
Tax Increment Financing (TIF): Practice and Policy in Lee's Summit

Informational Workshop

Workshop Summary

- What is TIF and Why Use It?
 - Myths & Misconceptions
 - Use of TIF in Lee's Summit
 - TIF Policy
 - GFOA's Recommended Practices for TIF's as a Fiscal Tool
 - Kansas City vs. Lee's Summit
 - Other TIF Policy Discussions
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What is TIF?

- TIF is a development tool that involves the use of incremental increases in taxes to finance various costs
 - ❑ Base taxes frozen at pre-TIF levels
 - ❑ 50% of net new local (city & county) sales taxes captured and redirected to project expenses
 - ❑ 100% of incremental real property taxes captured and redirected to project expenses
 - ❑ All new personal property taxes and remaining 50% net new sales taxes flow to City & other jurisdictions as new revenue for services
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Why Use TIF?

- TIF can assist in overcoming obstacles that prevent a parcel from becoming developed to its highest and best use
 - When successful, a well defined TIF plan could generate a positive cash flow to the City
 - Summit Woods ~ \$2.5million/year in new revenues



Myths & Misconceptions

- “Are my taxes being increased because of TIF?”
 - TIF’s do not take revenues from the existing tax base
 - However, it does take a portion of the new revenue generated by the TIF project to pay for project costs
 - TIF is essentially a re-direction of the use of tax dollars
 - These dollars would not be available without economic incentives to make the development happen.
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Myths & Misconceptions

- “Are TIF developments paying 100% of their taxes?”
 - Yes. Businesses within TIF Districts do not receive any reduction or abatement of their sales or property (real or personal) taxes



Past Use of Tax Increment Financing in Lee's Summit

■ TIF Practice

- Until 2006, TIF districts were used to pay for public infrastructure or historic preservation
 - In 2006, the practice was amended to include:
 - Approval of land costs (Summit Fair, Hartley)
 - Approval of PILOT payments/distributions to school districts (Summit Fair, Hartley, I-470 B&T)
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Past Use of Tax Increment Financing in Lee's Summit

Public Participation in TIFs at Application: Past & Present Requests						
Development	Total Project Costs	TIF Reimbursable Project Costs *	TIF Share of Total Costs	Use of TIF Funds	Date of Inception	Expected End Date
Northeast TIF	\$14,677,164	\$1,677,120	11%	Public Infrastructure (100%)	1988	2010
Summit Woods TIF	\$160,008,550	\$25,401,423	16%	Public Infrastructure (100%)	2000	2012
Chapel Ridge TIF	\$108,693,469	\$25,846,800	24%	Public Infrastructure (100%)	2000	2022
Longview Farm TIF	\$200,665,294	\$13,388,983	7%	Historic Preservation (100%)	2003	2025
Chapel Ridge with 1st Amendment	\$194,386,613	\$32,315,733 (\$22M is for Strother TDD project)	16%	Public Infrastructure (100%)	2006	2028
Lee's Summit East (Summit Fair) TIF	\$144,436,904	\$31,999,782	22%	Public Infrastructure (70%)	2006	2028
Hartley Block TIF	\$7,653,984	\$2,543,860	33%	Redevelopment & Public Infra. (88%)	2006	2029
I470 Business & Technology TIF	\$70,872,183	\$8,072,000 (\$5m is for Strother TDD project)	11%	Public Infrastructure (100%)	2006	2029

* "TIF Reimbursable Costs" refers to costs expected to be reimbursed with City public funds at time of application approval. Costs to be reimbursed thru State TIF revenue, CID taxes or TDD sales taxes not included.

Note: Public Infrastructure= public infrastructure costs and associated professional fees. It excludes such items as City costs and land/relocation costs.

Table updated 4-11-07

TIF Policy Discussion

Lee's Summit has an "Economic Development Policy" but no formal TIF Policy

GFOA has published a "Recommended Practice" document on the use of TIF

GFOA's Recommended Practice

“A policy should be adopted by the local governing body that includes statements regarding when a TIF district is appropriate, including its relationship to an overall development/redevelopment plan”

- Policy should include the following steps to evaluate whether a TIF District should be created:
 - Management should identify the blighted area
 - Feasibility Studies should be conducted
 - Economic Benefit to Local Economy, including fiscal impacts
 - Evaluation of the risk to general government operations, including all districts to the taxbase
 - Financing Analysis regarding pay/go or debt financing
 - Risk sharing between the City and Developer should be documented in the development agreement
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GFOA's Recommended Practice

If management believes a TIF District is warranted, the following should be done, in addition to compliance with state and local laws:

