

**Performance Audit
Tax Increment Financing**

September 1998

**City Auditor's Office
City of Kansas City, Missouri**

Office of the City Auditor

24th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2715

(816) 274-1331
Fax: (816) 274-1911

September 21, 1998

Honorable Mayor and Members of the City Council:

This audit on tax increment financing (TIF) was conducted pursuant to Article II, Section 13 of the Charter of Kansas City. The audit was initiated in response to City Council Resolution 970685, which directed the city auditor and the city manager to conduct studies of TIF to provide a context and identify information that could assist decision-makers in assessing the impact of TIF. The resolution specifically directed the city auditor to determine how the actual performance of projects funded through tax increment financing compared to projections, and to identify ways to improve policies and procedures relating to these projects.

We are proposing a model process that we believe will encourage accountability in the use of TIF and increase the city's ability to use TIF to achieve public goals. The model process was developed to address concerns that we identified during field work and to incorporate recommendations made by FOCUS, the city's strategic plan.

Tax increment financing is an incentive to encourage real estate development and redevelopment. It is intended to reduce or eliminate adverse conditions in an area and to enhance the tax base. Under TIF, certain increases in property values and economic activity tax collections are made available to reimburse development costs. TIF is a flexible incentive that has been used in a wide range of circumstances. In Kansas City, the use of TIF has been driven by private developers rather than by explicit public strategies and policies.

The actual revenue resulting from the TIF projects in Kansas City has been substantially lower than the projections made when the TIF plans were approved. Through 1997, total projected revenues were \$52 million, while actual revenues were \$12 million. Only four of the 24 plans we reviewed generated 50 percent or more of their original revenue projection. Revenue projections have systematically overstated revenues.

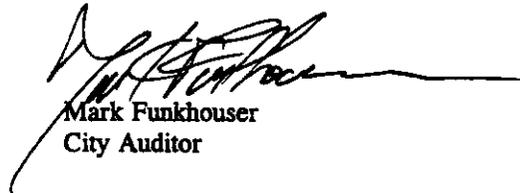
The gap between actual and projected revenue for TIF plans may indicate other performance problems. For example, redevelopment work may be delayed resulting in adverse conditions, such as blight, remaining for longer than anticipated or necessary. We intended to further address the performance of TIF plans by determining whether the specific objectives included in approved TIF plans had been addressed. However, after analyzing the specific objectives, we concluded that the specific objectives were not adequate measures of the performance of plans.

We identified a number of financial and management control problems related to the way TIF is administered. The city, through an annual agreement with the Economic Development Corporation, has assigned conflicting responsibilities to the staff who support the TIF Commission. The TIF Commission is not adequately staffed. As a result, a number of planning and financial management responsibilities have not been done or have been done inadequately. Controls over contracting and the TIF Commission's receipt and disbursement of cash should be improved.

Before we began our audit work, the TIF Commission had clearly identified the inadequacy of staff as an issue and has attempted to address the problem. We recommend that the TIF Commission be responsible for selecting an executive director who would serve at the pleasure of the commission and would select and be responsible for staff. Funding to staff the TIF Commission should be provided through the city's normal budget process.

We believe TIF can be used to address important public goals. FOCUS recommends that development incentives be used to achieve FOCUS priorities and be used proactively whenever possible. Implementing the audit recommendations should result in a more specifically targeted use of TIF and in projects being initiated by the city as well as developers.

The draft report was sent to the city manager, the director of city planning and development, and the executive director of the TIF Commission on June 24, 1998, for review and comment. After initial comments, a revised draft was sent to the city manager and the executive director on August 21, 1998. Their written responses are included as Appendices C and D. The draft report was also sent to the city attorney and the director of finance for review. The audit team on this project was Joan Pu, Aloysia George and Michael Eglinski.



Mark Funkhouser
City Auditor

Performance Audit: Tax Increment Financing

Table of Contents

Chapter 1: Introduction	1
Purpose and Authority	1
Objectives	1
Scope and Methodology	2
Chapter 2: Tax Increment Financing	3
Introduction	3
How TIF Works	3
Strengths and Weaknesses of TIF	4
TIF Activity	5
Legislative Authority	6
TIF Is a Very Flexible Incentive	6
Council Must Find That Development Would Not Occur Without TIF	9
TIF Use in Kansas City	10
Roles and Responsibilities	11
Chapter 3: TIF Revenue Analysis	15
Summary	15
Total Revenues Are Below Projections	16
Poor Revenue Performance May Indicate Other Problems	19
Issue for Further Audit Work	24
Chapter 4: Financial and Management Control Issues	27
Summary	27
EDC Has Been Assigned Conflicting Responsibilities	28
Staff Size and Makeup Are Inadequate	29
Controls over Accounting Duties Should Be Strengthened	32
Contracting Procedures Should Be Improved	33
Other Control Issues Should Be Addressed	39
Chapter 5: A Model Process	
Overview	41
Model Incorporates Recommendations of Other Reports	41
Recommended Model Process	43
Chapter 6: Recommendations	47

Appendices	51
Appendix A: TIF Revenues by Plan	51
Appendix B: Memo Recommending a Contractor	61
Appendix C: City Manager's Response	65
Appendix D: TIF Commission Executive Director's Response	69
Appendix E: City Auditor's Comments Regarding the TIF Commission Executive Director's Response	123

List of Exhibits

Exhibit 1	Areas in Which TIF Can Be Used	7
Exhibit 2	Projected Revenue Compared to Actual Revenue	17
Exhibit 3	Examples of Responsibilities Without Adequate Performance	31

Chapter 1: Introduction

Purpose and Authority

This audit of tax increment financing (TIF) was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri. The charter establishes the Office of the City Auditor and outlines the city auditor's primary duties.

City Council Resolution 970685 directed the city auditor and the city manager to study tax increment financing. These systematic reviews were to provide a context and identify information that could assist decision-makers in assessing the impact of TIF. The City Council directed the city auditor to address the following issues:

- Actual project performance compared to projected performance.
- Ways of improving policies and procedures used to review, approve, monitor and report on projects.

The resolution also directed the city manager to study the effect of funding development through tax increment financing on the city's revenue stream. The city manager did not complete his study. In November 1997, the director of finance recommended that the study not be done, in part because of a lack of historical information.

Objectives

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ The audit was designed to:

- Compare incremental property and economic activity revenues to projected revenues.
- Recommend a model to improve the city's ability to review, approve, monitor, and report on TIF plans.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

Scope and Methodology

This audit focuses on tax increment financing. We limited our comparison of actual and projected performance to TIF plans approved by the City Council before December 1, 1996.

The state tax increment financing statute was recently amended. The amendments do not affect any of the conclusions or recommendations in this report. Amendments are briefly discussed on page 6.

The audit was performed in accordance with government auditing standards, with the exception of the completion of an external quality control review of the office within the last three years.² Methods included:

- Reviewing state statute.
- Interviewing TIF Commission staff.
- Reviewing TIF plans, development agreements, annual reports and other documents.
- Analyzing city financial records.
- Attending meetings of the TIF Commission.
- Interviewing people familiar with the city's TIF program including city staff, attorneys, bond counsels, and developers.
- Reviewing relevant reports and articles, including reports of FOCUS, the Community Infrastructure Committee, and the Mid-America Regional Council's Metropolitan Alliance for Economic Cooperation.
- Reviewing studies and articles on tax increment financing in Missouri and other states.

We did not review developer compliance with approved plans and agreements.

No information was omitted from this report because it was deemed privileged or confidential

² The last review was performed in April 1995. A peer review is planned for the current fiscal year.

Chapter 2: Tax Increment Financing

Introduction

Tax increment financing (TIF) is an incentive offered by the city to encourage real estate development and redevelopment. TIF is intended to reduce or eliminate adverse conditions in an area and to enhance the tax base. It was created by state statute and is administered by the city through the TIF Commission.

Throughout the country, TIF has been used increasingly as federal funds for urban redevelopment have become harder to secure. TIF has been adopted by 44 states.

How TIF Works

In its most basic form, TIF is fairly simple. After the TIF Commission has held public hearings and made a recommendation, the City Council considers approval of a TIF plan to redevelop an area as well as specific redevelopment projects within the plan. The developer constructs the project.

The redevelopment results in increased property value. The property taxes that would be due on the increased value of the property are abated. The value of the abated taxes is the "increment." The owner of the property pays property tax on the original value of the property, and pays the city the amount of the increment. The funds are maintained in the city's special allocation fund. The city then pays the TIF Commission the amount of the increment. The commission uses this payment in lieu of taxes (PILOT) to pay for the costs of administering the TIF plan and to reimburse the developer for the cost of developing the property. To the property owner, the difference between calling the payment a PILOT or property tax is negligible. To the city the difference between the two is significant because expenditures of PILOTs are not subject to the same restrictions as expenditures of tax revenue.

Increases in local economic activity taxes (EATs), such as utility, earnings and profits, and sales taxes, can also be made available to fund implementation of the redevelopment plan. Fifty percent of the increase in EATs from the TIF area are available to reimburse developers for the cost of developing the property.

In Kansas City, the City Council has also approved the use of so-called "Super TIF." Under a normal TIF plan, 50 percent of the local economic activity taxes increment is available to reimburse eligible costs. Under Super TIF, all of economic activity taxes are made available. This additional amount is appropriated annually by the City Council. The additional appropriation increases the amount of revenue available to reimburse redevelopment costs related to implementing the TIF plan.

Proposals, Plans, and Projects

We use the terms proposal, plan and project throughout the report.

Proposal refers to the goals, objectives and strategies that are proposed for consideration by the TIF Commission and the City Council for approval. A proposal that has been approved is referred to as a plan.

Plan refers to an approved program to enhance the tax base and reduce or eliminate conditions within an area that result in the area being declared a blighted area, a conservation area or an economic development area. The TIF Commission makes recommendations about proposed plans to the City Council. Plans are approved by the City Council. The approval of the plan requires the City Council to find the area is appropriate for the use of TIF (e.g. a designation of "blight"), and "but for" the use of TIF development would not be reasonably anticipated.

Project refers to an approved development within a redevelopment area that is intended to further the objective of an approved plan. The TIF Commission makes recommendations about proposed projects to the City Council. Projects are approved by the City Council. There can be a number of separate projects within the area covered by a given TIF plan.

Strengths and Weaknesses of TIF

We reviewed literature on TIF in Missouri and other states and identified a number of general strengths and weaknesses. These strengths and weaknesses are due to the way that TIF has been structured throughout the nation.

Among the strengths of TIF are potential for strong local control and flexibility. TIF is largely controlled and administered at the local level. Although TIF is created by the state, decisions about where and when to use TIF are made at the local level. TIF is a flexible financing tool. The TIF Commission can issue debt and acquire property through eminent domain. TIF can be used to reimburse a wide range of costs and in a wide range of circumstances.

Among the weaknesses of TIF are that flexibility can reduce accountability and that private developers may seek public subsidies even if those subsidies might not be necessary. Because TIF can be used for a wide range of costs and is not part of the normal public budgeting process, accountability is reduced. It is in the interest of developers to seek TIF even in those cases where a proposed project is economically feasible without a public subsidy. Developers have an advantage over public decision-makers because they have better knowledge of their true costs and intentions.

Tax increment financing, like other real estate development incentives, can influence the location of economic activities. Real estate development incentives can generally influence where a development may be built, when it is built, and how it is designed.

TIF Activity

The Kansas City City Council approved 25 TIF plans between 1982 and December 1, 1996. The developments are located throughout the city, and include office buildings, retail stores, restaurants, apartments, and residential housing.

The use of TIF has increased sharply in recent years. From 1982 through 1991, seven plans were approved. In the subsequent five years, 18 plans were approved.

City expenditures from TIF and Super TIF funds are significant. Budgeted expenditures from the special allocation fund are \$12.1 million for fiscal year 1999. Budgeted expenditures from the three Super TIF funds are \$4.3 million.

Legislative Authority

TIF was created by state statute.³ The statute describes how a city may create a TIF commission and use TIF. It defines the powers that a city and a TIF commission may use to encourage redevelopment. The statute requires annual reporting on each TIF plan to the Missouri Department of Economic Development.

The state statute was recently amended. The changes, which generally took effect December 23, 1997, now require a cost-benefit analysis for each TIF plan, written procedures by the city or the commission on bids and proposals for implementing plans, and two additional county representatives on the commission. Under certain circumstances, state tax revenue increases are now available for TIF.

TIF Is a Very Flexible Incentive

Tax increment financing is a very flexible public incentive. TIF has been used in a wide range of areas and to reimburse a wide range of costs.

TIF Can Be Used in Different Areas

The state statute allows TIF to be used in a wide range of circumstances. The statute defines three conditions under which TIF can be used: blight, conservation area, and economic development area.⁴ (See Exhibit 1.)

³ Mo. Rev. Stat. §99.800 to 99.865.

⁴ The new state statute includes changes in the definition of conservation and economic development areas. Conservation area must now include at least three blighting factors. Economic development areas may not be used solely for development of commercial businesses that unfairly compete in the local economy.

Exhibit 1. Areas in Which TIF Can Be Used

Area Designation	Requirements
Blight	<p>An area with factors in its present condition or use which, either alone or in combination, retard the provision of housing accommodations; constitute an economic or social liability; or present a menace to the public health, safety, morals, or welfare. Such factors include:</p> <ul style="list-style-type: none"> • Defective or inadequate street layout • Insanitary or unsafe conditions • Deterioration of site improvements, improper subdivision, or obsolete platting • Conditions which endanger life or property by fire or other causes
Conservation	<p>An area in which at least 50 percent of the structures are at least 35 years old. Such an area is not yet a blighted area but is detrimental to the public health, safety, morals, or welfare and may become a blighted area because of any one or more of the following factors:</p> <ul style="list-style-type: none"> • Dilapidation, obsolescence, or deterioration • Illegal use of individual structures • The presence of structures below minimum code standards • Abandonment, excessive vacancies, or overcrowding of structures and community facilities • Lack of ventilation, light or sanitary facilities • Inadequate utilities • Excessive land coverage • Deleterious land use or layout • Depreciation of physical maintenance • Lack of community planning
Economic development	<p>An area that is neither blighted nor a conservation area, but where the City Council finds that redevelopment is in the public interest because it will:</p> <ul style="list-style-type: none"> • Discourage commerce, industry, or manufacturing from moving to another state • Result in increased employment • Preserve or enhance the municipal tax base

Source: RSMo § 99.805.

State courts have interpreted the statutory definition broadly. The Missouri Court of Appeals has, for example, held that economic under-utilization may be considered blight. Vacant land has been declared blighted. In blight and conservation areas, TIF can be used to fund a wide range of redevelopment expenses. In economic development areas, however, TIF can only be used to fund certain infrastructure projects.

TIF Can Reimburse a Wide Range of Costs

State statute allows TIF to be used to reimburse a wide range of costs related to redevelopment. By statute, redevelopment project costs:

Include the sum total of all reasonable or necessary costs incurred or estimated to be incurred, and any such costs incidental to a redevelopment plan or redevelopment project.⁵

These costs include, but are not limited to, legal fees, professional services, property assembly costs, financing costs, and construction costs.⁶ When revenues are available, the first costs that are paid are the TIF Commission's direct and incidental administrative costs. Developer and project costs are paid secondly.

In Kansas City, redevelopment costs and incidental costs have been applied broadly by the TIF Commission. For example, the costs of a penalty for terminating a lease on downtown office space were included in redevelopment costs for one plan. A developer moved from a downtown building to a new building within a TIF plan. Penalties for terminating the existing lease were declared necessary and incidental costs of redeveloping the TIF area. In another example, legal expenses incurred in a court case directly related to the 10th and Troost TIF plan were declared incidental costs of another plan.

⁵ RSMo § 99.805.

⁶ The statute was recently amended such that certain professional service costs incurred by the developer are only allowed as initial expenses that must be included in the costs of the plan or project.

“What is reimbursable – is anything not reimbursable?”

At a 1996 strategic planning session, the TIF Commission raised the question, “what is reimbursable – is anything not reimbursable?” The TIF Commission has applied the statutory definition of redevelopment costs broadly. For example, PILOTs generated by one plan have reimbursed legal costs related to another plan.

In February 1992, the TIF Commission approved using PILOTs from the West 46th Terrace TIF plan to reimburse a private law firm for costs incurred in a court case involving the 10th and Troost TIF plan. Staff described the costs related to the 10th and Troost TIF plan:

This was a necessary and critical expense for the TIF Commission to incur, and is a reasonable cost incidental to the West 46th Street Terrace project.

The legal expenses were related to a case that was decided by the Missouri State Supreme Court. In that case, the constitutionality of TIF was being challenged; the specific case was related to the 10th and Troost TIF plan.

Although the legal expenses appear to be related to a specific plan, 10th and Troost, the TIF Commission declared the expenses as incidental costs of another plan. The 10th and Troost plan has generated only about \$6,000 in PILOTs through 1997. However, the West 46th Terrace plan generated about \$1.2 million.

PILOTs generated by the West 46th Terrace plan were used to reimburse \$29,000 of legal services costs incurred in the 10th and Troost court case.

Council Must Find That Development Would Not Occur Without TIF

TIF may not be used when the property would be developed without public assistance. In order to use TIF, the City Council must make the so-called “but for” finding. The finding required by statute is that the area “would not reasonably be anticipated to be developed without the adoption of the redevelopment plan.”⁷ The “but for” finding is one of the findings that the City Council makes when it approves a TIF plan.

The TIF Commission has interpreted the statute as requiring the commission to consider whether the developer’s specific proposal is economically feasible without a public subsidy. The TIF Commission

⁷ RSMo § 99.810.

generally requires developers to present pro forma analyses that show the anticipated return on investment with and without the use of the public incentive. This analysis focuses on the specific proposal rather than the general development potential of the area.

TIF Use in Kansas City

In Kansas City, TIF has been used most frequently in areas that have been declared blighted. Of the 25 TIF plans we reviewed, 15 were for areas declared blighted, 7 for areas declared conservation areas, and 3 for areas declared economic development areas.

Developers requesting that an area be declared blighted must support their request by describing specific conditions listed in the state statute. The TIF Commission may require a professional study of blight.

