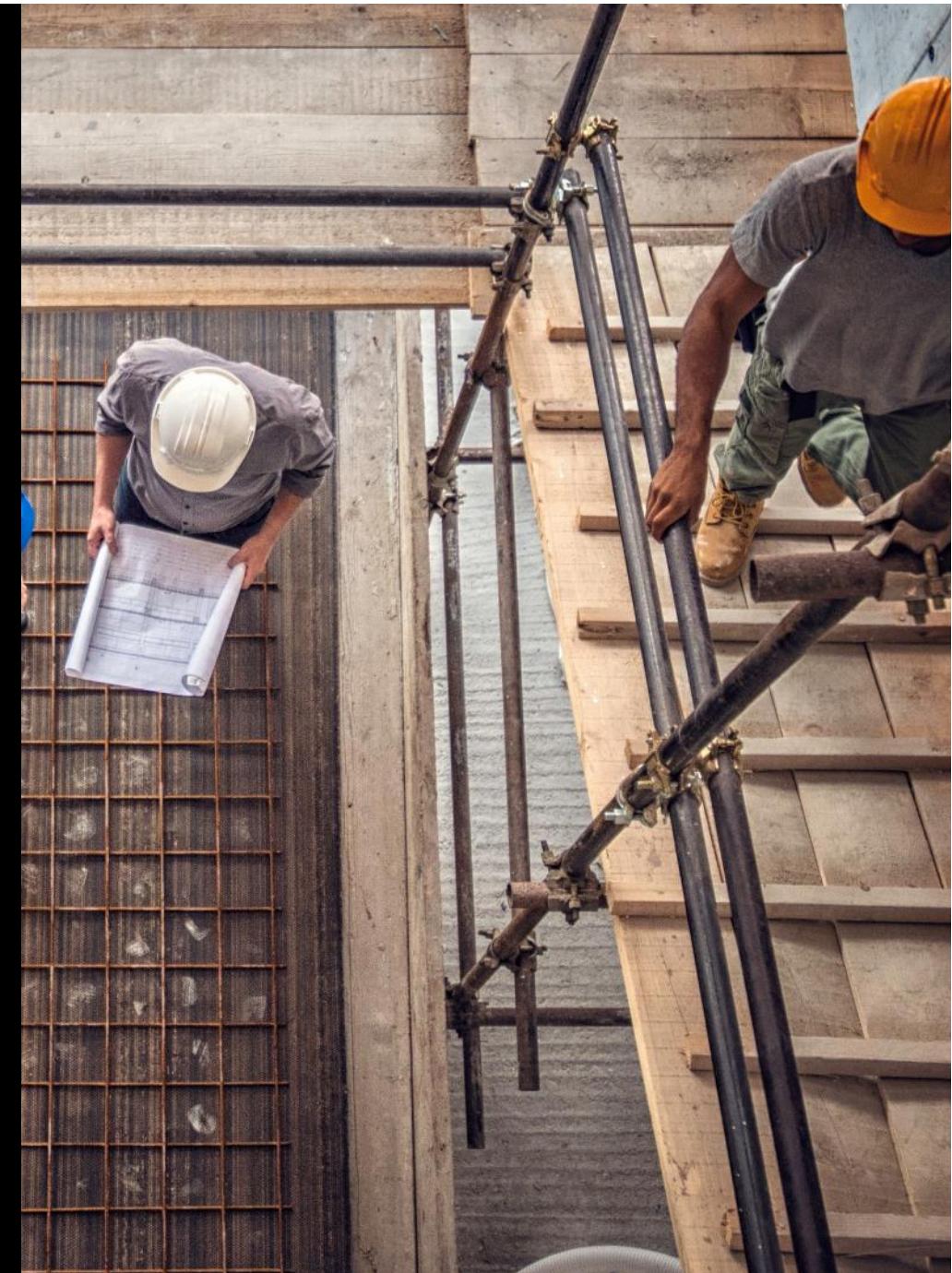

Fundamentals of Kansas economic development finance

August 2020

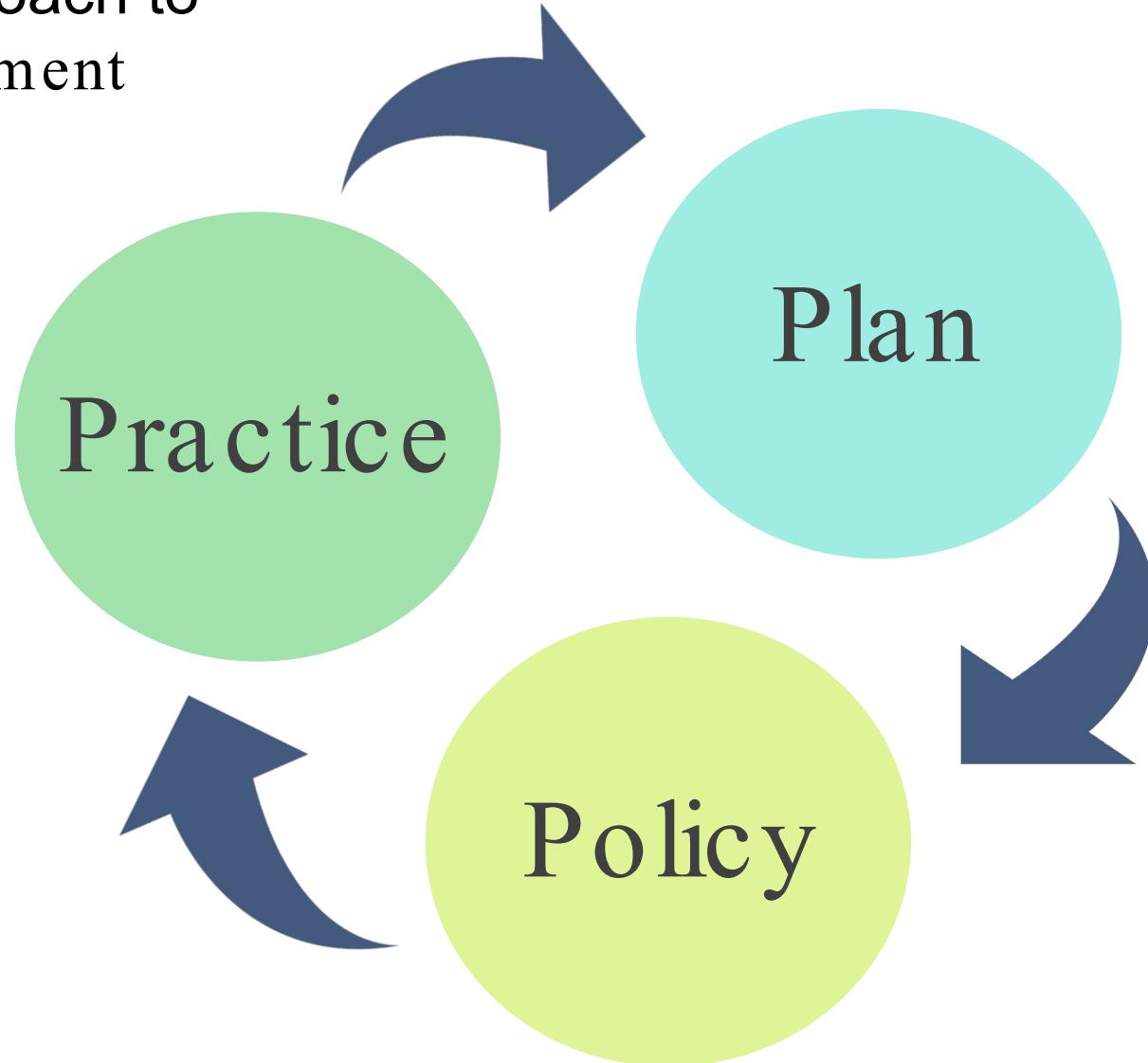


Risk!

- Somebody wants money
- Development = future performance
 - Future performance = risk
- Find your COMFORT ZONE



A systematic approach to
economic development



A SYSTEMATIC APPROACH

Plan

- What is the problem or opportunity?
- Approach as a resource allocation decision
- Avoid
 - Tool fixation
 - Overspending
 - False project legitimacy
- Set economic development goals through an inclusive community self-assessment
- Use goals to establish criteria by which to evaluate projects



A SYSTEMATIC APPROACH

Policy

- Not a shortcut
- Your community's "Thou shalts" and "Thou shalt nots"
- References and links Plan and Practice



A SYSTEMATIC APPROACH

Practice

- Breadth and scope of review dictated by:
 - Public risk
 - Private use of public funds
 - Level of community interest
- Reiterative process
 - One round leads to questions for next
 - COMFORT

KEY QUESTIONS

The six really smart questions

- 1) Is this something our community really wants?
- 2) Who are these guys?
- 3) Is this project feasible?
- 4) Will our community benefit?
- 5) Is an incentive needed?
- 6) Will they do what they say?