- Thorough (Re-) Development Plan
 - Cost Benefit reports
 - Pro-forma
 - Public Hearings: TIF Commission and City Council
 - Appropriate approval from governing body
 - Periodic Reviews
 - Performance Measures (Budget to Actual)
 - Steps to ensure of no adverse affect on other taxing entities
 - Evaluation of bond coverage and debt service structure
 - Credit Enhancement
 - Conservative Projections
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Summary of KC Auditor's Report

□ **Kansas City vs. Lee's Summit**

- Improve Projections made by the developer in the application
 - *Projections are reviewed by Lee's Summit staff and third party consultant for accuracy and reasonableness*
 - Report annual comparisons of actual and projected revenues
 - *Lee's Summit has recently begun the process of annual comparisons*
 - Report comprehensive performance measures for TIF plans that are consistent with GFOA's best practice of measuring benefits and costs of incentives against previously established goals and criteria, and
 - *Lee's Summit has not established performance measures or goals for incentives*
 - Develop an Economic Incentive Policy consistent with GFOA's recommended four components of an economic incentive policy.
 - Kansas City should not credit enhance their debt
 - *Lee's Summit does not pledge General Fund revenues to TIF debt*
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Other TIF Policy Discussions

- R-7 TIF Policy Highlights:
 - Will not support TIF development proposals for residential land use projects
 - R-7 encourages municipalities to:
 - Treat district as a partner in their negotiations
 - Require a 50% PILOT payment to the district
 - Require developers to pay district's cost of evaluating TIF proposals
 - Include impact to district in any cost/benefit analysis
 - Require district approval of TIF plan modifications with financial impacts
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Other TIF Policy Discussions

- **Jackson County TIF Policy: Will support projects that promote “the Planet, the People and the Prosperity” of the County.**
 - *Promote Planet highlights:* Maximum 30% green space; use of native plants; innovation in sustainability
 - *Promote People highlights:* Projects which encourage an inflow of customers from outside the County preferred; new wages should exceed the community average; 30% of the project should be occupied by local businesses (vs. nat'l or internt'l chains)
 - *Promote Prosperity highlights:* Shorter rather than longer term TIF's (12 year payoff) encouraged; debt coverage of at least 1.25x provided, public subsidy exceed no more than 15% of total costs.
 - **4-23-07 TIF Commission public hearing explanation of ‘no’ vote for Ritter Plaza TIF:**
 - “We, as the county, can no longer support that type of redevelopment. The redevelopment that we're interested in is redevelopment that will bring new tax revenues to all of Jackson County, not just redistribute it from one area to another.” (Ja Co representative)
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Other TIF Policy Discussions

- **Report on Sustainable Economic Development in Kansas City – selected highlights:**
 - **Key Theme:** Economic development is essential to the City's future, and positive financial returns allows continued investment in new projects
 - **Strategy:** The City should develop a clear Eco Dev plan and policy establishing priorities
 - Incentives should no longer be considered an entitlement
 - The amount of incentive should be based on the needs and previous development of the area and/or land use
 - Incentives should be targeted, limited, proportional and time-constrained
 - 'But For' standards should be more rigorous
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Other TIF Policy Discussions

- ❑ **Process:** A fiscal impact analysis should be conducted on all incentive requests
 - Eliminate fragmented decision making on incentives
 - ❑ Currently, inadequate review time for Council
 - ❑ Currently, lack of consistent message from staff due to fragmentation
 - Link land use approval with financial approval
 - Account for all potential assistance a project may receive
 - ❑ Eliminate 'layering' and over-incenting
 - ❑ **Sustainability:** All investments should return a net positive return on the City's investment (at least 33% to GF)
 - Provide just enough incentive to make project viable
 - Restrict use Super-TIF to projects receiving state funding
 - Establish an Economic Development Reserve Fund
 - Do not back bonds with general fund revenues
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Conclusion