A finding of blight is a decision made by the City Council. The TIF Commission's memo to prospective developers on evidence relating to blight notes:

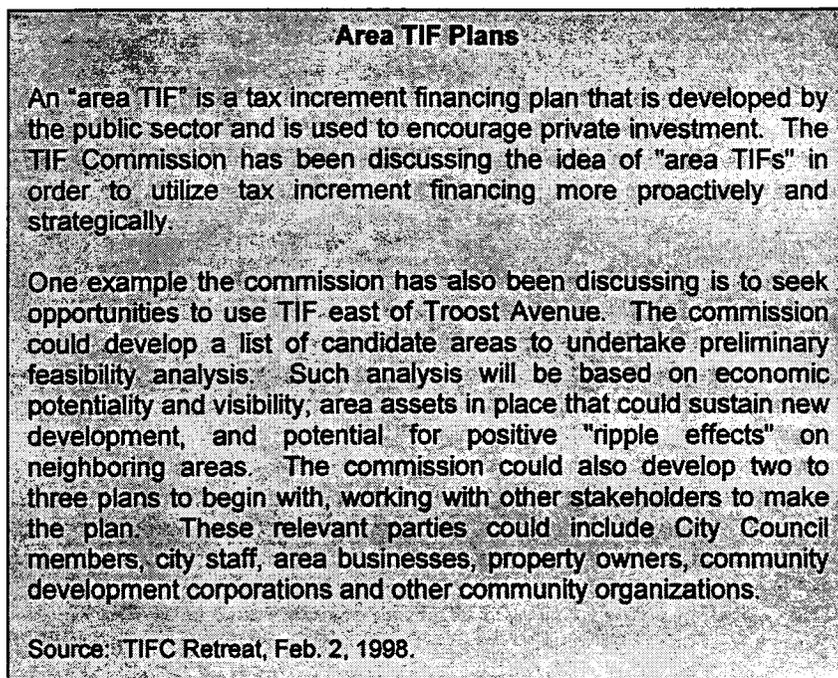
Evidence sufficient to [serve as the basis for the finding that blight exists] must be of a kind that, if credible, would support the conclusion reached by the [TIF] commission. If reasonable minds could differ, the decision will generally not be overturned by a court.⁸

In Kansas City, the use of TIF has been driven by private developers rather than by explicit public strategies and policies. The city has not developed explicit strategies and policies, although the FOCUS plan may provide the background for such a policy. City staff, EDC staff and others we interviewed described the use of TIF in Kansas City as being initiated by developers.

The TIF Commission has expressed a desire to use TIF proactively rather than in reaction to proposals initiated by developers. At a 1996 strategic planning meeting, the TIF Commission identified becoming proactive as a future goal. Members of the TIF Commission cite a shortage of staff as preventing a more proactive use of TIF. This would involve identifying areas that need development and defining the types of projects that are needed.

⁸ *Guidelines for Presentation of Evidence Relating to Blight and the "But For" Test*, Tax Increment Financing Commission of Kansas City, September 1995.

The model process that we describe in Chapter 5 will allow city policies to drive the use of TIF without eliminating the opportunity for developers to initiate redevelopment proposals.



Roles and Responsibilities

A city wishing to use tax increment financing must first establish a TIF commission. The Kansas City City Council established the TIF Commission in 1982.⁹ The commission consists of six members appointed by the mayor. In addition, for each particular plan, two members are appointed by the affected school district and one member is appointed to represent all other taxing jurisdictions affected by the plan.¹⁰

The city enters into an annual agreement with the Economic Development Corporation (EDC), a non-municipal agency funded by the city. Under the agreement, the EDC is required to provide staff and administrative functions for the TIF Commission. The agreement also states that the duties of the EDC and city departments relating to the authority of the TIF Commission are "ministerial" only, meaning that the activities involve "performance in obedience to the mandate of legal authority without

⁹ Ordinance 54556.

¹⁰The composition of the TIF Commission changed under the new statute. The commission is composed of six members appointed by the mayor with the consent of the council, two members appointed by the county, two members appointed by the school district, and one member appointed by other taxing jurisdictions.

regard to or the exercise of judgment upon the propriety of the act.”¹¹ Developers, city staff, the TIF Commission, and the City Council all play a role in the process of developing and implementing TIF plans and projects. The following describes the responsibilities and relationships of the principal players in the process. Our discussion is based on the statute in effect prior to the most recent changes. The statutory changes do not affect any of the conclusions or recommendations in this report.

City Council

The City Council creates the TIF commission, designates redevelopment areas, and approves redevelopment plans and projects. In designating a redevelopment area, the council must find:

- The area on the whole is a blighted area, a conservation area, or an economic development 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 the redevelopment plan.
- The plan conforms to the city's comprehensive plan.
- The estimated dates by which a redevelopment project will be completed and any obligations retired are not more than 23 years from the adoption of the ordinance approving the project, and no property will be acquired through eminent domain more than five years after the approval of a project.
- A plan has been developed for relocation assistance for businesses and residences.

The City Council also approves the City Planning and Development Department's annual agreement with the EDC and the TIF Commission.

TIF Commission

The TIF Commission reviews proposed plans and projects for recommendation to the City Council. The commission enters into agreements with developers to implement redevelopment plans, monitors progress on approved plans and projects, and reimburses developers with TIF revenues.

The state statute gives the TIF Commission a number of powers, subject to council approval. The commission may enter into contracts, purchase or lease property, acquire property through eminent domain, construct buildings and infrastructure, and issue obligations.

¹¹ *Black's Law Dictionary*, 5th ed. (St. Paul, Minnesota: West Publishing Company, 1979), p. 899.

The TIF Commission does not have its own staff. Instead, the EDC provides staff support through an annual agreement with the city.

Economic Development Corporation

The Economic Development Corporation (EDC) is a non-municipal agency funded by the city. The City Planning and Development Department enters into an annual agreement with the EDC and TIF Commission that requires the EDC to provide staff and administrative support to the commission. The agreement calls for the EDC to:

- Conduct studies to determine the appropriateness and feasibility of TIF plans or projects.
- Conduct studies to identify areas that meet the statutory definition of blight, conservation area, or economic development area.
- Prepare plans to correct conditions of blight, conservation areas, or economic development areas.
- Assist developers prepare plans for presentation to the TIF Commission.
- Provide the TIF Commission with office support space and functions.
- Monitor the progress of all approved plans and projects.
- Determine reimbursable development costs and the appropriate distribution of the special allocation fund.

Expenses of the EDC are billed to the TIF Commission. Expenses directly attributable to particular plans and projects are billed to the developer and reimbursed with TIF revenues. In addition, an amount not to exceed five percent of PILOTs and EATs is available to reimburse the TIF Commission for expenses incidental to TIF plans and projects.

City Planning and Development Department

The City Planning and Development Department enters into the annual agreement with the EDC and TIF Commission. The department is responsible for monitoring the contract.

Department staff are also involved when TIF projects require re-zoning and when public improvements are made. The department also reviews all TIF plans to determine whether they conform to the city's comprehensive plan.

Human Relations Department

The TIF Commission contracts with the Human Relations Department to monitor participation in TIF projects by minority business and women business enterprises. The Human Relations Department reports to the TIF Commission monthly.

Finance Department

The Finance Department's Financial Analysis Division reviews draft proposals for TIF plans to determine whether a need for city financing is anticipated. Division staff prepare comments for City Council on the proposals that appear to need city financing.

Upon approval, the Treasury Division adds the new properties to a database of properties included in TIF areas. The database is used to generate PILOT billings sent to appropriate property owners. The division maintains separate accounts on each TIF plan in the special allocation fund into which PILOT and EATs payments are deposited. The division processes PILOTs and EATs payments for transfer to the TIF Commission or bond trustees. Prior to payment, the Revenue Division verifies receipt of city-collected taxes and comments on the reasonableness of the taxes collected by other jurisdictions.

The Treasury Division also maintains Super TIF funds in separate funds. These are debt service funds used to make payments directly to bond trustees.

Developers

Developers approach the TIF Commission with a proposal, work with EDC staff to develop the proposal, and complete approved projects. Developers are required to enter into a contract with the TIF Commission to pay the costs related to developing a TIF proposal. The developer can be reimbursed for at least some of the costs of development out of the PILOTs and EATs payments.

Chapter 3: TIF Revenue Analysis

Summary

PILOTs and EATs revenues generated by projects within TIF plans are substantially below projections. We compared revenues with projections that were made when the plans were approved. City Council Resolution 970685 directed the City Auditor's Office to study the actual performance of TIF projects compared to the projected performance. We found that actual revenues were substantially below the projections for 24 TIF plans approved prior to December 1996.¹² Through the end of 1997, only 4 of the 24 plans we reviewed generated more than 50 percent of the revenue projected in the plan approved by the City Council.

Comparing actual and projected revenues is important for several reasons. The revenue performance of a plan is an indicator of how well the redevelopment is achieving the public goals of reducing or eliminating adverse conditions and enhancing the tax base. Such comparisons can act as performance measures to help ensure accountability and the achievement of public goals. The TIF Commission and the City Council use revenue projections when they consider whether to grant incentives. It is important that these decision-makers have accurate information upon which to base their decisions.

The analysis of revenues may indicate other performance problems with TIF plans. The revenue analysis indicates that enhancements of the tax base may not be occurring as anticipated. Redevelopment work may be being delayed.

We planned to conduct further analysis of TIF plans by identifying the specific objectives of TIF plans and determining whether they had been met. However, after identifying the specific objectives included in TIF plan documents, we concluded that they were not appropriate measures of plan performance. The specific objectives are often not readily quantifiable, do not adequately describe the unique aspects of each plan, and may not address important apparent goals of the TIF program. We recommend the executive director of the TIF Commission develop performance measures for each TIF plan.

¹² We compiled information on 25 plans. However, the plan for West 46th Terrace did not include revenue projections so it is not included in our discussion. The plan was terminated in 1995 and generated total revenue of \$1.2 million.

Performance Audit: Tax Increment Financing

Through our audit work, we identified the performance of TIF plans and the effects of delays in redevelopment as issues that could be considered for further audit work.

The Government Finance Officers Association recommends comparisons of costs, benefits and projected goals. Although our analysis is not a complete comparison of costs and benefits, it is consistent with the GFOA recommended practices and is an analysis that should be provided to the TIF Commission, the City Council and the public on an annual basis.

Total Revenues Are Below Projections

TIF revenues have been a fraction of projected revenues. For all of the plans we reviewed, actual revenue was only 24 percent of projected revenue. Only four of 24 plans have had revenues of more than 50 percent of projections.

TIF proposals considered for approval by the TIF Commission and the City Council include a projection of the annual PILOTs and EATs. The projections are the revenue that was expected to be available to pay redevelopment costs. These projections, which are prepared by the developer with assistance of EDC staff, form part of the proposal document.

The city and the counties make payments of PILOTs and EATs to the TIF Commission. We compared these payments generated by each plan through December 31, 1997, to the revenue projected for each plan through 1997. We found projected revenue for the period totaled \$52.2 million while actual revenue totaled \$12.4 million (24% of the projection). (See Exhibit 2.) For a detailed comparison of annual revenue projections and actual revenue for all of the plans we reviewed, see Appendix A.

Exhibit 2. Projected Revenue Compared to Actual Revenue

TIF Plan Name	Revenue		Actual as % of Projected	Council Approval Date
	Projected	Actual		
13 th & Washington	\$ 106,000	\$ 0	0.0%	09/19/96
New York Life	1,161,000	0	0.0%	11/21/94
Tower Properties	4,440,566	0	0.0%	11/27/95
Uptown Theater	593,000	218	0.0%	06/16/94
Midtown (STIF)	6,629,000	127,531	1.9%	04/01/93
10 th & Troost	147,500	6,153	4.2%	01/30/87
Santa Fe	7,298,000	357,207	4.9%	05/19/94
Barry Towne	852,000	61,656	7.2%	06/06/96
Linwood Gillham	224,416	19,252	8.6%	11/17/88
Hickman Mill	11,734,793	1,136,099	9.7%	12/03/92
Searcy Creek	253,000	25,157	9.9%	03/11/93
Civic Mall	220,000	23,632	10.7%	12/08/94
Gateway 2000	864,000	186,541	21.6%	10/12/95
Summit	209,843	49,217	23.5%	08/31/95
Southtown Corridor	1,975,358	488,003	24.7%	05/19/94
Americana (STIF)	870,000	261,092	30.0%	01/28/93
43rd & Main	881,000	379,363	43.1%	03/24/94
Winchester Center	2,041,964	890,957	43.6%	12/19/91
Briarcliff West	1,059,272	470,104	44.4%	05/02/90
Walnut Creek	2,717,197	1,337,673	49.2%	11/23/88
Shoal Creek Parkway	1,852,000	983,456	53.1%	11/10/94
11 th Corridor	3,777,001	2,488,195	65.9%	12/03/92
Universal	1,566,840	1,240,356	79.2%	04/18/91
12 th & Wyandotte (STIF)	742,000	1,839,394	247.9%	12/10/92
TOTAL	\$52,215,750	\$12,371,256	23.7%	

Sources: City Finance Department and the TIF Commission.

Only one plan, 12th and Wyandotte, has generated more revenue than projected. Through the end of 1997, projected revenue was \$742,000 while actual revenue was \$1.8 million. Although actual revenue is ahead of projections, the projections were made under the assumption that the plan would be a normal TIF. In fact, the plan was designated a "Super TIF," thus increasing the amount of revenue that would be available to reimburse costs.

Timing Problems May Account for Part of the Discrepancy

We identified several conditions relating to timing that may have contributed to the gap between projected and actual revenue. In some cases revenue was projected for periods prior to approval of the plans. There have been delays in generating revenues. Such delays could occur if construction did not begin as anticipated. Processing reimbursements may take longer than anticipated when the plans were made. If these

conditions were not accounted for when the projections were made, the actual revenues would be lower than projected revenues.

Revenue projections for periods prior to council approval. Almost half the plans we reviewed projected revenue for the year that the plans were approved by the City Council or the year before approval. For example, although the Barry Towne plan was not approved by the City Council until June 1996, the plan shows that \$41,000 of revenue was anticipated in 1995. TIF revenues are only available after the adoption of the redevelopment plan by the City Council. So, revenue for periods of time before City Council approval are not available to finance redevelopment.

When we adjusted the projections to reflect the actual date of council approval of these plans, we found that revenues were still substantially below projections. After adjusting for the date of council approval of the plans, total actual revenues are only 30 percent of projected revenues.

Delays in generating revenue. Although many plans projected immediate revenue, we found delays in revenue actually being available. This could occur if the planned redevelopment work was delayed for any reason. For example, although the 11th Street Corridor plan projected revenue of \$670,000 in 1993 and \$744,000 in 1994, revenue was not available until 1995.¹³ Delays could also occur if construction did not begin as anticipated. EDC staff told us that it is not unusual for work to be delayed and for completion of the work to take longer than anticipated.

We have identified three major concerns about delays in redevelopment. First, in certain cases delays in redevelopment could increase the city's risk. For example, if TIF revenues are backing bonds, delays in redevelopment could require subsidies from the general fund. Second, delays in redevelopment may result in adverse conditions – such as blight – remaining longer than anticipated or necessary. Finally, delays in redevelopment result in the future tax revenue stream being delayed. Because of the time value of money, delays decrease the value of the revenue stream.

Processing reimbursement delays. Another possible reason for the discrepancy between actual and projected revenues is that processing reimbursements may take more time than was anticipated. It takes at least eight months to process the reimbursements after the revenue has been generated.

¹³ Despite generating no revenue in its first two years, the 11th Street Corridor plan has generated revenue totaling \$2.5 million, or 66 percent of the original projection.

The process for making EATs payments from the city to the TIF Commission involves several steps. Completing all of the steps can be time consuming. The developer must submit documentation to the TIF Commission of the EATs taxes related to the redevelopment area. The documents are then provided to the city for review and compilation by the treasury division of the Finance Department. When treasury division staff have completed the compilation, staff in the revenue division of the Finance Department review the work. The review includes verifying, to the extent possible, payments using the city's automated revenue system. After review by the revenue division and the commissioner of revenue, the treasury division issues a check to the TIF Commission.

Projections Systematically Overstate Revenue

Another reason actual revenue lags behind the original projections is that the projections systematically overstated revenue. We identified only one plan, the 12th and Wyandotte Super TIF, that was performing ahead of projections. When we looked at all plans, there was a clear tendency to overstate projections. Projections are part of the proposals made by developers who have an interest in securing public incentives. It may be easier for proposals to be approved when revenue projections are inflated.

The fact that revenue projections are systematically and substantially overstated suggests that the City Council and the TIF Commission have been making decisions with inaccurate information. Financial projections included in TIF proposals provide the City Council and the TIF Commission with important information for making decisions about the appropriateness and feasibility of TIF. It is in the interest of these decision-makers that the quality of the projections be improved.

We believe that comparisons between revenues and projections should be annually reported to the TIF Commission and the City Council. For existing plans, projections should be revised and both the revised and original projections should be reported.

Poor Revenue Performance May Indicate Other Problems

Our comparison of projected and actual PILOTs and EATs revenue suggests that there may be problems with the performance of TIF plans. The projections are of funds that will be available to help pay the costs of redevelopment. If these funds are necessary to make the redevelopment feasible, poor revenue performance may indicate other performance problems.

Poor revenue performance is a direct indicator that the tax base is not being enhanced as anticipated. A general goal of tax increment financing is to enhance the tax base. TIF revenues are based on economic activity taxes and assessed property values. To the extent that revenues lag behind projections, enhancements of the tax base have not occurred as anticipated.

Poor revenue performance may indicate that other goals of the plans are not being achieved or that the anticipated schedule is not being met. This is of particular concern if important public goals, such as eliminating blight are not being addressed as quickly or completely as anticipated.

Analysis of Specific Objectives Insufficient to Assess Performance

We planned to identify the specific objectives of TIF plans and determine whether they had been met.¹⁴ After reviewing the specific objectives, we found that assessing performance in terms of those objectives would be difficult. The specific objectives included in the plans are not appropriate as indicators of plan performance because many are not readily quantifiable, they do not adequately describe the unique aspects of each plan, and the measures may not address important apparent goals of the TIF program.

Most of the objectives listed in the plans are not readily quantifiable. For example, nearly every plan includes objectives of enhancing the tax base and promoting health, safety, order, convenience, prosperity and the general welfare. Although the TIF Commission could develop measures for these types of objectives, the plans do not include such measures.

The majority of specific objectives are repeated in nearly every plan. These “canned” objectives can not adequately describe the particular goals of a given TIF plan. Over half of the 228 specific objectives included in TIF plans consist of eight objectives that are repeated in different plans. These repeated objectives result in very different TIF plans having very similar specific objectives. For example, the specific objectives of the Tower Properties plan and the Barry Towne plan are nearly identical although the two plans address very different situations. Barry Towne is an “economic development” area at the intersection of a highway and a major street in the north part of the city while Tower Properties is a “blighted” area downtown.

¹⁴ A part of each TIF plan is a statement of the specific objectives of the plan. The specific objectives are included in the plans that are considered for approval by the TIF Commission and the City Council.

Important apparent goals of the TIF program are not included in the specific objectives. For example, although TIF has been characterized as an economic development incentive, none of the 21 plans we reviewed included plan-specific employment growth or retention as a specific objective.¹⁵

We believe that performance measures that relate to the public goals of each TIF plan should be developed and reported on an annual basis to the TIF Commission and City Council. The major public goals of each plan should be clearly described in the specific objectives. The specific objectives and measures of those objectives should be established when the plans are developed and considered for approval.

¹⁵ However, 18 of the 21 plans we reviewed included a specific objective “to stimulate construction employment opportunities and increased demand for secondary and support services for the surrounding area.”

Apparent Goals Not Included as Plan Objectives

The Gateway 2000 TIF plan involves the rehabilitation and conversion of a former food distribution facility and construction of new office space and parking. The redevelopment is of a blighted area north of Kemper Arena.

An apparent goal of the plan was to attract a specific business to Kansas City. That business was expected to employ a substantial number of people. EDC staff described the purpose of the plan as bringing employment to the city. The City Council encouraged the use of real estate development incentives to induce the Gateway 2000 firm to locate in the city.

