO.	TIF Project	Original Plan/Project Approval Date	Private Sector Developer	Area Type: Blight ¹	"But For" Determination ²	TIF Financing Method ³
1	10th and Troost	1987	None	2	4	1
2	11th Street	1992	11th Street Corridor Redevelopment Corporation	2	5	9
3	11th Street, Project (B) Blossom House)	1992	Walnut Creek Ranch, L.L.C.	2	1	1
4	1200 Main/South Loop - Project 01 (KC Live)	2004	Cordish	1	5	5
5	1200 Main/South Loop - Project 02 (H&R Block)	2004	H&R Block	1	5	5
6	1200 Main/South Loop - Project 03a (President Hotel)	2004	President Hotel - L.C.	1	1,2,3	5
7	1200 Main/South Loop - Project 04	2004	Copaken, White & Blitt	1	1,2,3,	7
8	1200 Main/South Loop - Project 05	2004	Copaken, White & Blitt	1	1,2,3	7
9	1200 Main/South Loop - Project 06	2004	12th and Main Development Co. L.C	1	1,2,3	7
10	1200 Main/South Loop - Project 07 (H&R Block Expansion)	2004	Blackwell, Sanders, Peper & Marin	1	1,2,3	7
11	1200 Main/South Loop - Project 08 (Sprint Arena)	2004	City of Kansas City, Missouri	1	5	5
12	12th and Wyandotte	1992	Kansas City Downtown Hotel Group	1	1	7
13	13th and Washington	1996	DST	1	1	1
14	19th Terrace and Central	1999	AF Real Estate Holdings, L.L.C..	2	1	1
15	22nd and Main - Project 01, The Freight House Building	1998	Linda' Freight House, L.L.C.	2	1	1
16	22nd and Main - Project 02, The Marietta Chair Building	1999	Francor, L.L.C.	2	1	1
17	22nd and Main - Project 10, 1900 Main Building	2000	McFamily Properties, L.L.C.	2	1,2	1
18	22nd and Main Project 14, The Safeway Building	2000	Master Realty Properties, Inc.	2	1	1
19	22nd and Main - Project 16, Columbia and Gray Buildings	2000	Levitt Enterprises	2	1,2	1
20	22nd and Main - Project 21, AD Jacobson Building	2000	Levitt Enterprises	2	1	1
21	22nd and Main - Project 24, Morr Transfer Building	2000	DST Realty	2	1,2	1
22	22nd and Main - Project 27, The Arthel Building	2000	Botwin and Company	2	1,2	1
23	43rd and Main - H&R Block (Project 2)	1994	H&R Block	2	2	1