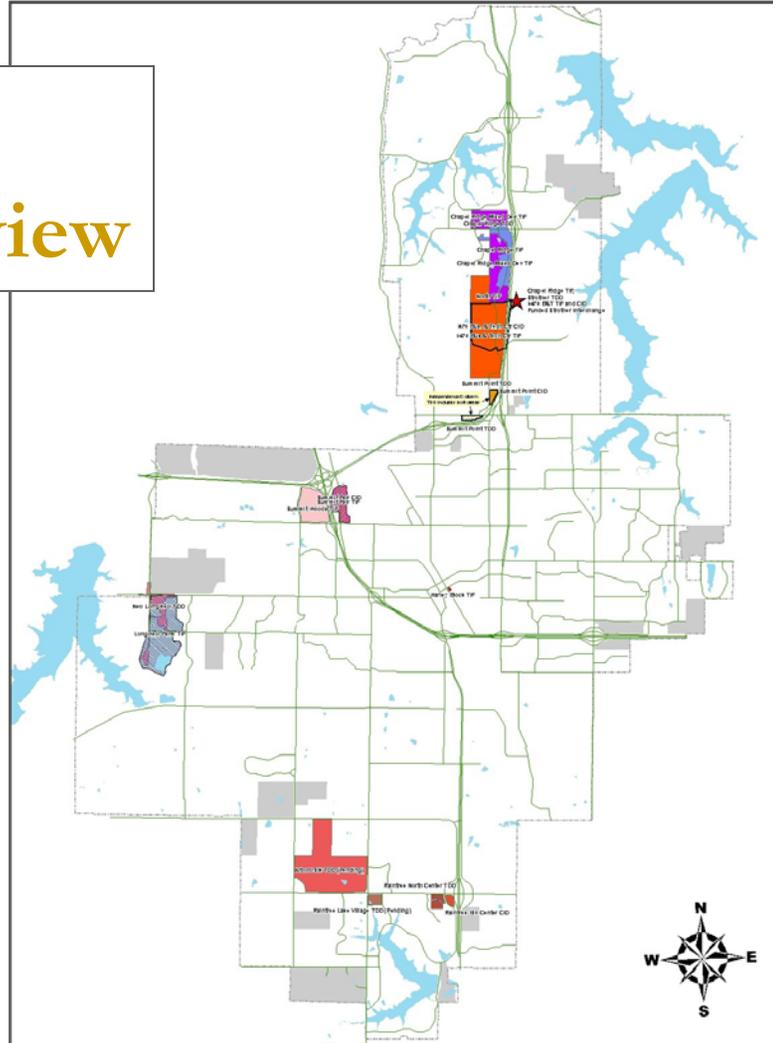
- Lee's Summit TIF practices have brought positive economic growth to the City
 - The City's TIF practices to date have been sound based on the GFOA's Recommended Practices
 - Staff recommends a formal TIF Policy be adopted to help guide the development community and staff on their future use of TIF as an economic development tool
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Tax Increment Financing (TIF): Practice and Policy in Lee's Summit

- Future topics: Other tools such as TDD's, CID's, NID's and LCRA
 - Questions & Council Discussion
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Use of TIF, TDD & CID in Lee's Summit