The "specific objectives" of the Gateway 2000 TIF plan include a description of the private construction that was anticipated and seven general objectives that are repeated in most TIF plans. Aside from stimulating construction employment, there are no objectives that address attracting employment. The objectives are:

1. To cure the blighted conditions identified in the existing conditions study, by inter alia, the rehabilitation and conversion of the 140,005 square foot former A. Reich and Sons Food Distribution facility building into office space and the construction of a new 2-story 60,000 square foot office building and 1,077 parking spaces (Phase I); the construction of a 2 to 3-story office building of 100,000 to 200,000 square feet with associated parking spaces (Phase II); and the construction of a 2 to 3 story office building of 100,000 to 200,000 square feet with associated parking (Phase III). The total parking to be built will be 1,700 to 2,500 spaces.
2. To install, repair, construct, reconstruct and relocate streets, utilities, sidewalk improvements, essential to the preparation of the Redevelopment Area.
3. To upgrade and refurbish utilities, and other infrastructure facilities serving the Redevelopment Area.
4. To vacate any existing public rights-of-way inconsistent with the Plan and to make them a part of the Redevelopment Area.
5. To enhance the tax base by inducing development of the Redevelopment Area to its highest and best use, benefit taxing districts and encourage private investment in the surrounding areas.
6. To promote the health, safety, order, convenience, prosperity and the general welfare, as well as efficiency and economy in the process of development.
7. To provide development/business opportunities in the Redevelopment Area and surrounding areas.
8. To stimulate construction employment opportunities and increased demand for secondary and support services for the surrounding area.

Source: *Gateway 2000 Tax Increment Financing Plan*, approved by the TIF Commission of Kansas City, Missouri, September 20, 1995.

Performance Measures Would Help Assess Performance

We recommend that the executive director of the TIF Commission develop performance measures for each TIF plan. The performance measures should allow an evaluation of the extent to which plans have addressed public goals. Good performance measurement systems are based on a number of different types of indicators, including measures of inputs, outputs and outcomes.

To illustrate the concept of performance measures, we have developed examples of measures for a hypothetical TIF plan. Our examples are not intended to provide an exhaustive list of measures, but to provide examples of the types of information that should be collected and reported.

Input indicators address the level and type of resources used. Examples of input indicators include:

- TIF revenues available to reimburse redevelopment costs.
- TIF revenues as a percent of redevelopment costs.
- Expenditures for monitoring the developers' compliance with the development agreement.

Output indicators provide information on the quantity of services or products provided. Output indicators could include:

- Value and type of construction.
- Value of construction as a percent of anticipated value of construction.
- TIF revenues as a percent of projected revenues.

Outcome indicators provide information on the results of operations of government programs. Outcome indicators could include:

- Number of persons employed by businesses within the plan area.
- Number of persons employed as a percent of projected employment.
- Change in police responses and reported crime.

For development and redevelopment programs, outcome measures are particularly difficult to develop for two reasons. First, it is difficult to determine the extent to which the incentive caused the development. Second, it is difficult to quantify the economic activities that occur within an area that would have occurred at another location (this is often referred to as "substitution effects").

Because outcome measures are difficult to develop, it is useful to include explanatory information when measures are reported. Explanatory indicators provide additional information that may affect a program's performance. For example, important explanatory indicators for a TIF plan might include general information about the community condition, such as community-wide employment growth and crime rates.

We believe that increased reporting on input, output, outcome and explanatory indicators will provide the City Council and the TIF Commission with important information to assess the impact of current and future TIF plans.

Issue for Further Audit Work

During our audit work, we identified the performance of TIF plans and the effects of delays in redevelopment as issues that could be considered for further audit work. These issues are not directly related to the objectives of this audit. The City Auditor's Office will consider these issues in planning for future audit work.

Plan Performance

Further audit work may be appropriate to provide detailed assessments of the performance of TIF plans in Kansas City. We found that revenues were substantially below projections and concluded that this may indicate other performance problems. We planned to address performance through analysis of the specific objectives of TIF plans, but we concluded that the specific objectives were not appropriate indicators of plan performance. Additional audit work would be necessary to further address the performance of TIF plans and projects.

There are several other reasons that further work to address performance may be appropriate. Inadequate staffing has limited the TIF Commission's ability to monitor performance (see pages 29-32). For example, the executive director of the TIF Commission reported to the commission that staffing inadequacies had prevented staff from developing an on-going database to measure performance and allow meaningful policy analysis. The TIF Commission and EDC staff have prepared analyses comparing actual and projected assessed value for a limited number of plans and projects. However, the analyses have only looked at projects that have been completed. Looking only at completed projects limits the scope of such analyses and does not address the performance of projects and plans where redevelopment work has not begun or has not been completed.

Further audit work on assessing the performance of TIF plans could include developing performance measures and performance goals, then assessing the achievement of those goals. Developing performance measures and performance goals would include detailed review of plan documents and TIF Commission meeting minutes, analysis of studies that support findings of blight, and analysis of development agreements and development plans. Because of the size and nature of the city's TIF program, we would anticipate that the scope of further audit work on plan performance would need to be limited to a small number of plans and projects or to a narrow measure of performance.

Measuring the Effects of Delays

Further audit work may also be appropriate to measure the effects of delays in generating TIF revenues. Our audit work found that revenues were substantially below projections. This may be due to delays in redevelopment. For example, construction may not have begun as anticipated or may be delayed. We have not attempted to measure the effects of such delays.

We identified three significant potential effects of delays in redevelopment. These are: increased risk borne by the city, adverse conditions remaining longer than necessary or anticipated, and reduced value of future tax revenue streams. Further audit work would be necessary to begin to measure these effects.

Further audit work to address the effects of delays would include measuring the financial and performance costs of delays. The work would include calculating the value of the future revenue stream under various scenarios. In addition, work would involve identifying, and quantifying to the extent possible, non-financial costs such as blight.

Chapter 4: Financial and Management Control Issues

Summary

In the process of conducting field work, we identified a number of financial and management control issues concerning the way TIF is administered. Some of these issues relate to the relationship between the TIF Commission and the EDC, which serves as the commission staff. The annual agreement between the city, the commission, and the EDC assigns conflicting responsibilities. EDC staff are responsible for assisting developers with proposals and determining the feasibility of those proposals. These responsibilities decrease the staff's ability to evaluate the developer's work objectively. Staff are also responsible for monitoring the work. Up to five percent of PILOTs and EATs are made available to reimburse the EDC for expenses that are incidental to the redevelopment of TIF plans. This poses a conflict, since it is in the organization's financial interest for proposals to be approved.

The commission is not adequately staffed. Staff have identified numerous planning and financial management responsibilities that are not being done or are not being done adequately. EDC planning staff are expected to perform financial management functions, many of which they report they do not perform. Staff trained as planners may not be the best qualified to perform financial management functions. There are several other areas where controls should be strengthened. One employee is responsible for performing several accounting functions for the TIF Commission. This results in a lack of segregation of duties and poses the risk that a financial loss or irregularity could go undetected. We also saw indications that oversight over the contracting process should be improved. The commission has no written contracting procedures. We noted a number of irregularities in how contracts were awarded, and unauthorized personnel signed some contracts. Monitoring of contractors has not been adequate.

The TIF Commission, assisted by EDC staff, handles public funds related to the TIF program on behalf of the city. The city has a responsibility to see that the stewardship of these funds is conducted prudently and in accordance with good contracting practices.

EDC Has Been Assigned Conflicting Responsibilities

The annual agreement between the city and the EDC and TIF Commission assigns incompatible duties to staff who work with the TIF Commission. The agreement defines the structural relationships between the city, EDC and the TIF Commission. Under the agreement, EDC staff is responsible for helping to develop proposals, assessing the feasibility and appropriateness of such proposals, and monitoring progress on approved plans and projects. Staff that are involved in the development of TIF plans can not be objective in evaluating or monitoring work done to implement those plans.

Under the terms of the agreement, the EDC agrees to provide the following services for the TIF Commission.¹⁶

- Undertake and conduct such studies, analysis and review of proposed redevelopment plans and projects as may be required from time to time to determine the appropriateness and feasibility of such plans or projects;
- Undertake and conduct such necessary studies, plans, surveys and analysis to identify areas which meet the statutory definition of blight, conservation or redevelopment areas and to prepare plans to correct such conditions;
- Assist prospective developers in formulating plans for presentation to TIFC;
- Prepare practices, procedures and contracts for TIFC approval to assist in the orderly transaction of TIFC affairs;
- Provide TIFC with the necessary office support space and functions, including official record keeping as is necessary to carry out the duties of TIFC; and
- Supervise and monitor the progress of all approved plans and projects throughout the life of the plan or project, including the determination of reimbursable redevelopment costs and appropriate distribution of the Special Allocation Fund.

A number of the EDC responsibilities listed in the city contract pose a conflict. Staff help developers prepare proposals and subsequently assess the feasibility and appropriateness of those proposals. Once a proposal is approved, the staff monitors the developer's progress and

¹⁶ Ordinance 970676. *Cooperative Agreement, City of Kansas City, Missouri and Economic Development Corporation, Land Clearance for Redevelopment Authority of Kansas City, Port Authority of Kansas City, Tax Increment Financing Commission of Kansas City, June 1, 1997 to May 31, 1998, Exhibit C.*

compliance.¹⁷ Staff cannot objectively evaluate proposals or monitor progress in implementing approved plans and projects that they were involved in developing.

Method of funding adds to the conflict. The potential for such conflicts is increased because a portion of TIF Commission funding is based on a percent of the public incentives that are approved. As established in the annual agreement with the city, a portion of the funding for the TIF Commission comes from the PILOTs and EATs related to TIF plans. EDC expenses may be recovered from these TIF Commission funds. The connection between funding and responsibilities for both developing and assessing proposals acts as an incentive to encourage the use of TIF in places where development could occur without public assistance.

Controls have not been established to minimize actual and potential conflicts. Such controls could include segregating incompatible responsibilities within the EDC. For example, staff responsible for assisting developers prepare proposals could be prohibited from assisting the commission in considering the feasibility and appropriateness of the proposals. Similarly, staff responsible for monitoring progress and compliance could be prohibited from participating in preparing or evaluating proposals. Controls could also be established by assigning some responsibilities to different organizations. We describe a model process in Chapter 5 that would ensure that incompatible responsibilities are segregated among organizations.

We did not attempt to determine whether the conflicting responsibilities and the funding mechanism have affected actions by EDC staff or the TIF Commission.

Staff Size and Makeup Are Inadequate

Staff support to the TIF Commission is inadequate. As a consequence, a number of planning and financial management responsibilities have not been done or have been done inadequately.

Employees of the EDC provide staff support for the TIF Commission. The annual agreement with the City Planning and Development Department requires the EDC to provide administrative and staff support to the TIF Commission. According to the agreement, the “EDC also

¹⁷ MBE/WBE utilization monitoring is an exception. Monitoring is provided through a contract between the TIF Commission and the city Human Relations Department. The monitoring staff has no role in developing or assessing the feasibility of proposals.

agrees to maintain a fully qualified staff for the TIF Commission of a size necessary to enable the commission to carry out its statutory responsibilities as well as responsibilities delegated to the city.”¹⁸ We found that the number of EDC staff devoted to staffing the TIF Commission is too low, and the staff may not possess appropriate qualifications for the activities to be performed.

At the end of 1997, about 4.5 FTE positions at the EDC were devoted to staffing the TIF Commission. The EDC’s director of planning and redevelopment, who serves as the executive director of the TIF Commission, devotes about 75 percent of his time to staffing the commission. One full-time EDC planner and a full-time administrative assistant each work for TIF, while another planner and an accountant devote the majority of their time to the commission. A private firm provides legal counsel. City staff, under a contract with the TIF Commission, provide affirmative action monitoring.

EDC staff has asked for staffing help. The EDC staff has reported in the past that the level of staff devoted to TIF was inadequate. For example, EDC staff asked the commission at a meeting in January 1993 to hire outside auditors to help with financial management duties. The TIF Commission took no action on that request.

More recently, senior EDC staff informed us that the staff is too small to do everything that should be done. Staff have reported to the TIF Commission that a number of financial administration responsibilities were not being performed. (See Exhibit 3.) The EDC director of planning and redevelopment who serves as the TIF Commission executive director informed the commission of this problem in a document in which he noted that the performance of 40 percent of TIF Commission financial administration responsibilities was “incomplete,” and performance was “none/slight” for 30 percent. Similar performance problems were identified for planning staff responsibilities.

Annual reports for the periods since December 31, 1995, were not prepared in a timely manner, in part because of a lack of staff. State statute requires the City Council or its designee to report to the state annually on its use of TIF. The latest annual report was submitted to the state in January 1998. That report covered the period of June 1, 1996 through May 31, 1997. A report covering the period of January 1, 1996 through May 31, 1996, has not been prepared. Timely reporting is important to help ensure that the state, the TIF Commission and the City Council have information on the TIF program.

¹⁸ *Cooperative Agreement, City of Kansas City, Missouri and Economic Development Corporation, Land Clearance for Redevelopment Authority of Kansas City, Port Authority of Kansas City, Tax Increment Financing Commission of Kansas City, June 1, 1997 to May 31, 1998, Exhibit C.*

Exhibit 3. Examples of Responsibilities Without Adequate Performance

Identified Financial Management Responsibility	Current Performance
Assure actual receipt of PILOTS and EATS into the special allocation fund; develop tracking system to document same	Incomplete
Coordinate with redeveloper and taxing jurisdictions to document base year economic activity taxes (EATS)	
Monitor monthly reports from city regarding TIF revenue receipts	
Provide performance measure components of mandated Annual Reports and 5-Year Plan Reports	
Oversee work of consultant CPAs hired to verify TIF-reimbursable project costs as submitted by redevelopers	None/Slight
Develop on-going plan/project performance database to allow meaningful policy analysis of results vs. expectations, with regard to the following measures:	
<ul style="list-style-type: none"> • Total private investment • TIF program revenue and expenditures • Fiscal impact upon taxing jurisdictions • Job creation/retention • Affirmative action impacts 	

Source: Tax Increment Financing Commission, December 1997.

Staff may not be qualified to address financial management. In addition to the inadequate staffing level, the skills and background of the current EDC staff serving the TIF Commission may not be appropriate. Many of the staff are planners. These planners have been charged with performing financial management responsibilities related to TIF. Planning staff may not have appropriate training and qualifications to perform financial management responsibilities. Planner positions generally require qualifications in areas such as urban planning or architecture. Financial manager qualifications emphasize training and experience in areas such as economics, finance, business, and public administration.

The EDC staff has reported that work to be done was beyond the capability of the current staff. In January 1993, staff reported to the TIF Commission that "the administrative responsibility to effectively carry

out the audit function [to review the fiscal activities of TIF projects] was well beyond the capability of the staff.”¹⁹

More recently, in July 1997 the executive director of the TIF Commission wrote:

Due to the success and rapid growth of the TIF program, many of the [TIF Commission’s financial management responsibilities]...are not being done, or are not being done adequately. Moreover, dedicating the majority of a Planner’s time to financial management makes difficult the level of due diligence in the planning/project evaluation of proposed TIF projects²⁰

Turnover has exacerbated the problem. Accounting staff have been unable to address certain responsibilities because of staff turnover. Staff have informed the TIF Commission that monthly financial reports would be deferred because of turnover and other priorities of the accounting staff. In addition, a project to collect historical data on TIF plans was repeatedly delayed due, in part, to staff turnover.

TIF Commission supports adding staff. The EDC director of planning and redevelopment, who acts as executive director of the TIF Commission, recently informed the TIF Commission that two new positions would be in the EDC’s overall budget for fiscal year 1999. The proposed positions include an additional planner and a financial manager. Adding these positions may allow the TIF Commission to address responsibilities that have been deferred. The commissioners concurred that these positions should be filled immediately.

Controls over Accounting Duties Should Be Strengthened

Duties related to cash receipts and disbursements have not been adequately segregated. We reviewed the cash receipts and disbursements narratives from June 1997. We found that the staff person responsible for receiving invoices and cash receipts is also able to determine whether approval of payments is required, sign checks, and prepare reconciliations. The same staff person is also responsible for preparing monthly bank reconciliations.

Proper control policies and procedures require that incompatible duties be segregated. Employees should not perform activities that would enable them to both commit and conceal irregularities. Reconciliations

¹⁹ Tax Increment Financing Commission of Kansas City, Missouri, *Minutes of Meeting January 15, 1993*.

²⁰ Discussion Agenda, TIF Commission Retreat, July 23, 1997.

should be prepared by employees who are not able to receive invoices, approve invoices, prepare supporting documents or sign checks. The current cash receipts and disbursements policies and procedures do not adequately protect the commission against the risk of loss. The procedures should be revised to ensure that incompatible duties are segregated.

Contracting Procedures Should Be Improved

We observed a number of problems relating to professional services contracts entered into by the TIF Commission. The commission enters into contracts for professional services such as survey, appraisal, bond counsel and negotiation. The commission does not have written procedures establishing basic requirements for awarding contracts. We saw cases in which the basis for selecting contractors appears problematic. We also saw problems with the contracts themselves: in two cases, the documents were signed by individuals without the authority to enter into contracts on behalf of the commission. In one case, the former executive director attested to his own signature.

TIF Commission Lacks Written Procedures

The TIF Commission has not developed written policies and procedures for contracting. Written procedures are important to ensure the commission's contracting practices are consistent, practices do not conflict with statutory requirements, appropriate documentation is maintained, and the benefits of competitive procurement are obtained.

The TIF Commission is subject to provisions of the state statute that describe contracting practices related to architectural, engineering, and land surveying.²¹ The statute requires agencies using these services to encourage firms to submit annual statements of qualifications and performance data. The statute requires an agency to evaluate current statements of qualifications and statements submitted by other firms regarding the proposed qualifications. The TIF Commission is not required to select the low bidder, but the statute spells out the criteria for evaluating qualifications of firms. The TIF Commission is required to list three highly qualified firms, then begin to negotiate a contract with the firm considered best qualified. Before negotiating a contract, the TIF Commission is required to prepare a written description of the scope of services.

²¹ RSMo § 8.285 to 8.291.

Contractor Selections Contained Irregularities

We noted irregularities in the selection of contractors for two professional services contracts that were awarded by the TIF Commission. We reviewed these two contracts after noting that the TIF Commission did not have written contracting procedures and that contracts were not awarded to low bidders. We did not conduct a systematic review of the contracting practices of the TIF Commission. However, our limited review identified a number of significant issues.

We reviewed the selection of a contractor for engineering services and noted a number of irregularities. There was only one week between the date the project was advertised and the date proposals were required. Staff created documentation supporting their recommendation after having recommended the selection of a specific contractor. The criteria used to evaluate proposals include specific items that appear to have been suggested by the contractor who was selected. These criteria were not included in the bid packets.

Irregularities in the Selection of an Engineering Contractor

In June 1993, the TIF Commission approved the selection of an engineering firm. We noted a number of irregularities related to this selection.

There was little time available for potential bidders to prepare proposals. Proposals were required to be submitted just a week after the bid packets were made available. A pre-bid conference was held just four days before the proposals were due. Good public procurement practices allow bidders more time to prepare proposals.