24	43rd and Main - Office Depot (Project 1)	1994	Atlantis Holdings, Inc.	2	2	1
25	87th & Hillcrest, L.L.C.	2005	Dean Machinery Co.	1	1	1
26	Americana	1993	Boykin Lodging Company	1	1	7
27	Barrytowne	1996	M/D Management c/o Lewis, Rice and Fingerish	3	2,3	7
28	Blue Ridge Mall	2005	MBS Mall Investors-98, L.L.C.	1	1	1
29	Briarcliff West	1990	Briarcliff West Development Company	1	1,3	5
30	Brush Creek - Blue Parkway (Project B & C)	1999	Swope Community Builders	1	1,2,3	1
31	Brush Creek - Blue Parkway (Project D)	1999	Swope Community Builders	1	1,2,3	1
32	Brush Creek - Plaza East	1999	O.G Investments	2	1,2,3	1
33	Brush Creek - Plaza Library	1999	Plaza Development, L.L.C.	2	1,2,3	1
34	Chouteau/I-35 Project 1 and 2	1998	Chouteau I-35 Development, L.L.C.	1	5	7
35	Chouteau/I-35 Project 3	1998	Chouteau Crossings West, L.L.C.	1	5	1
36	Civic Mall - 422 Admiral (Project 13)	1994	McGown Gordon Construction, L.L.C.	1	1	1
37	Civic Mall -JE Dunn (Project 66 and 67))	1994	J.E. Dunn	1	2	7
38	Civic Mall - Vista Del Rio	1994	None	1	2	7
39	Civic Mall-Whittaker Courthouse (Project 46-47 and FAA Building (Project 64A)	1994	City of Kansas City, Missouri	1	2	7
40	Country Club Plaza (Project 1, Seville Square)	1997	Highwoods Properties	1	1,2	1
41	Country Club Plaza (Project 2, Granada and Saks)	1997	Highwoods Properties	2	1,2	1
42	Country Club Plaza (Project 3, Valencia Place)	1997	Highwoods Properties	2	1,2	7
43	Country Club Plaza (Project 7, Park Lane)	2003	Winn Limited Partnership	2	1,2	1
44	Country Club Plaza (Project 8, Kirkwood Circle)	2003	Kirkwood Realty Co. L.L.C.	2	1,3	1
45	Downtown Library, District, Project 1 and 2	2002	Library TIF, L.L.C.	2	1,2,3	7
46	Gailoyd	2002	Gailord Properties Corp	1	1,2,3	1
47	Gateway 2000	1995	Gateway, Inc.	1	1,2,3	1
48	Grand Boulevard	1996	UMB	1	1,2	1
49	Grand Boulevard - Watkins (Project K-1and L-1)	1996	Watkins and Company, Inc.	1	1,2	1
50	Hickman Mills	1992	Aventis Pharmaceuticals	1	1,2,3,4	1
51	Hotel Phillips, Project A	2000	Marcus Hotels, Inc.	2	1	1

52	Hotel President	2002	President Hotel, L.C.	1	5	7
53	Jazz District	1999	Jazz District Redevelopment Corporation	1	1,3	5
54	Judicial Square	2003	Judicial Square, L.L.C.	1	1	1
55	KCI Corridor (Project 1 and 2)	1999	Barry Park Center, L.L.C.	3	2,3	1
56	KCI Corridor (Project 5)	1999	RED Development	3	2,3	5
57	Midtown - Linwood	1988	Midtown Redevelopment Corporation	1	1,4	7
58	Midtown - Mill Street	1993	Midtown Redevelopment Corporation	1	1,2,4	7
59	New England Bank Building	2000	21 W. 10th, L.L.C.	2	1	1
60	New York Life	1994	Aquila, Inc.	1	1,4	1
61	North Oak, Project 1	2005	Cerner Corp	1	N/A	1
62	Parvin Road	2000	Hunt Midwest Real Estate	3	2,3	1
63	Performing Arts (Project 1 and 2)	2003	PAC Holdings, Inc.	1	1,2,3	7
64	Performing Arts (Project 3 and 4)	2003	Copaken, White & Blitt	1	1,2,3	7
65	Pershing Road	2000	Pershing Road Development Co. L.L.C.	1	1,2,3	1
66	Power and Light District	1998	Power and Light District, L.L.C.	1	5	7,8
67	Prospect North	2000	Project North, L.L.C.	1	1,4	7
68	River Market - Project 11	1999	River City Central, L.L.C.	2	1,2,3	1
69	River Market - Project 16)	1999	4th and Locust, L.L.C	2	1	1
70	River Market - Project 17 (Republic Paper)	1999	First and Main, L.L.C.	2	1,2,3	4
71	Riverfront (Project 1, 10, 12, 15)	1999	Port Authority of Kansas City, Missouri	1	2,3	8
72	Santa Fe	1993	Damon Pursell Construction	3	1,2,3	1
73	Savoy Hotel	1999	9th and Central Corporation	2	1	1
74	Searcy Hotel	1993	City of Kansas City, Missouri	1	2	1
75	Shoal Creek (Hunt Midwest)	1994	Hunt Midwest	3	2,3	1
76	Southtown/31st and Baltimore	1994	HCA	2	1,2	1
77	Summit-Output Technologies	1995	Output Technologies, Inc.	2	1,2,3	1
78	Three Trails	2002	TIAA	1	2	5
79	Tower Properties, Project A	1995	CB Building Corp	1	1	1