The tools



THE TOOLS

Community Improvement District (CID)

Description **Special purpose district**

Eligibility Requires petition of property owners equaling 55% of assessed valuation and ownership

Permitted uses Public or private facilities or uses

Financing alternatives (maximum 22 years):

- Sales tax
- Special assessments

Debt service permitted:

- General obligation bonds
- Special obligation revenue bonds

THE TOOLS

Transportation Development District (TDD)

Description **Special purpose district**

Eligibility Requires petition of 100% of property owners

Permitted uses Public transportation related facilities

Financing alternatives (maximum 22 years):

- Sales tax (maximum 1%)
- Special assessments

Debt service permitted:

- Special obligation revenue bonds



THE TOOLS

CID and TDD considerations

- Frequently paired with tax increment financing (TIF)
- CID may be used in lieu of TIF
- Use of TDDs diminishing given flexibility of CIDs
- Whose money is it?
- Organizational capacity to form and administer the district

THE TOOLS

CID and TDD advantages

- Realize new development which might not otherwise occur
- Potential CIP revenue source
- Relatively simple to implement
- Citizens generally prefer sales taxes over property taxes
- Perceived as fair and effective because the assessment or sales tax is visibly connected to the improvement
- May be one of the most equitable methods to finance improvements benefiting more than one area or development
- Greater control of development

CID and TDD disadvantages

- Higher sales tax may encourage consumers to shop outside the district or community
- No disincentive to pirating business from within community or from nearby communities
- May be perceived as subsidizing a project that would have been built anyway
- City or county enters into the development business (policy question)
- Potential negative consequences of bond default
- Existing businesses may perceive creation of district as favoring one business over another



THE TOOLS

Tax Increment Financing (TIF)

Description Special purpose district

Eligibility Blighted, conservation, intermodal, major commercial and tourism, bio-science, pre-1992 enterprise zone

Permitted uses Public facilities

Financing alternatives (maximum 20 years):

- Up to 100% of property tax increment
- Up to 100% of sales tax increment
- Up to 100% of franchise tax increment

Debt service permitted:

- General obligation bonds
- Special obligation revenue bonds

Tax Financing considerations

- School district and county veto power
- Can't construct buildings!
- Limited to site acquisition/preparation and public facilities
- Organizational capacity to form and administer the district?



THE TOOLS

Tax Increment Financing advantages

- Strengthen local economy through development that would not occur without public subsidy
- Address blighted and problematic areas
- Complete needed public improvements for which no other funding source is available
- Greater control over development type and quality

Tax Increment Financing disadvantages

- Potential negative consequences of bond default
- Full economic benefit not realized until improvements become part of the general tax base
- May be politically unpopular
- May be perceived as subsidizing a project that would have happened anyway
- City enters development business



THE TOOLS

Special assessment district

Description 12-6a01 special assessment district

Eligibility Petition by majority owners of record, or resident owners of record of more than half the area, or owners of record – regardless of residency – of more than half of the area

Permitted uses Public facilities

Financing alternatives (maximum 20 years):

- Special assessments

Debt service permitted:

- General obligation bonds
- Special obligation revenue bonds

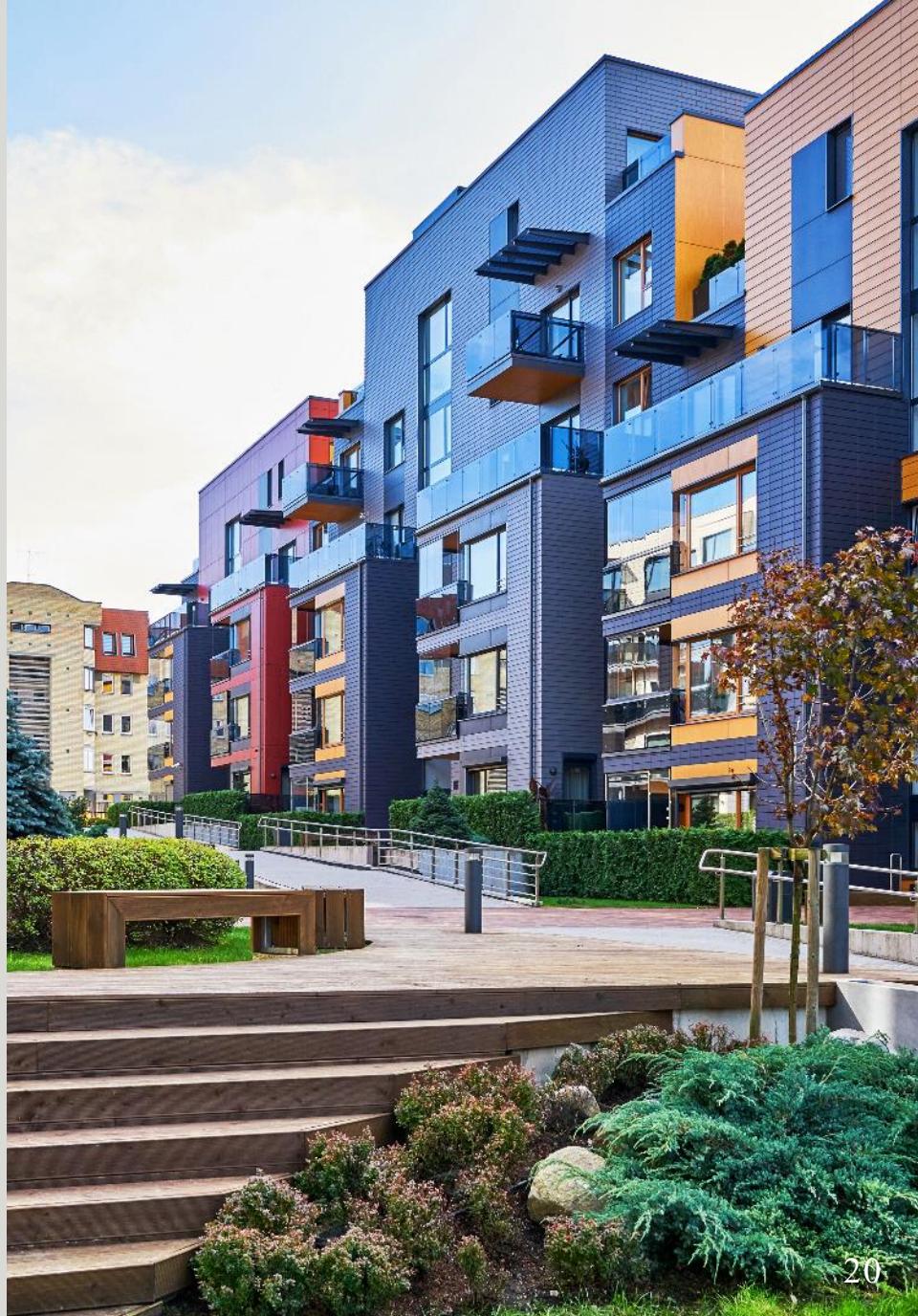
THE TOOLS

Special assessment district considerations

- Is a special assessment district necessary?
- Does the cost of the special assessment substantially exceed the benefits conferred on the property?
- No exact methodology
- Burden imposed should not be entirely disproportionate to the benefits received
- Benefit is to the property – not the current use
- Will the post improvement value of the land exceed the cost of the special assessments?
- Organizational capacity to form and administer the district?

Special assessment district advantages

- Stretch municipal tax dollars further
- Costs paid by benefiting properties
- Incentive to promote desired development
- Tax exempt interest rate, access to local government's credit, potential city at-large contribution





THE TOOLS

Special assessment district disadvantages

- Delinquent assessment paid city at-large
- Greenfield: chance that development will not occur
- Bonds may count against statutory debt limit
- Uncontrolled, can promote haphazard pattern of development

THE TOOLS

Property tax abatement

Description Industrial revenue bonds/constitutional

Eligibility Commercial uses (constitutional abatement restricted to industrial)

Permitted uses Purchase, construct and improve new or existing private facilities

Financing alternative (up to 100% for 10 years)

Debt service permitted:

- Industrial revenue bonds paid from company's lease payments

THE TOOLS

Property tax abatement considerations

- Abatement level tailored through payment in lieu of taxes (PILOT) payment
- Cost-benefit analysis for all taxing entities required
- Sales tax exemption on construction material and labor
- Bond interest exempt from state income taxation and exempt from federal taxation if a “qualified use”
- Notice to school district required (no veto power)
- City may charge an origination fee
- Company normally brings buyer for bonds
- Some level of abatement often required to be competitive

Property tax abatement advantages

- Diversify and strengthen local economy in long-run
- Flexible
- Easy to tie incentive to performance
- Relatively limited duration of incentive
- Aid in development of blighted or challenged sites





THE TOOLS

Property tax abatement disadvantages

- Sets precedent and expectations
- Potential financial hardship on other taxpayers (to degree service impact costs exceed taxes received)
- Perception of favoring one business over another
- Difficult to know the “right” level of abatement

Questions?

THANK YOU

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