Staff recommended the selection of a specific contractor before having conducted a complete evaluation of the proposals. Three firms submitted proposals. The firms were Flint Hills Engineering, Holdren Construction Management, and Continental Consulting Engineers. Staff's initial review concluded that one proposal should be disregarded because it was "confused, does not instill confidence." Of the two remaining proposals, no specific recommendation was included in the initial written evaluation. Both proposals were described as "responsive" to the information in the bid packets. However, at the TIF Commission meeting, staff recommended selection of Continental Consulting Engineers, reporting that the other two proposals were not qualified. At this meeting, the TIF Commissioners did not take any action on the selection of a contractor. However, the commission's chair requested that staff provide further information on the proposals.

Prior to the next TIF Commission meeting, staff prepared a written evaluation of the proposals that included analysis using criteria that were provided by one of the contractors after the date that proposals were required. The bid packets required proposals to be submitted on May 10. On May 18, the contractor that had submitted the high bid provided a letter addressed to an EDC staff member, providing additional information about the proposal "that was not directly including [sic] in our proposal." Several items that were included in this letter were then used as criteria to evaluate one of the other proposals. These criteria were not included in the bid packets or the advertisements.

We also reviewed documents related to the selection of an environmental contractor and noted several irregularities. The TIF Commission received 20 proposals for the environmental assessment work. An attorney retained by the TIF Commission evaluated the proposals. How the criteria were used to evaluate competing proposals was not clearly described; this was especially important because the lowest 12 bidders were found to have not met these criteria. Prior to approval of the selection by the TIF Commission, a contractor was contacted and allowed to adjust the bid. That change resulted in the contractor whose bid had been adjusted being the lowest of the remaining proposals. That contractor was selected.

Irregularities in the Selection of an Environmental Contractor

In May 1995, the TIF Commission approved the selection of Kingston Environmental to work on the Midtown TIF plan. We identified a number of irregularities related to the selection.

The criteria for selection of a contractor were inadequately documented. The attorney who evaluated the proposals wrote a memo describing the criteria used to evaluate the 20 proposals. (See Appendix B for a copy of the memo.) The memo lists nine criteria and notes:

I applied a number of general criteria in my evaluation of the bids you supplied for my review. While the factors I considered are not listed here in strict rank order of importance (different criteria are more relevant than others for individual tasks specified in the RFP) certain criteria influenced my evaluation more than others.

The criteria that are listed are general. The weighting applied to the various criteria are not given. The extent to which each proposal met the criteria is not documented. There is no evidence that more than one person evaluated the proposals. Criteria used to evaluate proposals should be clearly defined. In addition, documentation should be maintained that shows how each proposal was evaluated against each criterion.

The general criteria were used to eliminate 12 proposals. All of these 12 proposals were lower than the bid that was selected. Eight proposals met the initial evaluation criterion. Three of those proposals were for amounts that were lower than Kingston's unadjusted proposal.

Firm	Proposal Amount
Kingston (adjusted amount)	\$ 170,234
Dressler Consulting	172,201
Bristol Environmental Services	173,875
OCCU-TEC	176,415
Kingston (initial proposal)	193,634
Triad Logistics	198,329
Dames and Moore	203,726
Sunbelt Environmental	216,687
Ramsey Schilling	242,173

Source: TIF Commission, October 1996.

The attorney made a recommendation that the TIF Commission select Kingston. Before a recommendation was made to the TIF Commission, Kingston was allowed to adjust the bid amount. The contractor was contacted after the bids had been evaluated, but before the recommendation was made to the TIF Commission, and the bid was adjusted. Documents in the contract file indicate that the contact was "to clarify the number of properties it would need to conduct phase I assessments." As a result, the bid was reduced by \$23,400. Prior to the adjustment, there were three firms that had submitted bids that were lower than Kingston's initial bid. There was no indication that these three firms had been contacted or allowed to adjust their bids.

The TIF Commission approved the recommended contractor at a meeting on May 1, 1995. At that time, the TIF Commission was told that the recommended contractor was "the lowest of the group" of bidders after the elimination of the companies that were not considered to be large, reputable, and with the experience and resources to do the job. The TIF Commission was not informed that the contractor was allowed to make an adjustment to the amount.

Some Contracts Signed by Unauthorized Staff

We reviewed two contracts that had been signed by individuals not authorized to enter into contracts. As a general rule, a public contract must be signed by an official with the authority to bind the public entity.²² In addition, the commission's by-laws require that the commission's chair sign all contracts except where signing has been expressly delegated to some other officer or agent of the commission. The contracts had been signed by the controller of the EDC and by the former executive director of the TIF Commission. There was no indication that the TIF Commission had delegated either employee authority to enter into the respective contracts. Such signing appears to conflict with state statute and commission by-laws.

Proper segregation of duties requires that responsibility for entering into a contract be segregated from accounting for the contract. No single individual should be able to both enter into a contract and record transactions related to that contract in the accounting system. The TIF Commission's by-laws segregate these duties by requiring the commission's chair, who does not have responsibility for accounting, to sign all contracts. However, staff did not comply with the by-laws when they entered into contracts without proper authority.

The contract that was signed by the former executive director was for security services at the Midtown TIF area. It appears that this contract may have been treated as an emergency. The contract was signed on June 2, 1995, and services began the next day. The contract was brought before the TIF Commission at its next regular meeting. The contractor continued providing services on a monthly basis for nearly two years.

The former executive director signed the contract and attested his own signature. The contract does not have any other signatures from the TIF Commission or EDC staff. The purpose of attestation is to independently witness and certify a signature as genuine. That purpose is defeated when a person "attests" to his own signature.

No Written Agreement for Legal Services

The TIF Commission uses an outside firm as its legal counsel but has not had a written agreement with the firm. In January 1991, the TIF Commission approved the selection of Craft, Fridkin and Rhyne to provide legal services. EDC staff were not able to provide us with any written agreement with the legal counsel. However, in April 1998, the TIF Commission approved a written agreement. It appears that the law firm was providing services for seven years without a written agreement.

²² RSMo § 432.070.

The lack of a written agreement appears to conflict with statutory requirements. As a general rule, a public contract must be in writing and signed by an official with the authority to bind the public entity.²³

Good procurement practices require written agreements. The scope of services, term of the agreement, basis of payment and conditions of payment should be clearly spelled out and in writing. This is especially important given the significant expenditures related to legal counsel. In 1997, the TIF Commission's legal counsel incurred \$580,000 in expenses related to the TIF program.

Contract Monitoring Inadequate

At a meeting in June 1993, the TIF Commission directed EDC staff to provide written performance evaluations of all contractors. Staff informed us that no such reports have ever been provided. Good contracting practices require that contractors be monitored with documentation of the performance compiled and maintained.

Payments Exceeded Authorized Amounts

The TIF Commission has not established controls to ensure that payments do not exceed authorized amounts. We identified a case in which the TIF Commission made payments exceeding the authorized amount to a firm that provided a temporary employee. Public financial managers have a duty to protect public assets against loss or misuse and to ensure that all transactions are properly authorized.

In May 1996, payments were made to a temporary firm that exceeded the amount approved by the TIF Commission. In October 1995, the TIF Commission authorized the expenditure of up to \$14,000 for a temporary employee to compile and summarize the commission's financial history. By May 15, 1996, the temporary agency had been issued checks that exceeded the authorized amount by \$1,478. The following day, EDC staff wrote a memo to a member of the commission requesting additional funding. The memo noted that staff had expended all approved funding and was requesting an additional \$6,000. The memo did not explain that expenditures had already exceeded the approved amount. By the time the TIF Commission had authorized additional expenditures, the temporary agency had submitted invoices for an additional \$2,698. Staff had already paid half of this amount.

²³ RSMo § 432.070.

Contracting Procedures Needed

The TIF Commission should develop written contracting procedures. Such procedures should help ensure compliance with the state statute and good procurement practices. At a minimum, the procedures should address:

- Identifying qualified firms
- Developing requests for proposals, requests for qualifications, and invitations to bid
- Advertising requirements
- Pre-bid conferences and communications
- Evaluating proposals or bids
- Documenting contractor selection
- Monitoring and evaluating contractor performance
- Maintaining contract files

Other Control Issues Should Be Addressed

Our review identified two other control issues that the TIF Commission should address. The commission has not complied with the city's requirements regarding affirmative action reporting, and the commission has conducted a meeting that appears to conflict with the Sunshine Law.

TIF Commission Overstated MBE and WBE Participation

The TIF Commission's 1997 report to the city on minority business enterprise (MBE) and women's business enterprise (WBE) contracting includes non-certified firms. Including non-certified firms overstates the use of MBE and WBE firms and conflicts with the city's requirements.

The TIF Commission's 1997 report to the Human Relations Department includes non-certified firms in the reported expenditures for MBE and WBE contractors. The report includes expenditures by the TIF Commission for legal services, professional services and construction. Three of the eight firms that were counted by the TIF Commission as MBE or WBE were not certified by the city. One of the certified firms did not become certified until the last month of the reporting period. The report also lists MBE and WBE expenditures for subcontractors without providing information on the specific firms that did the subcontract work. We did not identify and check the certification status of those firms.

Performance Audit: Tax Increment Financing

The annual agreement between the city, the EDC and the TIF Commission, requires the TIF Commission to comply with city code provisions on affirmative action and reporting. Among the requirements of the annual agreement is that the TIF Commission must submit an annual MBE/WBE utilization plan, set goals on a contract-by-contract basis, and report to the director of human relations annually.

Including non-certified firms in its report overstates the TIF Commission's affirmative action efforts. The city code specifically prohibits counting non-certified firms in reports on MBE and WBE participation.

The TIF Commission should comply with the annual agreement and city code by only reporting certified MBE and WBE firms.

Procedures for Compliance with the Sunshine Law Are Needed

State statute requires that notice of meetings of public bodies be posted in advance and that minutes be kept. The state open meetings and records law (the Sunshine Law) is intended to ensure that public business is conducted in an open setting. Management letters from external audits of the TIF Commission have recommended that minutes of all meetings be prepared on a timely basis.

Staff from the City Auditor's Office attended a meeting with EDC staff and the TIF Commission that appears to conflict with the Sunshine Law. On June 12, 1997, audit staff attended the entrance conference for this audit. The meeting, which had been requested by the City Auditor's Office, was to include the executive director and any other staff he felt appropriate. The meeting was not intended to include members of the TIF Commission. At the meeting, however, a quorum of TIF Commissioners was also present. The attendance of a quorum of commission members to discuss public business related to the audit indicates that the meeting was covered by Sunshine Law requirements regarding notice and minutes. We could find no documentation of such notice or minutes.

As a result of this occurrence, the City Auditor's Office staff has conducted training with the City Attorney's Office to ensure that audit staff understand the provisions of the Sunshine Law. We plan to incorporate specific policies and procedures related to the Sunshine Law in our revised policies and procedures manual. Documentation of meetings is an important record of all decisions and actions of the TIF Commission. The commission should develop procedures to ensure compliance with the law.

Chapter 5: A Model Process

Overview

Based on our audit work and our review of other reports, we have developed a model process that, should it be implemented, we believe will encourage accountability in the use of TIF and increase the city's ability to use TIF to achieve public goals. The model addresses many of the concerns we identified. It removes the conflicts inherent in EDC's current role, by relieving its staff of responsibility for determining the feasibility of proposals they have helped develop and transferring that responsibility to staff employed by the TIF Commission.

The problems we identified, such as conflicting roles for EDC, the connection between TIF Commission funding and TIF revenues, and financial management responsibilities being deferred, indicate that the process of reviewing proposals and monitoring the implementation of TIF plans needs to be improved.

Model Incorporates Recommendations of Other Reports

In developing the model, we relied heavily on FOCUS, in particular the report of the governance work team, the report of the Community Infrastructure Committee appointed by City Council, and MARC's Metropolitan Alliance for Economic Cooperation. We also incorporated aspects of the Government Finance Officers Association's recommended practices. Finally, we considered the statutory requirements of the TIF Commission and the City Council.

FOCUS. The City Council adopted FOCUS (Forging Our Comprehensive Urban Strategy) on October 30, 1997.²⁴ The FOCUS governance plan includes a number of recommendations about how decisions should be made in the use of development incentives.²⁵

Among the recommendations are:

- The city should use development incentives to encourage investment that achieves FOCUS priorities and is proactive whenever possible.
- The city should follow a consistent and predictable process in reviewing proposals.

²⁴ Committee substitute for resolution 971268.

²⁵ *FOCUS: Governance Plan*, July 1997.

- The review process should incorporate a community impact statement (CIS). The CIS is a systematic analysis of the fiscal and economic impacts and of the extent to which the proposal is consistent with FOCUS.
- The City Plan Commission should have the lead role in the initial evaluation of all plans and development projects.
- The city should monitor performance of projects and penalties should be imposed if the conditions of the incentive are not being fulfilled.

FOCUS Governance Report on Development Incentives

Development incentives are intended to encourage appropriate development of the City, requiring that the City forego potential revenues or redirect the use of a certain amount of existing or future resources in order to aid in the development process. Incentives should become investments that eventually benefit the community in [a] manner which exceeds the value of that investment.

Source: *FOCUS Governance Plan*, July 1997, p. 6.

Community Infrastructure Committee. The Community Infrastructure Committee (CIC) reviewed the city's infrastructure needs and policies and made a number of recommendations adopted by the City Council on October 2, 1997.²⁶ Among the recommendations are:

- A disciplined process should be implemented for planning capital investments.
- The City Plan Commission should provide input on major capital projects and communicate long-term planning objectives.
- Community impact statement (CIS) should be used to analyze certain large investments.

Mid-America Regional Council. The Mid-America Regional Council (MARC) board has asked area communities to consider adopting the Metropolitan Alliance for Economic Cooperation. The City Council adopted a resolution on June 5, 1997, stating the Council's intent to become a member of the alliance.²⁷ Membership in the alliance involves three significant practices:

²⁶ Second committee substitute for resolution 971326, as amended.

²⁷ Resolution 970689.

- Communities should adhere to a protocol for inter-community relations that encourages communication and cooperation.
- Cost-benefit analyses should be used by area jurisdictions for projects considered for tax incentives, with annual reporting of information for projects approved for tax incentives.
- A local economic development policy should be adopted which outlines economic development goals to the business community and the general public.

Government Finance Officers Association. The Government Finance Officers Association (GFOA) developed a set of recommended practices to give state and local governments guidance on sound financial management practices. According to the GFOA, economic development incentives should have specific goals and criteria that serve to define the economic benefit both the government and the entities receiving the incentives expect to gain from the incentives, the conditions under which the incentives are to be granted, and the actions to be taken should the actual benefits differ from the planned benefits. The recommended practice relating to economic development incentives states:

For any specific economic development incentive, the economic benefit to the government, as well as the cost of the incentive, [should] be measured and compared against the goals and criteria that have been previously established.²⁸

Recommended Model Process

The model we developed modifies the roles and responsibilities of the TIF Commission, the City Plan Commission, the Economic Development Corporation, and city staff. Under the model process, the plan commission would be responsible for initial review of proposals. The plan commission could refer proposals to the TIF Commission for further review. Staffing the TIF Commission would be funded through the normal city budget process. The EDC would retain a role in preparing proposals for consideration by the TIF Commission, but TIF Commission staff would have responsibility for assisting the commission review the feasibility of proposals. The commission would make a recommendation to the City Council, and council would approve or reject proposals.

The model process involves a number of significant changes in the way that TIF developments are prepared, reviewed, approved and monitored. The changes include:

²⁸ *Recommended Practices for State and Local Governments*, Government Finance Officers Association, March 1997, <http://www.gfoa.org/recprac/recprac2.htm#budman1>.

- The City Plan Commission would be responsible for initial review of development proposals.
- Development proposals would be analyzed through the community impact statement.
- Increased effort would be made to monitor and report on the implementation of TIF plans.
- The city would provide funding for staff to the TIF Commission through its normal budget process. TIF Commission funding would no longer include a portion of PILOTs and EATs.
- The TIF Commission would be responsible for selecting an executive director who would serve at the pleasure of the commission and would select and be responsible for staff.

We believe that the most significant change is to provide the TIF Commission with an executive director and staff that are directly responsible to the commission.

City Plan Commission Makes the Initial Review

Under the model, the City Plan Commission (CPC) would make the initial evaluation of all redevelopment proposals, as recommended by FOCUS. The purpose of the review would be to consider whether the proposal is consistent with the city's planning efforts. This would include relating the proposed redevelopment to explicit city plans and policies, such as FOCUS.

The review would be performed before many of the details, including the use of TIF or other incentives, will have been developed. The initial proposal could be made before a developer had invested much time and money in the proposal. If the CPC determined the redevelopment proposal was consistent with city policies and plans and that the use of incentives appeared to be warranted, the CPC could recommend that the proposal be further developed for consideration by the TIF Commission. As designed, the review process would be sufficiently flexible to be used proactively or in reaction to proposals initiated by developers.

The City Planning and Development Department and other city staff would provide support for the CPC as necessary. Staff support would be funded through the city's normal budget process.

The cost of developing an initial proposal would be borne by developers. The initial proposal would not need to be a fully developed TIF proposal and, consequently, would be relatively inexpensive to prepare.

Developers Responsible for Preparing Proposals

After the initial review and recommendation by the CPC, the developer would be responsible for preparing a detailed proposal for consideration by the TIF Commission. As part of the proposal, the developer would be required to submit a community impact statement. Detailed procedures for preparing the community impact statement would be made by the city and would be provided to developers. The developer could choose to work with private consultants or with staff of the Economic Development Corporation.

The costs of developing the proposal would be the responsibility of the developer.

TIF Commission Reviews Proposals

The TIF Commission would review the developer's proposal. The review would focus on the statutory requirements, such as declarations of blight and determining whether incentives are necessary for development to occur. In addition, the TIF Commission would provide an independent review of the community impact statement prepared by the developer. The commission would also be responsible for developing measurable performance standards for each plan. At a minimum, the measures would address the fiscal, economic, and strategic plan effects that were described in the community impact statement.

The TIF Commission would have its own staff. Funding for these positions would be provided through the city's budget process. The TIF Commission would hire an executive director who would serve at the pleasure of the commission. The executive director would select and manage staff.

City Council Considers Proposals for Approval

Final plan and project approval is the responsibility of the City Council. The council is also responsible for making findings required by statute, such as blight and that development would not occur without the use of TIF. Council would review the detailed proposal, the community impact statement and the TIF Commission's recommendation.

Council would rely on the analyses already prepared by TIF Commission and city staff. In addition, council could request city staff to perform further analysis if necessary. Council support costs and those of city employees are already provided by the city budget. However, additional staffing might be necessary.

TIF Commission Monitors Plans

The TIF Commission would be responsible for monitoring and reporting on the developer's progress. Monitoring would focus on the performance measures established when the commission considered the plans and projects. Reporting, including the annual report required by state statute, would be the responsibility of the TIF Commission. The day-to-day activities involved in monitoring and reporting would be the responsibility of TIF Commission staff.

TIF revenues would reimburse development costs. As a TIF redevelopment generated revenues, the developer would be reimbursed for the redevelopment costs. The TIF Commission and its staff would review requests for reimbursement. Approved requests for reimbursement would be forwarded to the Finance Department for direct payment to the developer.