City Overview

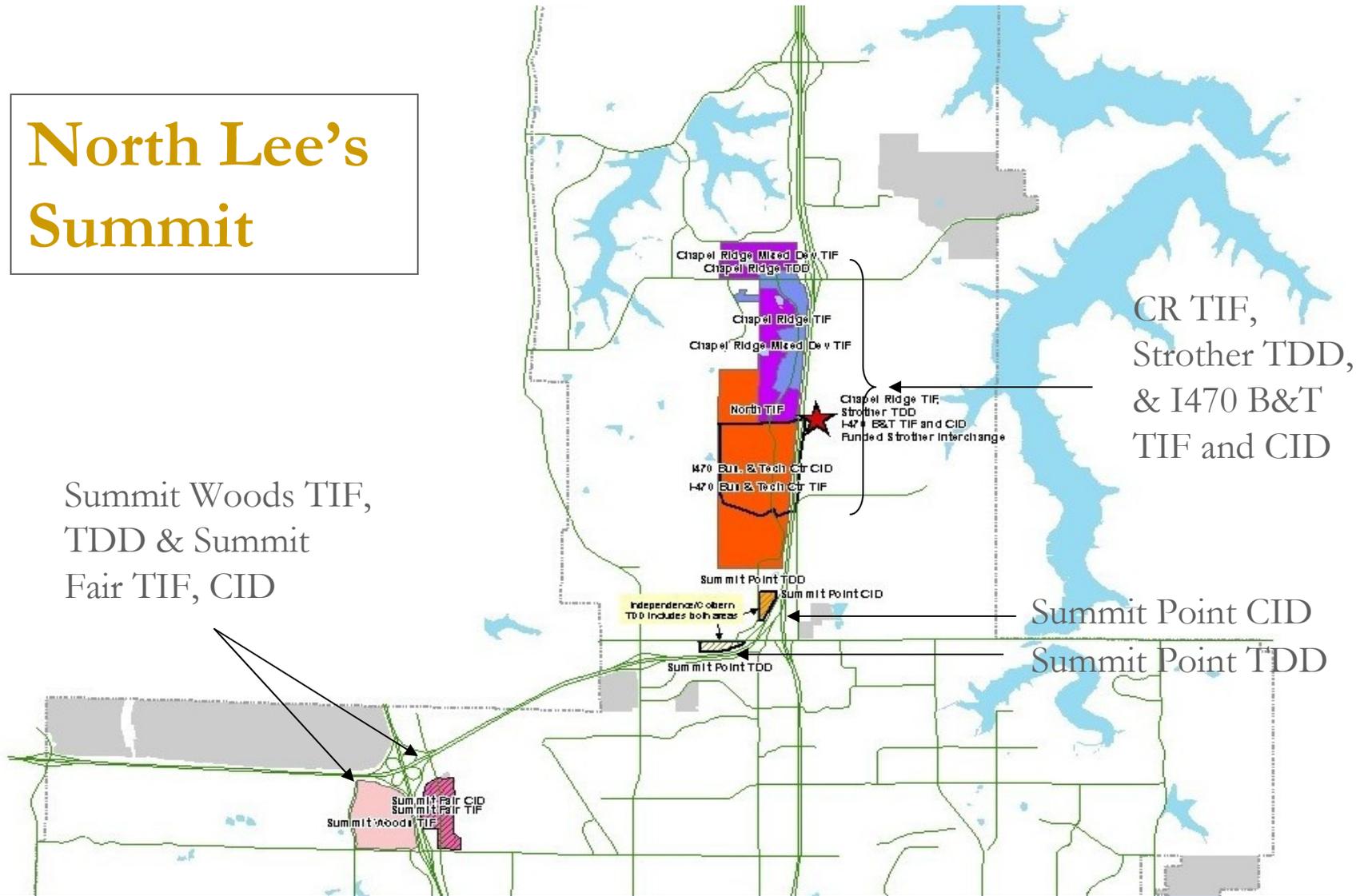


Current
TIF, TDD
& CID
areas

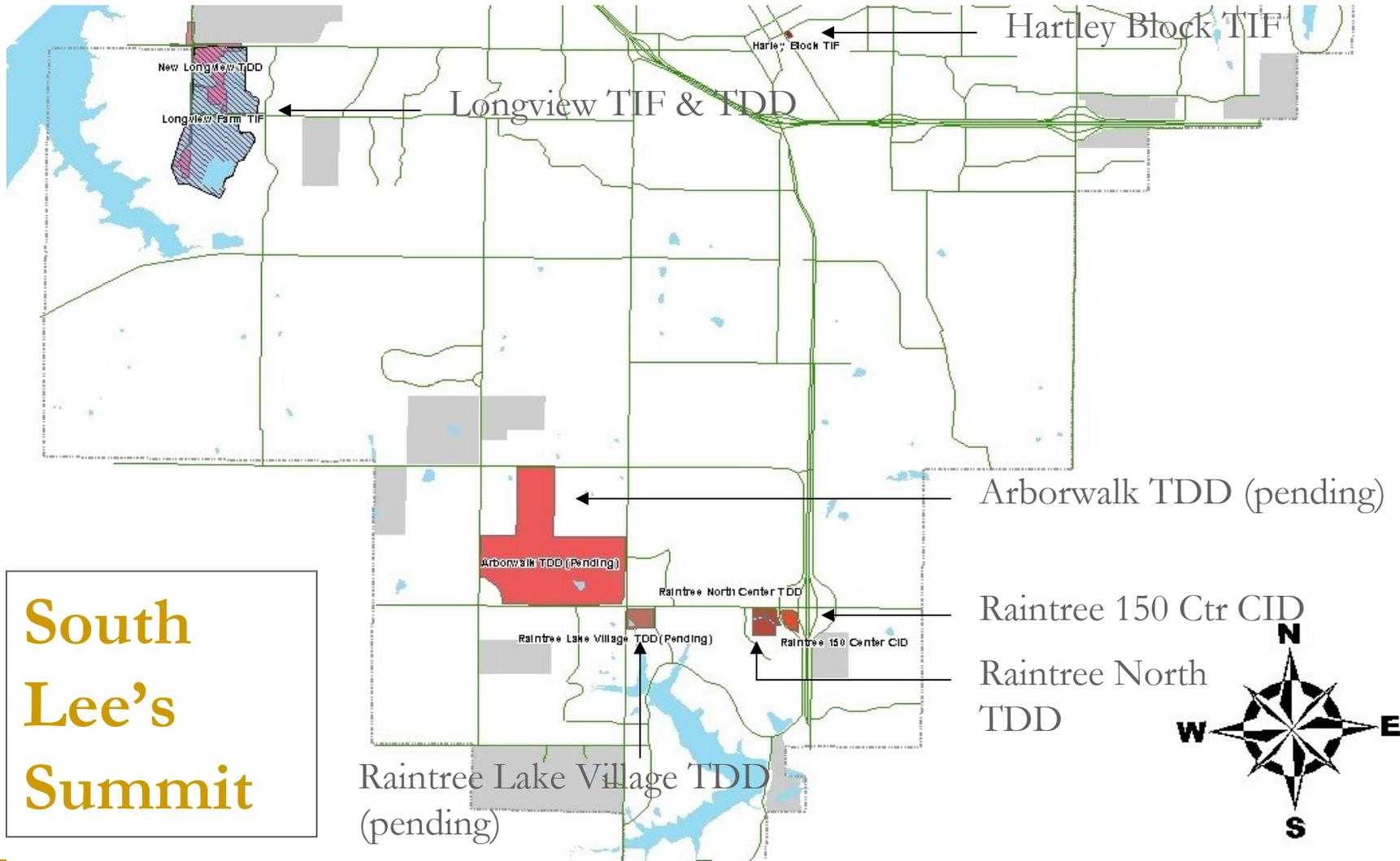
Use of TIF, TDD & CID in Lee's Summit

North Lee's Summit

Summit Woods TIF,
TDD & Summit
Fair TIF, CID



Use of TIF, TDD & CID in Lee's Summit



**South
Lee's
Summit**

CITY OF LEE'S SUMMIT ECONOMIC DEVELOPMENT INCENTIVE POLICY

MISSION: The City of Lee's Summit, Missouri believes in quality economic development to attract and retain business investments that will benefit the entire community.

1. General Considerations

- A. Each location is unique and requires that every proposal be evaluated on its individual merit and overall contribution to the City's economy and goals.
- B. Each project should be evaluated, using the application of the City's long-term fiscal model when appropriate, to determine potential economic benefit and impacts on the City's service levels.
- C. The City has extensive experience in using economic development tools such as: Tax Increment Financing, Transportation Development Districts, Neighborhood Development Districts, Community Development Districts, Industrial Development Financing under RSMo Chapter 100, and RSMo Chapter 353 Tax Abatement.
- D. All developments are subject to the development review process which includes: staff review of plan submittals, Planning Commission review (public involvement), City Council Review and approval (public involvement & final action), other Boards (as needed – project specific).

2. Investment Criteria

As a general goal, a project requesting economic assistance should invest a minimum of \$4-5 million combined real and personal property investment. (Revenues should exceed amount of total incentive over term of agreement.) City will also take into account potential increased revenue to the City from all sources associated with benefits of a particular business or overall development. Additionally, *the City will consider other factors such as character of the development, the contribution the proposed development to address identified target markets or areas of the City, and social and economic needs of the community.*