80	Tower Properties, Project B	1995	Tower Properties	1	1	1
81	Tower Properties, Project H	1995	909 E. Walnut, L.L.C. c/o SIMBOL Commercial	1	1,3	7
82	Union Hill	1997	Union Hill Development Company	2	2	7
83	Union Hill - KCPT	2000	Union Hill Development Company	2	1,2,3	7
84	Universal Floodwater	1991	Universal Land Redevelopment	1	1,2,3	1
85	Uptown Theater	1994	UGA, L.L.C.	1	1	7
86	Walnut Creek	1988	Deck Investment Group	3	2,3	1
87	West Edge (Project 1 and 2)	2003	Trilogy, Inc.	2	2,3	1
88	Winchester Ventures	1991	Winchester Ventures, II	2	1	1
89	Winchester - Visions (Project 13)	1991	Vision Building Corporation	2	2	1

¹ See Missouri Revised Statutes, Section 99.805 for definitions of (1) blight, (2) conservation area, and (3) economic development area.

² There are 6 categories for "but for" determination according to 2005 Kansas City, Missouri Tax Incremental Financing Annual Report

1. Project has unusual/extraordinary costs that made the project financially unfeasible in the marketplace.
2. Project required significant public infrastructure investment to remedy existing inadequate conditions.
3. Project required significant public infrastructure investment to construct adequate capacity to support program.
4. Project required parcel assembly and/or relocation costs.
5. All of the above
6. Other (describe)

³ There are 8 TIF Financing Methods according to 2005 Kansas City, Missouri Tax Incremental Financing Annual Report

1. Pay-as-you-go
2. General Obligation Bonds
3. TIF Notes
4. Loan
5. TIF Bond
6. Industrial Revenue Bond
7. Other Bond
8. Other

Appendix B

Analysis of Specific Objectives of TIF Plans

Project	Santa Fe	Walnut Creek	Briarcliff	Universal	Winchester	Hickman Mills	11th Corridor	12th Wyanette	Americana	Searcy Creek	Midtown	43rd Main	Southtown	Uptown	Shoal Creek	NY Life	Civic Mall	Summit	Gateway	Tower	Barry Town	Total
Total Specific Objectives	11	7	16	19	13	13	14	9	12	8	12	11	11	11	6	6	11	14	8	8	8	228
Describe Private Construction	1	1	1	2	1	3	6	5	3	0	1	1	1	1	0	2	0	4	1	1	0	35
Describe Public Improvements	0	2	6	10	3	6	1	0	1	2	0	0	0	0	0	0	1	1	0	0	0	33
Other Objectives	10	4	9	7	9	4	7	4	8	6	11	10	10	10	6	4	10	9	7	7	8	160
Job Creation Objective	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1. Stimulate Construction	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	18
2. Promote health, safety'	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	18
3. Provide Development	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	18
4. Enhance the Tax Base	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	19
5. Install, Repair, Construction	1	1	1	0	0	1	0	0	0	0	1	1	1	1	0	0	1	1	1	1	1	13
6. Upgrade and Refurbish	1	1	1	0	0	1	0	0	0	0	1	1	1	1	0	0	1	0	1	1	1	12
7. Vacate any Existing Row	1	1	1	0	0	0	0	0	0	0	1	1	1	1	0	0	1	1	1	1	1	12
8. Replat the Land	1	1	1	1	0	0	0	0	0	0	1	1	1	1	0	0	1	1	0	0	0	10
Total Canned Objectives	8	4	8	5	4	2	4	4	4	4	8	8	8	8	4	4	8	4	7	7	7	120

Specific Objectives	Number	% of Total
Describe Private Construction	35	15.35%
Describe Public Improvements	33	14.47%
Other Objectives	160	70.18%
Job Creation Objectives	0	0.00%
Total	228	