As an initial step toward implementing a new process, we recommend that the city manager prepare a resolution for City Council consideration that directs a detailed plan for implementing the model process. The city manager should also prepare a proposal for consideration in the next year's budget that would provide the TIF Commission with staff and would allow the commission to hire an executive director that would serve at the pleasure of the commission.

Chapter 6: Recommendations

In order to address control issues and implement a new process, we make two types of recommendations. The first are those that we believe should be implemented immediately. These recommendations focus mainly on control issues that we discussed in Chapter 4. The other recommendations are long-term recommendations intended to implement a new process for the use of TIF in Kansas City. These recommendations are based on our audit work and, in particular, the recommendations of FOCUS and the Community Infrastructure Committee.

We believe that implementing all of our recommendations will result in an accountable process that will increase the city's ability to use TIF to achieve important public goals.

Recommendations to Be Implemented Immediately

1. The executive director of the TIF Commission should establish a specific date when annual reports will be presented to the City Council and the TIF Commission. The annual reports should be presented prior to submission to the state.
2. The executive director of the TIF Commission should prepare a report each year on actual and projected revenues of TIF plans. This comparison should be incorporated in the required annual reports.
3. The executive director of the TIF Commission should develop performance measures for each plan (including existing plans). The measures should be incorporated in the required annual reports. The measures should allow an evaluation of the extent to which plans have addressed public goals.
4. The executive director of the TIF Commission should revise all existing projections based on the comparisons of actual and projected revenues. The revised projections, along with the original projections, should be included in the annual reports.
5. The executive director of the TIF Commission should prepare contracting policies and procedures for consideration by the TIF Commission's adoption. These procedures should address compliance with the state statute. At a minimum, the procedures should address:

Performance Audit: Tax Increment Financing

- Identifying qualified firms
 - Developing requests for proposals, requests for qualifications, and invitations to bid
 - Advertising requirements
 - Pre-bid conferences and communications
 - Evaluating proposals or bids
 - Documenting contractor selection
 - Monitoring and evaluating contractor performance
 - Maintaining contract files
6. The executive director of the TIF Commission should revise the cash receipts and disbursements procedures to ensure that incompatible duties are segregated. At a minimum, the procedures should ensure the staff person who receives invoices and cash receipts should not be able to authorize payments, issue checks or have access to the accounting system.
 7. The executive director of the TIF Commission should determine the number of staff and the qualifications of staff that would be required to meet all of the financial and planning responsibilities of the TIF Commission. The executive director of the TIF Commission should report his determinations to the TIF Commission and the City Council.
 8. The executive director of the TIF Commission should review the TIF Commission's annual reports to the director of human relations and ensure that MBE and WBE firms listed in the report are certified by the city.
 9. The executive director should develop procedures for consideration by the TIF Commission to address compliance with the Missouri Sunshine Law. The procedures should be provided to the City Attorney for review and comment before being considered for adoption by the TIF Commission.
 10. The director of city planning and development should revise the annual agreement between the city and the EDC and TIF Commission to:
 - Reduce conflicting staff responsibilities. At a minimum, different staff should be assigned the responsibilities of developing and assessing proposals.
 - Eliminate the connection between TIF Commission funding and PILOTs and EATs.
 - Require the EDC to segregate key accounting duties.

Eliminating the connection between TIF Commission funding and PILOTs and EATs may not be possible for TIF plans that have already been approved because the development agreements include the funding mechanism. However, the funding mechanism should not be included in development agreements that are entered into in the future. The funding mechanism should be removed from the annual agreement between the city and the EDC and TIF Commission.

Even if the funding mechanism is eliminated from future development agreements, this source can be expected to generate significant revenue for the TIF Commission in the future because existing agreements will be in effect for up to 23 years. It will be necessary for the city manager to take this revenue source into account when planning and budgeting for the TIF program. For this reason, we believe that these revenues should be reported in the city's budget document.

11. The city manager should, beginning with fiscal year 2000, include estimates of the amount of TIF Commission funding that is anticipated based on the funding mechanism in existing development agreements.

Implementing the Model Process

12. The city manager should prepare a resolution for council consideration that supports the model process we have proposed and directs the manager to prepare a detailed plan for implementing the model.
13. The city manager should develop a proposal for the next city budget that would provide the TIF Commission with staff funding directly from the city's budget.
14. The director of city planning and development should prepare a method for systematically evaluating redevelopment proposals for consistency with FOCUS.

Appendix A

TIF Revenues by Plan

10th & Troost TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1987	\$ 0	\$ 0	0.0%
1988	14,750	975	6.6%
1989	14,750	3,087	20.9%
1990	14,750	1,440	9.8%
1991	14,750	0	0.0%
1992	14,750	430	2.9%
1993	14,750	221	1.5%
1994	14,750	0	0.0%
1995	14,750	0	0.0%
1996	14,750	0	0.0%
1997	14,750	0	0.0%
Total	\$147,500	\$6,153	4.2%

11th Corridor TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 669,884	\$ 0	0.0%
1994	744,032	0	0.0%
1995	766,953	783,468	102.2%
1996	790,164	673,469	85.2%
1997	805,968	1,031,258	128.0%
Total	\$3,777,001	\$2,488,195	65.9%

12th & Wyandotte Super TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 1,000	\$ 0	0.0%
1994	43,000	8,705	20.2%
1995	103,000	26,144	25.4%
1996	289,000	16,082	5.6%
1997	306,000	1,788,463	584.5%
Total	\$742,000	\$1,839,394	247.9%

13th & Washington TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1996	\$ 61,000	\$0	0.0%
1997	45,000	0	0.0%
Total	\$106,000	\$0	0.0%

Performance Audit: Tax Increment Financing

43rd & Main TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1994	\$ 25,000	\$ 0	0.0%
1995	120,000	12,157	10.1%
1996	349,000	79,895	22.9%
1997	387,000	287,311	74.2%
Total	\$881,000	\$379,363	43.1%

Americana Super TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 6,000	\$ 0	0.0%
1994	197,000	0	0.0%
1995	204,000	0	0.0%
1996	227,000	0	0.0%
1997	236,000	261,092	110.6%
Total	\$870,000	\$261,092	30.0%

Barry Towne TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1995	\$ 41,000	\$ 0	0.0%
1996	137,000	0	0.0%
1997	674,000	61,656	9.1%
Total	\$852,000	\$61,656	7.2%

Briarcliff West TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 4,941	\$ 34,379	695.8%
1994	30,242	139,467	461.2%
1995	75,403	109,050	144.6%
1996	241,854	111,857	46.2%
1997	706,832	75,351	10.7%
Total	\$1,059,272	\$470,104	44.4%

Civic Mall TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1995	\$ 10,000	\$ 0	0.0%
1996	7,500	16,497	220.0%
1997	202,500	7,135	3.5%
Total	\$220,000	\$23,632	10.7%

Gateway 2000 TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1996	\$212,000	\$ 0	0.0%
1997	652,000	186,541	28.6%
Total	\$864,000	\$186,541	21.6%

Hickman Mill TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1992	\$ 210,590	\$ 0	0.0%
1993	740,742	0	0.0%
1994	937,027	0	0.0%
1995	1,187,291	0	0.0%
1996	4,285,231	5,252	0.1%
1997	4,373,912	1,130,847	25.9%
Total	\$11,734,793	\$1,136,099	9.7%

Linwood Gillham TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1989	\$ 0	\$ 0	0.0%
1990	0	0	0.0%
1991	0	0	0.0%
1992	73,494	5,805	7.9%
1993	73,494	6,790	9.2%
1994	77,428	3,047	3.9%
1995	-	3,283	Na
1996	-	0	Na
1997	-	327	Na
Total	\$224,416	\$19,252	8.6%

Performance Audit: Tax Increment Financing

Midtown Super TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 97,000	\$ 0	0.0%
1994	1,406,000	0	0.0%
1995	1,675,000	0	0.0%
1996	1,702,000	0	0.0%
1997	1,749,000	127,531	7.3%
Total	\$6,829,000	\$127,531	1.9%

New York Life TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1995	\$ 1,000	\$0	0.0%
1996	573,000	0	0.0%
1997	587,000	0	0.0%
Total	\$1,161,000	\$0	0.0%

Santa Fe TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 570,000	\$ 0	0.0%
1994	1,009,000	33,950	3.4%
1995	1,459,000	63,320	4.3%
1996	1,899,000	131,288	6.9%
1997	2,361,000	128,649	5.4%
Total	\$7,298,000	\$357,207	4.9%

Searcy Creek TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1993	\$ 10,000	\$ 0	0.0%
1994	31,000	0	0.0%
1995	52,000	0	0.0%
1996	76,000	8,612	11.3%
1997	84,000	16,545	19.7%
Total	\$253,000	\$25,157	9.9%

Shoal Creek Parkway TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1994	\$ 0	\$ 0	
1995	17,000	0	0.0%
1996	768,000	110,346	14.4%
1997	1,067,000	873,110	81.8%
Total	\$1,852,000	\$983,456	53.1%

Southtown Corridor TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1994	\$ 289,857	\$ 0	0.0%
1995	480,580	0	0.0%
1996	554,242	198,062	35.7%
1997	650,679	289,941	44.6%
Total	\$1,975,358	\$488,003	24.7%

Summit TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1995	\$ 16,038	\$ 0	0.0%
1996	90,785	0	0.0%
1997	103,020	49,217	47.8%
Total	\$209,843	\$49,217	23.5%

Tower Properties TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1996	\$ 225,906	\$0	0.0%
1997	4,214,660	0	0.0%
Total	\$4,440,566	\$0	0.0%

Performance Audit: Tax Increment Financing

Universal Flood Water Detention TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1992	\$ 0	\$ 0	0.0%
1993	0	0	0.0%
1994	79	163,185	206,562.7%
1995	254,292	158,535	62.3%
1996	518,756	382,420	73.7%
1997	793,713	536,216	67.6%
Total	\$1,566,840	\$1,240,356	79.2%

Uptown Theater TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1994	\$ 7,000	\$ 0	0.0%
1995	30,000	0	0.0%
1996	264,000	162	0.1%
1997	292,000	56	0.0%
Total	\$593,000	\$218	0.08%

West 46th Street TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1988		\$ 42,268	
1989		25,327	
1990		220,414	
1991		324,044	
1992		146,333	
1993		101,733	
1994		33,959	
1995		224,432	
1996		73,872	
Total		\$1,192,382	

Walnut Creek TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1989	\$ 0	\$ 0	0.0%
1990	0	0	0.0%
1991	368,684	148,581	40.3%
1992	368,684	216,210	58.6%
1993	383,508	271,178	70.7%
1994	383,508	221,004	57.6%
1995	398,926	229,501	57.5%
1996	398,926	125,547	31.5%
1997	414,961	125,652	30.3%
Total	\$2,717,197	\$1,337,673	49.2%

Winchester Center TIF Plan

Year	Revenue		Actual as a % of Projection
	Projected	Actual	
1992	\$ 137,000	\$ 0	0.0%
1993	151,850	123,006	81.0%
1994	188,607	136,787	72.5%
1995	235,149	139,808	59.5%
1996	428,052	162,699	38.0%
1997	901,306	328,657	36.5%
Total	\$2,041,964	\$890,957	43.6%

Appendix B

Memo Recommending a Contractor

MEMORANDUM

TO: PAS
FROM: WTS
DATE: April 28, 1995
RE: REQUESTS FOR PROPOSALS FOR ENVIRONMENTAL AUDIT, TESTING AND MONITORING SERVICES IN THE LINWOOD CORRIDOR PROJECT AREA OF THE MIDTOWN REDEVELOPMENT TAX INCREMENT FINANCING PLAN

RECOMMEDATION

At the joint request of you and Mark Towner, I have reviewed the bids of a number of the companies responding to the March 14, 1994 Request for Proposal ("RFP") for continuation environmental audit, assessment and remediation services on the Linwood Corridor Project Area of the Midtown Redevelopment Plan ("Linwood-Midtown").

The purpose of the review was to identify which bidder or bidders were most responsive to the RFP and, based on my experience with similar projects, recommend a firm for the Tax Increment Financing Commission ("TIFC") to contract with to perform the requested tasks.

I applied a number of general criteria in my evaluation of the bids you supplied for my review. While the factors I considered are not listed here in strict rank order of importance (different criteria are more relevant than others for individual tasks specified in the RFP) certain criteria influenced my evaluation more than others.

The most important evaluative criteria included:

completeness and detail of the bid;

clear delineation of assumptions and contingencies reflected in the bid costs;

general experience of the bidder in contaminant characterization techniques;

containment and remediation experience involving hazardous substances such as asbestos and petroleum;

local experience with similar projects;

lead personnel for the project;
contract terms for insurance and or indemnification of the TIFC;
personal experience or reputation of the bidder; and
location of the bidder and bid price.

I recommend the Kingston Environmental bid be accepted. The "extended" (reflecting the possibility unanticipated work might be required) bid price from Kingston is \$193,634.50.

RATIONALE

Kingston's bid was neither the lowest or highest for its base or "extended" bids. My recommendation utilized the criteria outlined above. The principal criterion or reasons for the recommendation are:

the specific experiences of the firm and its lead personnel; and

Kingston's apparent willingness to utilize, wherever possible, existing data from the already completed Phase I assessments on the subject properties.

The second factor may require some explanation. Kingston's bid apparently assumed a complete Phase I assessment would be required for 106 properties in the project area. However, full Phase I assessments are required only for properties to which TIFC had been previously denied access (59 properties). When adjusted to reflect the reduced number of properties requiring full Phase I assessments, Kingston's bid more than competitive. Furthermore, Kingston has confirmed its contract price (and terms) will reflect this reduction. None of the other competitive bids were structured in this fashion. In other words it appears contract prices would go up instead of down if additional full scale Phase I assessments were necessary.

Other factors influencing my recommendation included Kingston's local presence, existing relationship and experiences with the TIFC and there considerable local experience (more than any other bidder) on similar local projects.

Appendix C

City Manager's Response



Office of the City Manager

RECEIVED
JUL 29 1998
CITY AUDITOR'S
OFFICE

DATE: July 29, 1998

TO: Mark Funkhouser, City Auditor

FROM: Robert L. Collins, City Manager

SUBJECT: Performance Audit for Tax Increment Financing

Thank you for the opportunity to respond to the Performance Audit for Tax Increment Financing (TIF).

In responding to the audit, it appears that the recommendations relate to two specific types of issues:

1. The City's contractual agreement with the Tax Increment Financing Commission and its day to day operations; and
2. The model process for TIF project review and approval.

I believe recommendations #1 through #6, #8 and #9 (in part) are actions that should be undertaken to improve day-to-day operations of the TIF Commission, and I agree the commission should begin to take actions to implement.

Recommendations #7, #10, #11 and #13 relate to TIF staff roles, conflicts of interest, the budget and the City's cooperative agreement with the TIF Commission.

We agree that the TIF Commission needs to be approached in a different way through the annual contract. However, we believe that this should be done in a cooperative manner with the appropriate parties.

- Your comments on funding and budgetary considerations will be considered in the FY 99/2000 budget discussions and the annual contract negotiations. We are currently evaluating the TIF revenue estimated in current development agreements.
- Because the actual review of TIF projects is a cooperative effort between TIF staff and City staff in the Finance Department and the City Planning and Development Department that fluctuates due to workload, an annual evaluation of joint staffing needs can be included in the annual contract negotiations. The EDC Board, the TIF

Mark Funkhouser
July 29, 1998
Page #2

Commission and the City Council in the City's budget process should address the issue of whom the TIF Executive Director reports to and the number of full-time dedicated staff. The EDC and its agencies took a first step this year in addressing this issue during the development of their annual cooperative agreement with the City.

Recommendations #12 and #14 relates to the development of a new model process, as recommended by the FOCUS Kansas City plan.

- The model process proposed in FOCUS for targeting incentives, developing a Community Impact Statement and a revised review and approval process for development projects including TIF projects, is currently being developed by City staff, TIF staff, the City Plan Commission and the TIF Commission. Other interested parties, including developers, will also be participating. This process is underway.

The final comment relates to concerns raised about the analysis of TIF project performance showing TIF revenues lower than projections. I will rely on the TIF Commission's response on this particular subject for details, as there may need to be a better understanding of the cash flow, timing differences, performance measures, and less easily quantifiable goals such as jobs, redevelopment of target areas, needed public improvements and removal of blight. This would more accurately account for the delays that may be apparent in the early stages of a project.

If you have any questions or concerns about this response, please feel free to contact me.



Robert L. Collins

RLC:emm

Appendix D

TIF Commission Executive Director's Response

Note: City Auditor's comments regarding the TIF Commission Executive Director's response can be found in Appendix E.



TAX INCREMENT FINANCING COMMISSION OF KANSAS CITY, MISSOURI

RECEIVED
SEP. 4 1998
CITY AUDITOR'S
OFFICE

DATE: September 4, 1998
 TO: Mark Funkhouser, City Auditor
 FROM: John Crawford, Executive Director, TIF Commission *JC*
 RE: Response to Performance Audit of TIF Commission

The purpose of this memo is to transmit to you my enclosed response to your audit report of the management of the TIF Commission (TIFC); I have also discussed these issues at length in the past with the TIFC, which shares the views expressed in this response. We are grateful for the opportunity to review and comment, and appreciate the professionalism and courtesy of your staff during the preparation of the Audit.

Our response is in two parts:

Response to Report Recommendations. A straightforward response to the recommendations that you have made at the conclusion of your report. On this part, we generally agree with and accept your recommendations which suggest procedures intended to enhance the administration of the TIF program.

Areas of Disagreement. This section notes issues your report has raised, in which you have drawn conclusions with which the TIFC and I strongly disagree. These points of disagreement are the following:

Performance of the TIF Program—your assertion that the beneficial impact of TIF projects is markedly less than anticipated.

- The Auditor's method of evaluating financial performance falls *significantly* short, in that it *does not even attempt to measure the full tax base result* of TIF projects, which are providing substantial, direct revenue streams to the City (not utilized in TIF projects).
- With respect to the very limited financial impact the study *did* attempt to assess, the approach is profoundly flawed in that it does not measure project *results*, but rather *time*.

See page 125
Comment 1

EDC Roles & Responsibilities—your assertion that there is a conflict in working with developers on proposals; that "staff can not objectively evaluate or monitor proposals that they were involved in developing."

- *40% of the potential TIF Plans reviewed by EDC staff have been are withdrawn by due to the inability of the redeveloper to address concerns identified by staff before even coming to the Commission*—a result which contradicts the value judgement

ECONOMIC DEVELOPMENT CORPORATION OF KANSAS CITY, MISSOURI

10 PETTICOT LANE ■ SUITE 250 ■ KANSAS CITY, MISSOURI 64106-2103 ■ 816-221-0636 ■ FAX 816-221-0189 ■ 800-889-0636
 INTERNET: <http://www.edcck.com> ■ E-mail: edcck@edcck.com or 73531.625@compuserve.com

expressed in the Audit (I particularly note that your report did not cite any instances of actions by TIFC or its staff which might demonstrate an adversely influenced decision process—and that your report did not attempt to determine whether this suggested conflict in fact has influenced anyone's behavior).