3. Other Considerations

The investment criteria may be either increased or decreased based upon the following considerations:

- A. Potential for incremental growth and revenue and other economic impact.
 - B. Possible future expansion and constructed real and/or personal property investment.
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- C. Desired or unique niche in marketplace consistent with City Goals, the Comprehensive Plan, or other desired amenities as set forth by the City Council.
- D. Employment impact. In evaluating the employment potential of a given enterprise, the following shall be taken into consideration:
 - 1) Number of additional employees and whether they are likely to be hired from the local population;
 - 2) Skill and education levels;
 - 3) Range of salary and compensation;
 - 4) Potential for executive relocation
- E. Potential of outside financial assistance.
- F. Enhancement of City's image and reputation.
- G. Increased sales taxes and/or other revenues.
- H. Impact on schools and other public entities. The City strongly encourages the incorporation of Payment in lieu of taxes (PILOTS) for developments that add students to the school population when structuring an economic development incentive agreement that impacts school district revenues.

4. **Follow-up Evaluation**

Each project shall be monitored on an annual basis to determine performance standards as put forth in the original incentive agreement.

5. **Incentive Review Process**

The City incentive review process has been established to ensure timely responses and well defined procedures. The process is as follows:

- A. A prospect should contact the Lee's Summit Economic Development Council (LSEDC) at (816) 525-6617.
- B. The Mayor, City Administrator and President/CEO of LSEDC discuss project details to determine their applicability to this policy.
- C. The Mayor determines the appropriate time of briefing the City Council of prospects seeking incentives.
- D. Once it is determined to move forward with a request for incentives, incentive terms are prepared and presented to the City Council for review, discussion, and potential approval.