See page 126
Comment 2

- No project has been approved which has not endured a gauntlet of reviews beyond TIFC staff—which serve as a “check” on recommendations made by TIFC staff.
- The TIF program has to be *proactive and partnering* to promote reinvestment in areas *where it would otherwise not occur*.
- We disagree that developer involvement is inevitably bad; it brings to bear the market process, promotes private investment, and minimizes governmental financing.

See page 126
Comment 3

TIF Use in Kansas City—your assertion that “TIF has been driven by private developers rather than by explicit public strategies and policies”.

- TIFC believes that the initiative taken by the private sector is consistent with the public sector policy development and planning which occurred earlier.
- TIFC has taken the lead in proactive planning efforts in a number of cases—such as the Shoal Creek Plan, the Midtown Plan, and the Riverfront redevelopment.
- TIFC only approves those proposals which are consistent with pre-existing strategic goals originally set forth in the City's Comprehensive Plan and other plans, such as urban renewal plans—this is true for example of the *Americana Hotel*, *Muehlebach Hotel* and current efforts on the *Vista Del Rio*; the *Souhtown Plan*, *Civic Mall*, *Eleventh Street Corridor*, and *Gateway*.

Again thank you for the opportunity to discuss these points with you. If you should have questions, please call me at 221-0636. Thank you.

Response to City Auditor's Report
Performance Audit on Tax Increment Financing

Areas Of Disagreement

Tax Increment Financing (Chapter 2)

TIF use in Kansas City

This section states that "the use of TIF has been driven by private developers *rather than by explicit public strategies and policies*" (emphasis added). Although it is certainly true that a substantial number of proposals have been brought to the TIFC and City by the private investors—most of which are not approved—we believe that initiative taking by the private sector does not nullify the public sector policy development and planning which have in fact occurred.

A few observations on this point:

- The TIF Commission has been instrumental in proactive planning efforts in a number of cases. Four examples, including two current initiatives:
 - the Shoal Creek Plan provides for construction of infrastructure and is the result of coordinated effort with city staff, councilmembers and civic leaders
 - the Midtown Plan was a deliberate strategy by the City and EDC to redevelop the corner of Main and Linwood and to overcome barriers faced by previous redevelopment attempts on the site
 - current initiatives include working with the Port Authority in development of a strategy for the Riverfront as well as working with city staff and civic leaders to continue redevelopment efforts along Brush Creek
- In many instances when a developer came to TIFC for assistance, the developer was responding to a pre-existing, larger strategic effort by the city. Many TIF Plans are located in areas identified by the LCRA of other bodies as "blighted." TIF is just one of many tools available to the city to implement the larger strategic goals originally set forth in the City's Comprehensive Plan and other plans. Citing just a few such instances illustrates the point:
 - Downtown Convention Center Hotel to support Bartle Hall: (*Americana Hotel, Muehlebach Hotel* and current efforts on the *Vista Del Rio* and *Savoy Hotel*)
 - Southtown 2000 Plan: (*Southtown TIF Plan* goals and objectives)
 - Downtown 2000 Plan: (*Civic Mall TIF Plan, Eleventh Street Corridor Plan*)
 - West Bottoms Plan: (*Gateway 2000*)
- Prior to the Auditor's being directed to undertake its review of the TIFC, the Commission and staff had already determined *through our own strategic planning process* to become even more proactive in our utilization of the TIF tool. TIFC has taken steps and initiated conversations with councilmembers, civic leaders, businesses and other interested parties to better determine how they may take a more proactive role—particularly in the greater use of

what the TIFC has called "Area TIFs", and particularly to use this approach east of Troost. The staffing shortage has prevented TIFC from being as proactive as it would like to become.

Roles and Responsibilities

This section discusses parties which play a role in the process. However, the Auditor's Report does not acknowledge, as we believe it should, the important role of other parties, including:

- other taxing districts that participate in the process, including their having direct input into the process as representatives on the TIF Commission
- the other city boards and commissions such as the City Planning Commission which ultimately reviews any rezonings, replattings, etc.
- The entire redevelopment review process, including City Planning Commission review, in which several past and current commissioners have played a significant role.

TIF Project Performance (Chapter 3)

The understanding that I and the TIF Commission have of the Council's intent regarding review of the TIF program was that it was to measure "the impact of the Tax Increment Finance projects". In the view of the TIF Commission (TIFC), such an analysis would evaluate the program in its entirety—that is, both financial result and the attainment of public policy objectives. We believe that a full review of the TIF program performance shows that the City benefits substantially not only in the future, but currently. This is with true of both financial performance and public policy objectives such as blight removal, M/WBE participation, and the like.

The draft audit does not accomplish this for three reasons...

First, the Auditor's method of evaluating financial performance falls *significantly* short, in that it *does not even attempt to measure the full tax base result* of TIF projects, which are providing substantial, direct revenue streams to the City (which are not utilized in TIF projects). Specifically, there is no assessment (or even acknowledgement) of the following:

- Economic activity taxes (EATs) being generated which are not subject to collection by TIFC—in all but a few projects, this is 50% of all EATs.
- Business personal property tax, which is without question a very substantial impact, in that many businesses actually have more taxable asset value invested in capital equipment and other personal property ratables than they have in real estate.
- Other sources of revenue not effected by TIF, such as new occupational license revenues, various development related fees, and those hotel taxes not captured by TIF projects.
- Revenues which are "TIFable", but which the TIFC decided not to capture, having determined them not to be necessary and appropriate for a specific plan—there are a number of such plans; as such there are substantial revenues which accrue to the City. For example, the Hickman Mills plan provides that 50% of all PILOTs will go to all of the taxing jurisdictions; in the case of Shoal Creek, only 45% of EATs are captured and no PILOTs will be used after the year 2000.

NOTE: In its February 13, 1997 Business Session briefing to Council, TIFC noted the existence and potential scale of this "outside of TIF" revenue stream. This same information was provided to Auditor staff during our first meeting with them. (Exhibit A)

- A complete performance review should assess the actual size of this new, current revenue stream flowing to the City by seeking to *measure these revenues* identified in the above four bullets.

Second, with respect to the very limited financial impact the study *did* attempt to assess, the approach is profoundly flawed in that it does not measure project *results*, but rather *time*.

- The approach taken in Chapter 3 of the Auditor's report utilizes an approach to performance measurement that is largely indifferent to *how much* new tax base is created, but focuses only on *when* it is created. Only by using this flawed approach could one conclude (as the draft report apparently infers) that such developments as DST's rejuvenation of the west side of downtown, the transformation of the Americana into the Doubletree, and Gateway's remarkable reuse of a West Bottoms warehouse are *failures*. In fact, the reader might even conclude that the award-winning New York Life Building project did not happen.
- The State's overarching purpose in creating the TIF enabling legislation (and the City's in using it) is to cure urban blight by encouraging reinvestment where it had not and would not occur without such assistance. In this regard, the TIF program has been a clear success. The fact that the process often takes longer than the redeveloper anticipates is testimony to how difficult these projects are. The governmental approval process itself is often protracted, delays may occur with rezoning, completion of necessary contractual agreements, financing, tenants, and building permits, and with site work such as environmental remediation.
- The best comparison of actual revenues with projected revenues occurs only when projects have been *completed, and fully reflected on the tax rolls*.

See page 126
Comment 4

NOTE: In its May 15, 1997 Business Session briefing to Council, TIFC utilized this approach on the 9 projects which could be measured at that time. Again, this same information was provided to Auditor staff during our first meeting with them. (Exhibit B)

- To evaluate financial performance of TIF projects in a way that validly interprets the public interest, one would distinguish between three different types of projects...
 - > Reimbursement-only Projects, in which the City has no financial investment or risk. The vast majority of projects fall in this category.

See page 126
Comment 5

ACTUAL RESULTS: The 12 projects which are in this category and which are now on the City's tax roll together have added new property tax base equivalent to 106% of that forecasted.

Note: This assessment does not include EATs, due to the time due to time lag in City's certification of EATs, and to the fact that independent auditors have declined to recognize EATs for the years in which they were paid, causing the recognition of such revenues to be deferred. (Exhibit C)

- Projects financed with City-backed bonds, in which the City has risk, but no cash invested. There are only three such projects... the Americana/Doubletree, the Muchlebach, both now complete, and Uptown which obtained construction bond financing in April 1998 and which will be under construction for more than another year. It has always been understood by TIFC, developers and the City that the final financial structure (with revised revenue forecasts) to which the City is a party is what is provided for in the bond documents approved subsequently by Council.

ACTUAL RESULTS: The 12th and Wyandotte Hotel (Muchlebach) is complete and generating sufficient revenues to amortize their City-backed bonds.

The Americana Hotel (Doubletree) is complete and on City's tax rolls. Although opened 6 months later than expected and only operational for 9 months in 1997, the hotel came within approximately 15% of the projected revenues for 1997. As noted by the developer, the hotel is currently operating within approximately 11% of projected revenues, due in part to a change in the flag in late 1997 from Omni to Doubletree. This information is obtained from the redeveloper as City staff have not completed their documentation/review. (Exhibit D)

- Projects with at least some City funds invested up-front, in which the City has a financial investment as well as risk (and consequently, the time of completion is significant). To date there is only one such development, the Midtown Plan projects—40th & Mill, and Linwood. Again, the financial position of the City is provided for in the bond documents.

ACTUAL RESULTS: The financial woes of the largest anchors, K-Mart and Payless have stalled development on Linwood.

The 40th & Mill project is complete, performing above forecast and generating funds almost sufficient to amortize the combined debt of the two projects. Recent analysis provided by the City Manager to Council notes that over the next six years, if no further development occurs on Linwood, revenues from 40th & Mill will, together with State tax credits, result in a combined cumulative debt service expense to the City's General Fund of under \$80,000. (Attachment E)

Of course, a full consideration of "non-TIFable" revenues, such as personal property taxes, license fees, etc. at 40th & Mill would offset at least in part this ongoing expense.

Note: It should be pointed out that this is a relatively modest expense when compared to several failed 353 projects which received tax abatement without any development occurring—and where the City does not own the land.

Third, in the view of the TIFC, the audit draft, to serve as a complete program evaluation, would also assess the non-financial end result of projects assisted by TIF. In fact, from a broad policy perspective, revenues are a byproduct, not necessarily the primary purpose of the TIF program. In the later part of Chapter 3, the Auditor does note the importance of these

non-financial policy objectives, but does not attempt to evaluate actual performance in this regard.

- TIFC itself does seek to do so in its ongoing program administration. For example, performance measures have been prepared regarding minority and women (MBE/WBE) participation and are reported monthly to the TIF Commission. Other commonly identified public objectives include:
 - elimination of blight
 - environmental remediation
 - provision of infrastructure or other public improvements
- TIFC's evaluation of TIF projects takes place in the context of compliance with contractual obligations imposed upon redevelopers. TIFC requires that the redeveloper's delivery of these "public goods" are achieved by tying TIF funding to the reimbursement of specific expenditures, documented by the redeveloper, and certified by TIFC Board approval. Reimbursements are withheld pending necessary documentation.

Conclusion regarding Chapter 3

The Auditor's conclusion that TIFC and City Council are making decisions based upon grossly inaccurate information is itself grossly inaccurate.

We believe the approach taken by the Auditor is fundamentally flawed, and significantly calls into question the observations and recommendations made by the Auditor in the balance of Chapter 3.

See page 126
Comment 6

EDC Roles & Responsibilities (Chapter 4)

The general thrust of the Auditor's comments on this subject essentially assert that there is an inherent conflict in EDC staff working on a proactive basis when dealing with developers as they formulate their proposals, and then having that same staff be a part of the evaluation process through which the TIFC may consider possible approval of a plan and project. The Auditor also asserts that "staff can not objectively evaluate or monitor proposals that they were involved in developing."

While TIFC is mindful of the Auditor's legitimate concerns, we respectfully and strongly disagree with his conclusion.

- TIFC disagrees with the assumption that developer involvement is inevitably bad; developer involvement brings to bear the market process, conventional financing, promote private investment, and thereby tends to minimize governmental financing.
- The auditor's model seems to accept as the most appropriate model that utilized by the City Planning Commission and those City staff who are involved in the *regulation* of the land development process. Of necessity, that regulatory model can be and often is *adversarial* in order to prevent negative outcomes (e.g., adverse traffic impact, unnecessary storm runoff). However, the model needed to promote reinvestment has to be more *proactive and partnering* to promote reinvestment in areas *where it would otherwise not occur*. Given the nature of the TIF program—requiring involvement with redevelopers over as long as 33 years—an adversarial model mitigates against the coordination, and cooperation that is necessary to make the relationship work.
- The auditor's valid concern for due diligence review can appropriately handled within the TIFC staff and further strengthened by engaging a *TIF Financial Manager* and independent consultants retained under the RFP process. Moreover, TIFC has—by means of redevelopment contracts—substantial ability to control, monitor and modify the development and completion of projects as they occur. This contractual contractual relationship (particularly long-term) is not existent within the Planning Commission model.
- It is important to keep in mind that TIFC's review process anticipates that development proposals are brought to the TIFC by developers or at the initiation of staff *only after they are fully reviewed by staff (including City staff, for which no presumed conflict would exist) and any differences between the proposal and TIFC/City policies are worked out*. In fact, the TIFC's policy is that incomplete plans not be presented to the Commission until staff deems them ready and in compliance with TIF/City guidelines. If agreements cannot be reached these issues are presented at the public hearing and resolved by the Commission.
- One result of this process is that *40% of the potential TIF Plans reviewed by EDC staff have been are withdrawn by the redeveloper due to the inability of the redeveloper to address policy concerns identified by staff before even coming to the Commission*—this result is simply inconsistent with the value judgement expressed in the draft Audit.
- No project has been approved which has not endured a gauntlet of necessary and appropriate reviews above and beyond that done by TIFC staff—which can and do serve

See page 127
Comment 7

See page 127
Comment 8

as a "check" on recommendations made by TIFC staff. These other participants who do their own evaluation include:

- the TIFC itself (and its public hearing process)
 - other participating taxing jurisdictions
 - City Planning & Development
 - City Finance
 - City Attorney's Office
 - City Council Committees
 - Plan Commission
 - City Council
- The use of a portion of program income to fund the expenses of the Commission is specifically approved under the Cooperative Agreement with the City, incorporated in the City Budget for City Development and EDC. This is pursuant to the City's policy objective of attempting to make programs self-funded, and to have benefiting taxing jurisdictions share in this expense.
 - Finally, it should be understood that with respect to the independence of professional judgement and recommendations made by staff to the TIFC, there is guidance from the immediate past Chairman of the EDC Board itself which assures that the relationship of EDC to TIFC is an appropriate, non-controlling one (see Attachment F).

Response to City Auditor's Report
Performance Audit on Tax Increment Financing

Responses to Auditor's "Recommendations" Section

1. **The executive director of the TIF Commission should establish a specific date when annual reports will be presented to the City Council and the TIF Commission. The annual reports should be prior to submission to the state.**
 - Agreed.

2. **The executive director of the TIF Commission should prepare a report each year on actual and projected revenues of TIF plans. This comparison should be incorporated in the required annual reports.**
 - Agree that TIF projections should be revised on an annual basis. This is already done for EATS on an annual basis in the form of revised five year TIF revenue projections done for the City Finance Department, so they can prepare the next year's EATs appropriation ordinances. We will begin do so for PILOTs as well.
 - The TIF Commission has also directed staff to prepare and maintain a comparison of the actual revenue stream compared to the projected revenue stream.
 - The draft audit report asserts that the TIF is significantly under-performing, based on the fact projects are often not completed in the timeframe originally forecasted for plan approval purposes—and consequently, new revenues then of course appear in a subsequent fiscal year.

See page 127
Comment 9

The TIF revenue projections contained in the plans are there as required by the TIF statute. Projections typically estimate that redevelopment activities *may* start as soon as possible—that the process may proceed without delays and that construction will begin shortly after City Council approves the Plan and proceed with relatively few glitches. In reality, the approval process is often longer than anticipated and other lapses occur as the developer seeks rezoning, completion of the necessary agreements, financing, tenants, and building permits.

The appropriate measure of performance is not whether TIF revenues occur by a specific date, but rather that when the project is completed, that it does generate new revenues at a level consistent with the forecast. As such, the approach taken by the Auditor in actually measures time rather than results. Because upon approval of a TIF plan developers are normally required to submit the project through the Planning Commission process, finalize financing commitments, and often close the purchase of the real estate, many projects take a substantial amount of time to actually begin construction. Because of these considerations, the TIF Commission has commonly considered the projections as relating to "Year 1 of the Project", as opposed to a specific calendar year, (for example 1995).

RESPONDING RECOMMENDATION:

Recommend that the most appropriate comparison of actual revenues with the projected revenues should begin once specific projects have been completed, occupied, and fully reflected on the tax rolls. (The only circumstance by which the time of completion is significant, is when the City has cash invested up-front; the Midtown project is the only such plan to date and has been reported on in detail).

In its second Business Session Briefing to Council in 1997, the TIFC provided such a comparison, which at that time compared forecast-to-actual for completed projects. TIFC staff are now in the process of updating that analysis, expanding it to include additional projects which are now complete. Staff will update the listing of completed projects, their completed assessed value as provided by the county assessor, and where the information is available, the economic activity taxes generated by the project.

3. **The executive director of the TIF Commission should develop performance measures for each plan (including existing plans). The measures should be incorporated in the required annual reports. The measures should allow an evaluation of the extent to which plans have addressed public goals.**

- Agreed.
- Agree that performance measures are important. In fact, the TIF Commission clearly does measure performance. Those measures related to revenue projections are an ongoing TIFC effort and are discussed in items 2 and 4 of this response to the Auditor's recommendations.

But as significant as tax base impact is, non-financial results are also important in TIFC's measurement of performance. For example, performance measures have been prepared regarding minority and women (MBE/WBE) participation and are reported monthly to the TIF Commission. Other commonly identified public objectives include:

- > elimination of blight
- > environmental remediation
- > provision of infrastructure or other public improvements

- It should also be understood that much of the performance evaluation of TIF projects takes place in the context of compliance with contractual obligations imposed upon redevelopers in order to assure that the public's interest is addressed. As such, TIFC requires that the redeveloper's delivery of these "public goods" are achieved by tying TIF funding to the reimbursement of specific expenditures (such as environmental remediation, demolition, construction of public improvements, etc.), which expenditures must first be documented by the redeveloper, and then certified by TIFC Board approval.
- Moreover, before reimbursements are made to redevelopers, TIFC staff assess current compliance with: approved design standards of both public and private facilities,

documented good faith with regard to affirmative action, documented compliance with city building codes, and compliance with obligations to provide EATs documentation.

- TIFC not only measures performance, but also holds redevelopers accountable—reimbursements are withheld pending necessary documentation; and more significantly, TIFC has demonstrated that it will terminate a redeveloper's TIF contract for non-performance, as it has done.

4. **The executive director of the TIF Commission should revise all existing projections based on the comparisons of actual and projected revenues. The revised projections, along with the original projections, should be included in the annual reports.**

- Agreed.

5. **The executive director of the TIF Commission should prepare contracting policies and procedures for consideration by the TIF Commission's adoption. These procedures should address compliance with the state statute. At a minimum, the procedures should address:**

- Identifying qualified firms
- Developing requests for proposals, requests for qualifications, and invitations to bid
- Advertising requirements
- Pre-bid conferences and communications
- Evaluating proposals or bids
- Documenting contractor selection
- Monitoring and evaluating contractor performance
- Maintaining contract files

- Agreed.

- To say that the TIF Commission utilizes no written policies or procedures for purchasing goods and services is misleading. The TIF Commission does adhere to a number of written bidding policy and procedures, available through the various sources applicable to the TIF Commission.

- The TIF Commission currently utilizes the Economic Development Corporation's Bidding policy for general purchases of goods and services. The policy insures that the EDC and affiliated agencies acquire goods and services at a fair market cost and an equal opportunity to vendors.

6. **The executive director of the TIF Commission should revise the cash receipts and disbursements procedures to ensure that incompatible duties are segregated. At a minimum, the procedures should ensure the staff person who receives invoices and cash receipts should not be able to authorize payments, issue checks or have access to the accounting system.**

See page 127
Comment 10

- Agreed. Previously implemented.

7. **The executive director of the TIF Commission should determine the number of staff and the qualifications of staff that would be required to meet all of the financial and planning responsibilities of the TIF Commission. The executive director of the TIF Commission should report his determinations to the TIF Commission and the City Council.**

At this time, the *Planner* has been hired. The *Financial Coordinator* position will be hired in the next few weeks.

8. **The executive director of the TIF Commission should review the TIF Commission's annual reports to the director of human relations and ensure that MBE and WBE firms listed in the report are certified by the city.**

- Agreed.

9. **The executive director should develop procedures for consideration by the TIF Commission to address compliance with the Missouri Sunshine Law. The procedures should be provided to the City Attorney for review and comment before being considered for adoption by the TIF Commission.**

- Agreed.

Recommendations 10 through 14 are not responded to, as they are directed to City staff.



**TAX
INCREMENT
FINANCING
COMMISSION**

**Business Session
City Manager's Office
29th floor, City Hall**

February 13, 1997

Kansas City TIF Commission PROGRAM HISTORY

Kay Waldo Barnes, Chairwoman

- 1. Introductions**
- 2. Opening remarks**

Timothy O. Kristl, Vice Chairman

- 3. TIF money in and new tax money out**
- 4. Public benefits**

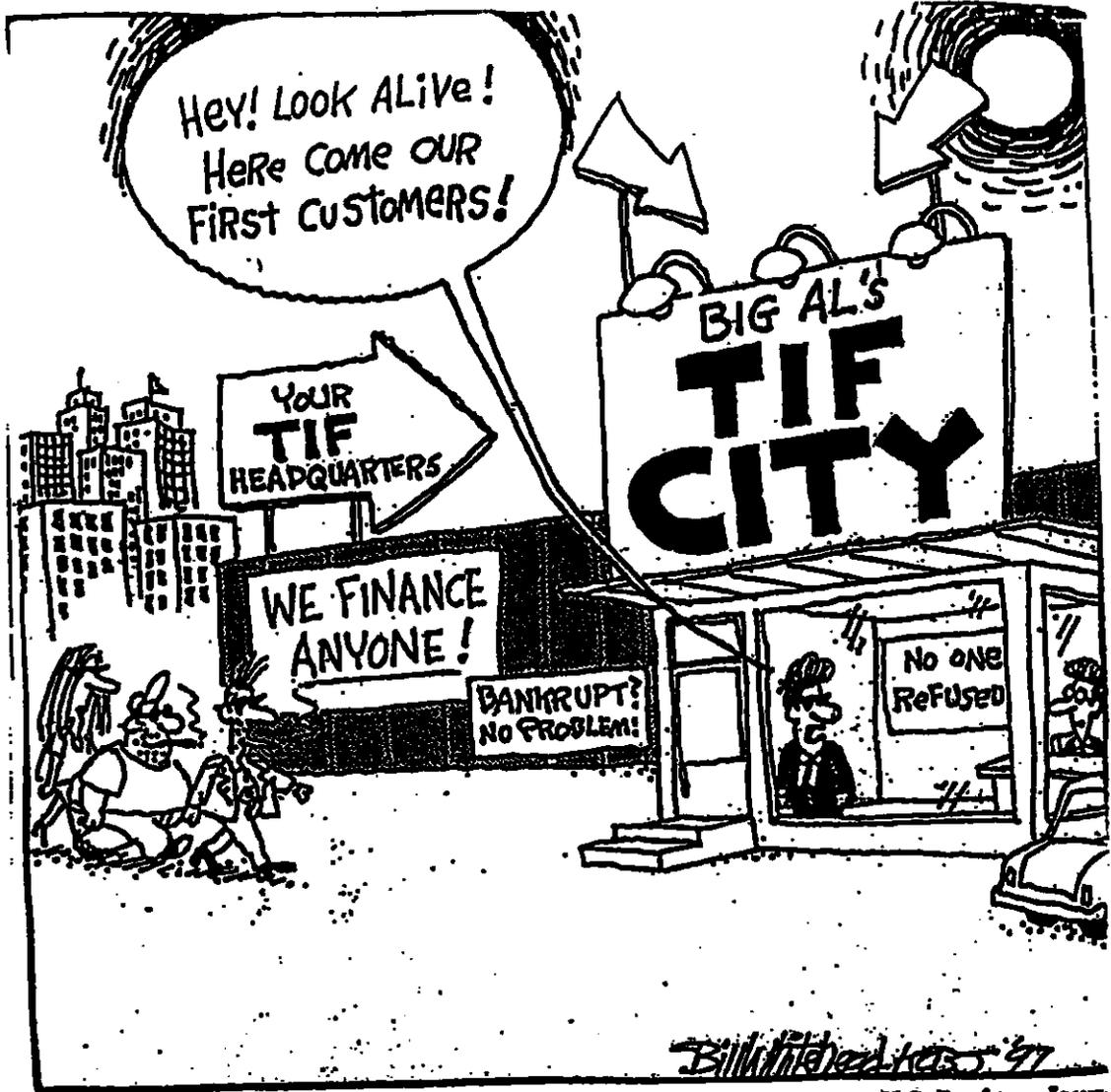
Reverend Ronald L. Williams, Commissioner

- 5. Affirmative Action**

Ron Yaffe, Treasurer

- 6. TIF's role in the community**

Discussion



Bill Winters '97

K.C. Business Jour.

Jan. 10-16, 1997

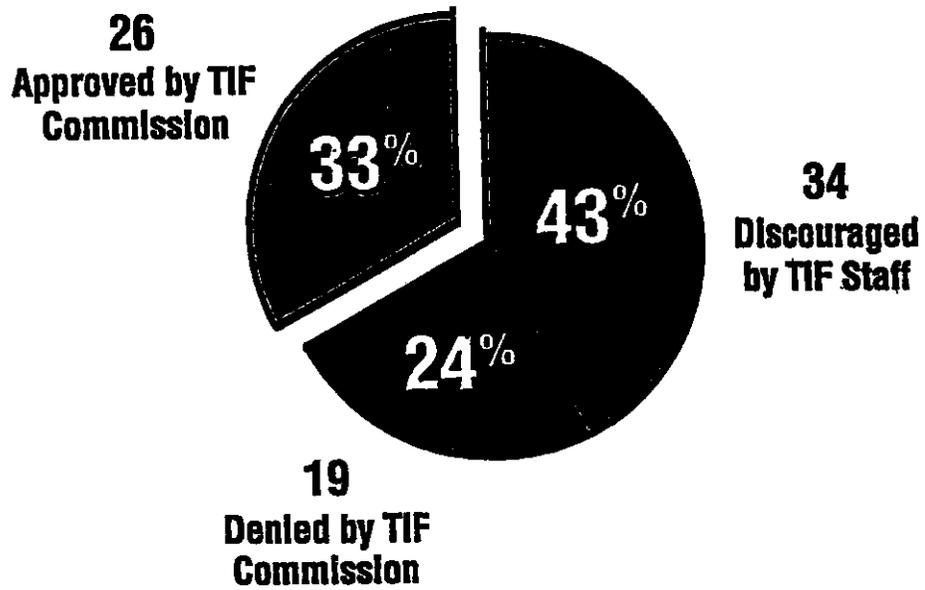
TIF Plans Approved

**Proposed TIF Plans Denied
Following Commission Discussion**

**Proposed TIF Plans/Projects
Not Proceeding Beyond Preliminary
Discussions With Staff**

- | | | |
|---|---|---|
| <ol style="list-style-type: none"> 1. Pembroke Building 2. W&A Oats 3. North Oak Strip 4. North Oak Residential 5. Archer Engineering 6. 19 East Armour 7. Ramada Inn at Benjamin Plaza 8. Hotel at Linwood & Broadway 9. Independence & Thuman Road 10. Plaza Hotel 11. Bryant's Ford 12. Cambridge Circle 13. Deco Construction 14. RTI 15. Roses Graphics 16. Hart Mfg. Co. 17. Longview Road 18. Menorah Hospital 19. Northland Park Industrial Park 20. Burns & McDonnell at Ward Parkway 21. 75th & Wornall 22. Sallors Site Residential Development 23. Poets Corner 24. Quality Hill III & IV 25. Steel Manufacturing and Warehouse Company 26. Sutherland Headquarters on Main St. 27. Southwestern Bell 28. 37th & Gregory 29. Ochslepple Hospital 30. Sallors Park Central Plaza 31. Riverfront Park 32. Custom Color Corp. 33. Hotel in vicinity of MO 350 & I-470 34. Harborform | <ol style="list-style-type: none"> 1. Tiffany Springs 2. Tiffany Greene 3. Ward Parkway 4. Hypermart 5. Stadium Plaza/Drury Inn 6. Westport 7. Central Square/Convention Center Hotel 8. Linwood Prospect 9. New York Life - Residential 10. Freight House District 11. Dupage/Sungammon Hotel 12. Brush Creek Plaza 13. I-435 & Gregory 14. Warner Plaza 15. Wharf Building 16. Downtown East Master Plan 17. Benjamin Sallors/Firest Road Project 18. 23rd Street/Thuman 19. Ameribona Hotel (HBE) | <ol style="list-style-type: none"> 1. West 46th Street Terrace 2. 10th & Troost 3. Linwood Gatham 4. Walnut Creek 5. Briardell West 6. Universal Floodwater Detention 7. Winchester Center 8. Ameribona Hotel 9. 12th & Wyandotte Hotel 10. Hobson Mills 11. Midtown 12. Eleventh Street Corridor 13. Seaway Creek 14. Santa Fe 15. Southtown Corridor/1st & Baltimore 16. 43rd & Main 17. Uptown Theater 18. Street Creek Parkway 19. New York Life Building 20. City Mall 21. Summit 22. Tower Properties 23. Gateway 2000 24. Barry Towne 25. 13th & Washington 26. Grand Boulevard Corridor |
|---|---|---|

Proposed TIFs — Actual Outcomes



KCMO TIF History
Overall Program to 12/96

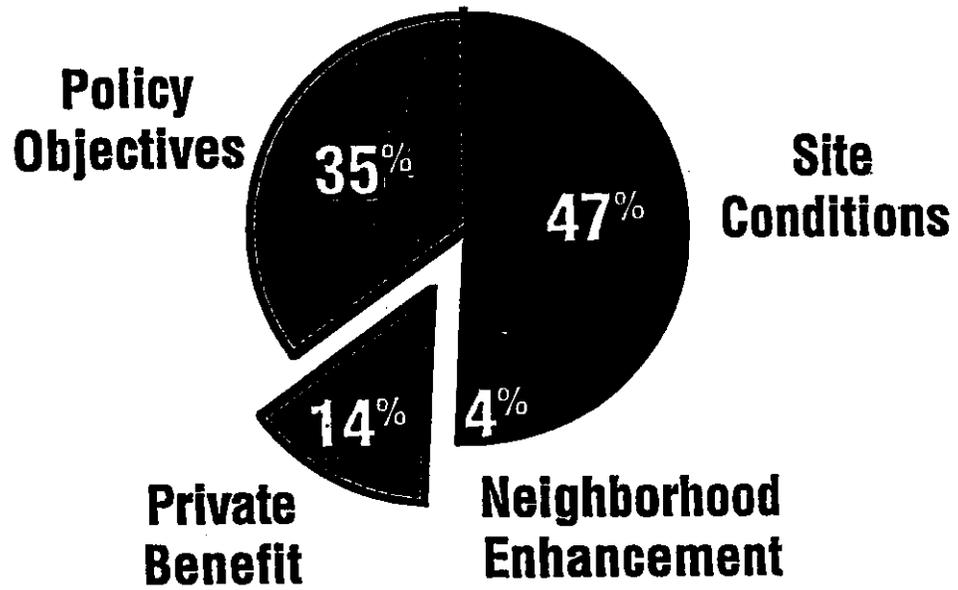
TIF \$\$ In — New Tax \$\$ Out

	\$ millions
Costs Eligible for Reimbursement	913
Total Development Costs	3,500
Revenues to all Tax Districts <u>without</u> TIF (over 23 yrs.)	220
Revenues to all Districts <u>with</u> TIF, <u>not used</u> in TIF Plans	1,788
Tax Revenues <u>not used</u> by TIF:	
Kansas City	48%
Schools	25%
Other Districts	27%

TIF Program — Public Benefits

	\$ millions	
Streets, Sewer & Water	148	
Storm Detention, Pump Station	21	
<u>Site Preparation</u>	<u>261</u>	
Site Conditions	430	47%
Streetscape, Open Space	38	
<u>Facade/Community Grants</u>	<u>1</u>	
Neighborhood Enhancement	39	4%
Parking	155	
Hotels	119	
<u>Housing</u>	<u>44</u>	
Policy Objectives	318	35%
Private Benefit	126	14%

Benefits of TIF Program



Job Creation/Retention K.C. TIF Program

<u>Year</u>	<u>Permanent Jobs</u>	<u>Construction Worker Years</u>
1995	4,604	7,039
1996	7,709	4,882
1997	2,622	3,365
1998	2,035	1,787
1999	3,400	1,778
<u>2000</u>	<u>3,260</u>	<u>2,596</u>
6 Year Total	23,630	21,447
6 Year Average	3,938	3,575

TIF Affirmative Action Policy

TIFC obligates developers to Good Faith Effort to meet—and go beyond—the City's Affirmative Action standards . . .

- **applies City MBE/WBE standards for construction and professional contracts**
- **also imposes obligations regarding construction workforce (City does not)**

TIFC contracts with City Human Relations for full-time staff to administer and monitor program—and pays salary and admin. costs

Developers must demonstrate Good Faith compliance—or risk losing TIF assistance

Developers obligated, by contract, even before they get to first TIF Public Hearing

If necessary, TIFC Committee holds "Come-to-Jesus" meetings with Developers



**City Council Business Briefing
May 15, 1997**

TIF Commission Presentation

TIF Program Implementation...

- 1. Initial Results**
- 2. Administrative Issues**
- 3. Policy Observations**

Draft Report – Discussion Only

TIF Experience—Completed Projects

9 Plans completed between 1984 and 1997

1980s Plans: 2 completed Projects

- 1. West 46th Street Terrace**
- 2. Walnut Creek Apartments**
 - ⇒ **new/rehabbed apartment developments**
 - ⇒ **TIF reimbursed costs of street & infrastructure**
 - ⇒ **plans approved prior to 1990 TIF legislation revisions (e.g., EATS) and prior to State Supreme Court case on W. 46th Street**

1990s Plans: 7 completed Projects

- 1. 40th & Mill Street**
- 2. New York Life Building**
- 3. N.Y. Life Garage**
- 4. Output Technologies Campus**
- 5. J.E. Dunn Expansion**
- 6. Gateway 2000, Inc.**
- 7. Visions Building**

1990s Plans: Benefits of completed projects

- 1. 2,403 new jobs created**
- 2. \$95,151,146 total investment**
- 3. \$10,444,747 increase in assessed value**

Notes: * several projects still in process of hiring
* results above do not include other projects partially complete, such as 11th Street Corridor, Hoechst Marion, Winchester Center, Health Midwest

1990s Plans: Actual costs and benefits compared to Plan estimates:

- 1. Total project costs: 121% of estimated project costs (of 4 projects completed and certified)**
- 2. Assessed values: On average, projects were assessed at 94% of anticipated assessed value contained in approved TIF Plans**
- 3. Public share of total costs: 42%, instead of 55% as estimated in the TIF Plans**

Projects Completed—Plan Goals Not Completed as of May 1997

Briarcliff West TIF Plan (begun 1991)

- ⇒ \$61.4 million invested by Briarcliff West Development Company.
- ⇒ Construction of Briarcliff Parkway, mine reclamation, other infrastructure improvements significantly completed.
- ⇒ Construction 155 new single family houses and 89 zero lot line residences completed.
- ⇒ Commercial Development, source of TIF reimbursement, not begun.
- ⇒ *Developer reimbursed \$69,525 of \$16.5 million in certified reimbursable TIF costs*

Southtown Corridor/31st & Baltimore TIF Plan (begun 1995)

- ⇒ Blue Cross/Blue Shield Data Center completed and revenue stream financing cost of improvements to Metro Shopping Center.
- ⇒ Baptist Hospital and Research Hospital office buildings completed in late 1996.
- ⇒ Revenue streams intended to "jump start" future redevelopment and to assist revitalization of residential neighborhood.
- ⇒ Awaiting final report of actual costs and request for reimbursement.

Hickman Mills TIF Plan (begun 1994)

- ⇒ Assessed value doubled from \$15 million to \$30 million between 1992 and 1996.
- ⇒ Hoechst Marion Roussel completed construction of parking garage, office and R&D space.
- ⇒ All properties acquired and cleared.
- ⇒ Improvements to Hickman Mills Drive underway.

Eleventh Street TIF Plan (begun 1994)

- ⇒ Construction of parking, expansion/rehab of Horford, Cantanial, Polindexter, Fashionblit, Thayer Bldgs. complete.
- ⇒ New construction of office building and parking at 11th and Broadway.
- ⇒ \$31 million in improvements completed.
- ⇒ More than 1200 new jobs created as of May 1997.
- ⇒ IFTC parking garages and first of 2 towers under construction.
- ⇒ *Developer reimbursed \$682,985 of \$9.0 million in certified reimbursable TIF costs*

Americana TIF Plan (begun 1995)

- ⇒ Omni Hotel opened March 1997
- ⇒ 188 new jobs
- ⇒ 397 rehabilitated rooms, 300 parking spaces and 12,000 sq. ft. of meeting space
- ⇒ 100% occupancy rate
- ⇒ Average Daily Rates (ADR) exceeding expectations

Universal Floodwater Detention TIF Plan (begun 1991)

- ⇒ Construction of 6 new warehouse uses and one restaurant completed.
- ⇒ Assessed Value on real property increased from \$21,660 in 1991 to \$4,150,730 in 1996.
- ⇒ Approximately \$2 million expended for flood control, water detention and street improvements.
- ⇒ 400 jobs created.
- ⇒ Plan objective to construct pump station and off-site street improvements not yet begun.
- ⇒ *Developer reimbursed \$655,861 of \$2.0 million in certified reimbursable TIF costs*

Winchester Center TIF Plan (begun 1993)

- ⇒ DST invested \$22 million to expand existing Winchester Data Center and created 100 new jobs.
- ⇒ New buildings constructed by State Farm Insurance and American Cablevision.
- ⇒ Assessed Value increased from \$1.9 million to \$4.5 million between 1991 and 1996.
- ⇒ Plan objective to construct sanitary sewer line to serve residential users not yet begun.
- ⇒ *Developer reimbursed \$220,322 of \$220,322 in certified reimbursable TIF costs*

Seacrey Creek TIF Plan (begun 1993)

- ⇒ New sanitary sewer completed.
- ⇒ Low to moderate income housing, TIF revenue source, under construction.

Santa Fe TIF Plan (begun 1993)

- ⇒ Construction of big box retailer and 2 restaurants completed.
- ⇒ Assessed value increased from \$1.8 million to \$2.1 million between 1994 and 1996.
- ⇒ Blasting method proven to be effective way to undertake mine reclamation.
- ⇒ No further redevelopment has occurred.
- ⇒ *Developer reimbursed \$75,829 of \$185,440 in certified reimbursable TIF costs*

43rd & Main TIF Plan (begun 1994)

- ⇒ Construction completed on Office Depot.
- ⇒ H&R Block completed expansion of corporate headquarters in 1996 and currently finishing up landscaping.
- ⇒ Rehabilitation of bank building for use by H&R Block completed.
- ⇒ Awaiting final report of actual costs and request for reimbursement.

Projects Partially Completed as of May 1997

12th & Wyandotte Hotel TIF Plan (begun 1992)

- ⇒ Construction of new hotel tower underway.

Midtown TIF - Linwood site (begun 1995)

- ⇒ Acquisition and demolition activities completed
- ⇒ Construction of new retail pending.

Uptown TIF Plan (begun 1994)

- ⇒ Rehabilitation is underway on the Uptown Theater.
- ⇒ City has submitted application to the Missouri Development Finance Board for issuance of bonds and tax credits to assist in provision of parking on the Valentine shopping center site.

Shoal Creek Parkway TIF Plan (begun 1994)

- ⇒ Construction underway on Shoal Creek Parkway.
- ⇒ Residential development underway.
- ⇒ Construction of new big box retailer and restaurant completed.

13th & Washington TIF Plan (begun 1996)

- ⇒ Unilog Corporate Headquarters currently under construction

Barry Towne TIF Plan (begun 1996)

- ⇒ Construction of big box retailer completed.
- ⇒ Developer's agreement and structure of MID bonds still under negotiation.

Grand Boulevard TIF Plan (begun 1997)

- ⇒ Development agreement under negotiation.

Tower Properties TIF Plan (begun 1996)

- ⇒ Frem/Sheraton Hotel building demolished and replaced by surface parking lot.

Civic Mall TIF Plan (begun 1994)

- ⇒ Developer selected to construct FAA building and property acquired.
- ⇒ Construction of new Federal Courthouse underway.

Terminated Plans

Linwood Gillham TIF Plan (terminated 1992)
⇒ Plan terminated and superseded by Midtown TIF Plan.

Plans Not Yet Begun

10th & Troost TIF Plan
⇒ Subject of Court case heard by Missouri's Supreme Court and establishing the validity of TIF.

Financial Administration Issues

TIF COMMISSION

- 1. Improve efficiency of billing developer for staff expenses.**

CITY

- 1. Assistance establishing base year information**
- 2. Timely processing of economic activity tax documentation**
- 3. TIFC will pay for City computer programming or other costs in providing data**
- 4. Insuring that confidentiality can be maintained by TIFC**
- 5. Timely delivery of TIF revenues**

COUNTY

- 1. Transfer of County portion of EATs (i.e., 50% of sales tax increment) to Special Allocation Fund**

STATE

- 1. Provision of information regarding base year and incremental sales tax information**
- 2. Develop system to obtain State funding for eligible projects (upon approval of proposed amendments to TIF statute)**

Advantages of TIF over 353

- 1. Developer pays all normal taxes – TIF not a tax break**
- 2. TIF does not take away existing tax revenues**
- 3. Developer bears risks in typical TIF project, not City**
- 4. No reimbursement to developer until improvements completed and certified by TIF Commission, and Affirmative Action requirements met**
- 5. Public controls investment of funds into project (abatement provides no control regarding how/where developers use dollars from tax savings); TIF can use new revenues off-site to improve nearby areas**
- 6. TIF assistance can be uniquely crafted to specific projects . . . often provided for less than the statutory maximum amount or term**
- 7. TIF Plan effective until specified costs reimbursed (often less than 23 years) vs. flat 25 year term of 353**
- 8. Ability to collect economic activity taxes provides greater revenue stream than under Chapter 353; allows more timely completion**

Comparison of Projected TIF Costs and Benefits to Actual TIF Costs and Benefits (by % 1987)													
Plan Name / Project Name	Year Plan Approved	Year Project Completed	C		D		E		F		G	H	COMMENTS
			Total Project Costs Per Plan	Total Project Costs as % of Construction (as of Oct. 31)	Actual Project Costs as % of Construction (as of Oct. 31)	Actual TIF Participation as % of Project Costs (as of Oct. 31)	Planned Value Per Project (as of 1987)	Planned Increase in Value of Project (as of Oct. 31)					
2007a Plan Cancelled													
West 46th Street Thurston TIF Plan	1984	1985	8,032,491	100%	0%	0%	0%	0%	0%	0%	20%	0	102 new & rehabilitated apt. units; Residential project did not produce additional jobs; assessed as cost
West 46th Street Apartments TIF Plan	1985	1981	17,482,000	85%	0%	0%	0%	0%	0%	0%	50%	0	252 new apt. units; Residential project did not produce additional jobs; assessed as cost
Subtotal			25,514,491	93%	0%	0%	0%	0%	0%	0%	35%		adjusted to reflect change in assessment policy made in 1985 to assess apartments as residential
2007b Plan Cancelled & Certified													
Midtown TIF Plan	1989	1990	6,046,150	100%	85%	85%	85%	85%	2,424,370	86%	86%	200	
Project 40th & L St	1994	1999	20,007,200	140%	85%	85%	85%	8,028,004	72%	72%	313		
New York Life Building TIF Plan	1989	1990	11,180,000	85%	85%	85%	85%	491,046	117%	117%	0		Parking garage did not produce additional jobs
Project Parking Garage	1989	1989	6,036,000	85%	17%	17%	17%	1,487,282	86%	86%	718		
Project Office Technology Center	1989	1989	4,833,011	81%	81%	81%	81%	2,413,313	81%	81%	131		
Subtotal			38,002,361	85%	85%	85%	85%	11,423,662	81%	81%	1,122		
2007c Plan Cancelled But Not Certified													
Amsterdam Hotel TIF Plan	1993	1997	9,021,800	0%	0%	0%	0%	0%	2,316,043	0%	0%	118	As not yet certified, do not have final project costs or reimbursable amounts
Project Canal Hotel	1994	1999	4,848,000	0%	0%	0%	0%	438,304	130%	130%	0		As not yet certified, do not have final project costs or reimbursable amounts
Club Mid TIF Plan	1994	1998	4,181,200	0%	0%	0%	0%	2,551,720	130%	130%	1000		Project involving 303 tax abatement assessed value adjusted to show value if no abatement applied
Project Block 88 (U.S. Court Expansive)	1994	1997	2,400,000	0%	0%	0%	0%	891,200	130%	130%	6		Project only 70% complete January 1, 1997; assessed value adjusted to show value if no abatement applied
Project Project 1	1998	1997	60,360,385	0%	0%	0%	0%	2,983,777	130%	130%	1180		As not yet certified, do not have final project costs or reimbursable amounts
Subtotal			111,711,305	0%	0%	0%	0%	4,189,264	130%	130%	1224		
Total of 1987's Projects			194,173,066	86%	86%	86%	86%	18,402,926	84%	84%	2,821		



Date: August 3, 1998
To: TIF Audit Committee
From: Laura Whitener
Re: TIF Program Performance Evaluation

TIF performance can be evaluated looking at a variety of criteria. The most important criteria are the removal of blighting conditions and the actual construction of the proposed project. The actual implementation of the proposed projects is the ultimate measure of success. There are also some other performance measures that can be looked at to evaluate the success of the program and, more specifically, the ability of the TIF Commission to accurately predict the results of the TIF program on the City's tax base.

Criteria:

The TIF Commission has analyzed three different performance criteria which can be used to evaluate whether the TIF program is measuring up to original expectations as set forth in the approved TIF Plans. These three criteria are only a few of the methods for evaluating TIF performance and consist of: 1) actual assessed value to projected assessed value; 2) actual incremental property taxes in the form of payment in lieu of taxes (PILOTS) to projected PILOTS; and 3) actual incremental economic activity taxes (EATS - these include 50% of taxes resulting from new sales, utility and employment activity on the site) to projected EATS. Other measurements of success not directly addressed herein but otherwise relevant, include looking at the other taxes that are being created (e.g., personal property taxes, hotel/motel taxes) and job creation.

Initiation of Measurement:

The three criteria can be measured only for those projects that have been completed *and* it is only appropriate that the comparison be only for those projects completed. The ideal analysis is the comparison of TIF revenues generated in a year to those projected TIF revenues for an equivalent year. That is the comparison of those new taxes actually created and paid for the first full year of operation to those projected for the first full year of operation, comparison of the second year of activity with projected second year of activity, and so on.

The TIF Commission has always operated under the assumption that specified years contained in the Plans were strictly estimated dates and that actual TIF revenue generation would only occur if and when a project was completed. The years listed in the Plan documents were, and continue to be prepared early on in the TIF approval process and are meant strictly as best educated estimates regarding timing of activity. Anyone dealing with redevelopment activity realizes that many factors affect the timing of actual construction and initiation of the TIF revenue generation. These factors include, but are not limited to, governmental approval processes, ability of the developer to obtain private financing and leasing up of the project; and other external factors such as weather.

The analysis undertaken by the TIF Commission begins measurement of actual and projected results only upon completion of the project. You will note in the review of the three criteria that

only those projects which have been significantly completed are included. The other approved project were deliberately omitted as there was no reasonable basis for measuring said activities.

Projects:

The projects discussed herein are often synonymous with their respective TIF Plan. In certain instances one will note that a TIF Plan has been broken into two separate projects. This case occurs when there are two separate designated developers (e.g., Office Depot and H&R Block within the 43rd & Main TIF Plan). In other instances one will note that there is reference to a "Project 1". This occurs when a Plan provides clear distinction between separate projects and said Plan anticipates that individual projects can clearly be identified and measured as unique redevelopment activities (e.g., Project 1 of three projects in the Gateway 2000 redevelopment). In some cases there will be a number of projects comprising a TIF Plan, but because the projects are so intertwined and the individual projects may be rather fluid, these projects have not been separately examined. Bottom line, those projects that are stand alone and measurable have been evaluated.

Source of Information:

Information regarding the actual assessed value came from the appropriate county assessors office and the information regarding PILOTS and EATS came from the City Finance Department. Additional information regarding other tax abatement programs was also obtained from the City Finance Department.

Comparison of Actual Assessed Values to Projected Assessed Values:

Twelve (12) projects were evaluated (see attached exhibit). The overall result is that for the 12 projects together, the actual assessed value realized after completion was 106% of the projected assessed value.

Looking at each of the projects individually there is some variation in individual project performance. At the lower end, the Walnut Creek Apartments TIF project appears to have fallen far short of expectations as the actual assessed value varies significantly from the projected, in part because: 1) the method for valuing property in Clay County tends to result in a value less than market value as estimated by other assessing and appraising bodies and 2) in 1994 the State law was amended resulting in a tax classification change of apartments from commercial to residential uses. These two factors have been incorporated into an adjusted comparison between actual and projected assessed values and the result is reflected in the lower than anticipated assessed value.

In the case where a TIF project has also been the beneficiary of another tax abatement program, the comparison between actual and projected value has been adjusted to measure "apples with apples" and account for the abatement.

The observable trend over time is that actual assessed values are more frequently in excess of the projected assessed values. This trend reflects the ongoing effort by the TIF Commission to base projections on reasonable and conservative assumptions.

Comparison of Actual EATS to Projected EATS:

The ideal analysis, as stated above, is the comparison of actual EATS generated in a year to projected EATS for an equivalent year. This information is not currently available, though the City Finance Department staff has stated that they are working on the information. The only

information that is currently available on actual EATS is provided in the form of showing EATS revenues in the year that they are verified by the City Finance Department. Using the available EATS information would be misleading as there have been significant delays between the time the EATS are generated and paid and the time actually verified and received.

Comparison of Actual PILOTS to Projected PILOTS:

In the comparison of actual PILOTS (PILOTS billed) and projected PILOTS (PILOTS estimated to be billed), thirteen (13) projects have been identified (see attached exhibit). These include 11 of the 12 projects looked at in the comparison of assessed values (13th & Washington has been excluded as no PILOTS have yet been billed), and includes the Southtown and the Winchester Ventures projects. These 13 projects have a measurable track record for purposes of comparing actual to projected PILOTS.

The best way to look at the comparison of actual to projected PILOTS is to look at each project individually and to identify the actual conditions affecting each project (e.g., application of other tax abatement programs). If one looks at all the projects together the total actual PILOTS comparison hold at about 66% of projected. This lump sum approach does not provide the explanation of what is really going on. The following is gives a brief explanation of each projects performance:

- West 46th Street: No projections included in Plan so no way to compare
- Walnut Creek Apartments: This project appears to be performing at approximately one third to one half the projected PILOTS. This is the result of Clay County's tendency to assess property at less than market value and the fact that in 1994 the state law changed the assessment of apartments from commercial properties to residential properties.
- Winchester Venture: This project is the sum of all the activity within the Winchester Center TIF Plan, with the exception of the Visions Project. This project has been generating PILOTS since 1992. The actual PILOTS have been running between 85% and 104% of expectation between 1992 and 1996. In 1997 the PILOTS decreased as the TIF Area was included in the enterprise zone and PILOTS on one of the three properties were abated under the enterprise zone program.
- Visions: After one year, actual PILOTS are 143% of projected.
- Hickman Mills: PILOTS have been collected for 2 years. Actual PILOTS have been between 54% and 59%. At this point no apparent reason has been identified for the discrepancy between actual and projected. This is more confusing as the actual assessed value is 125% of the projected assessed value.
- Office Depot: PILOTS have been billed since 1995 and are coming in at 200% of projected. Again this is puzzling as the completed actual assessed value has been determined by the county assessor to be 81% of projected.
- H&R Block Headquarters: After one year, actual PILOTS are 97% of projected.
- New York Life Building: After one year of PILOTS, actual PILOTS are at 67% of projected compared to actual assessed value at 76% of projected.
- Southtown: In 1997, when the Blue Cross/Blue Shield facility and the Research Hospital and Baptist Hospital office buildings were complete, actual PILOTS were 101% of projected.
- Gateway: PILOTS were first billed in 1997. Actual PILOTS were 33% of projected. This was because Gateway received tax abatement under PIEA, which abatement was not included in the projection of PILOTS.
- Dunn Headquarters: After one year, actual PILOTS are 109% of projected.
- Output Technologies: In 1996 PILOTS were 68% of projected and 142% in 1997.

Performance Audit: Tax Increment Financing

Assessed Value									
Comparison of Projected TIF Costs and Benefits to Actual TIF Costs and Benefits (May 15, 1997) (Revised July 29, 1998)									
A	B	C	D	E	F	G			
Plan Name / Project Name	Year Project Approved	Year Project Completed	Total Project Costs Per Plan	Actual Project Costs as % of Est. Costs Constructed (% of Col. C)	Actual TIF Participation as % of Project Costs (% of Col. C)	Planned Assessed Value Per Project (adj. for 1997)	Actual % of Planned Assessed Value of		
Reimbursable Projects									
1990's Plans Completed									
West 49th Street Terrace TIF Plan	1984	1985	8,822,401	100%	9%	682,180	204%		
Walnut Creek Apartments TIF Plan	1986	1991	17,652,000	92%	10%	3,407,930	56%		
Subtotal			\$ 26,184,461	88%	10%	\$ 4,876,090	82%		
1990's Projects Completed & Certified									
New York Life Building TIF Plan	1994								
Project: New York Life Building		1996	20,007,820	140%	26%	5,822,882	76%		
Project: Parking Garage		1996	11,180,000	86%	56%	6,036,804	72%		
Summit TIF Plan	1995								
Project: Output Technologies Campus		1998	6,096,032	103%	16%	1,457,262	89%		
43rd & Main		1996	13,385,000	\$VALUE!	\$VALUE!	2,487,260	149%		
Project: H&R Block		1998							
13th & Washington		1997	12,816,126			\$2,638,800	72%		
Project: Uniborg									
Subtotal			63,133,797	74%	49%	17,606,636	87%		
1990's Projects Completed But Not Certified									
Chic Mall TIF Plan	1994								
Project: Block 88 (J.E. Dunn Expansion)		1998	4,846,000	101%	25%	820,000	114%		
Gateway TIF Plan	1996								
Project: Project 1*		1996	44,161,335	91%	63%	3,668,394	126%		
Project: Veterans Building		1997	2,400,000	\$VALUE!	\$VALUE!	661,200	130%		
43rd & Main		1996	2,172,000	\$VALUE!	\$VALUE!	1,186,117	81%		
Project: Office Depot		1996	655,189,800	\$VALUE!	\$VALUE!	\$18,251,254	125%		
Hickman Mills		1992							
Project: Project 1/Type 1									
Subtotal			\$ 708,898,935	6%	86%	\$ 25,898,965	123%		
TOTAL of all Reimbursable projects			\$ 797,887,133	14%	45%	\$ 47,379,491	105%		

Comparison of Actual TIF Revenues to Projected
 Projections were taken from original Plan.
 Projections were revised to account for difference in projected year of initiation and actual initiation of project

Plan Name	Project Name	1997		1998		1999		2000		2001		2002	
		Actual	Projected										
Wheat Street Transit	Single Project	\$187,405	0	\$187,281	0	\$187,281	0	\$187,281	0	\$187,281	0	\$187,281	0
Wheat Creek	Single Project	0	0	0	0	0	0	0	0	0	0	0	0
Waterworks	Sum of all Projects	0	0	0	0	0	0	0	0	0	0	0	0
	American Cable Vision	0	0	0	0	0	0	0	0	0	0	0	0
	City	0	0	0	0	0	0	0	0	0	0	0	0
	State Farm	0	0	0	0	0	0	0	0	0	0	0	0
	Utilities	0	0	0	0	0	0	0	0	0	0	0	0
	Sum of all projects	0	0	0	0	0	0	0	0	0	0	0	0
City of Nash	Office Depot	0	0	0	0	0	0	0	0	0	0	0	0
	HMA Blank NGT - Project 2	0	0	0	0	0	0	0	0	0	0	0	0
	Sum of all Projects	0	0	0	0	0	0	0	0	0	0	0	0
	Sum of all Projects	0	0	0	0	0	0	0	0	0	0	0	0
	Project 1 only	0	0	0	0	0	0	0	0	0	0	0	0
	Dunn	0	0	0	0	0	0	0	0	0	0	0	0
	Other Technology	0	0	0	0	0	0	0	0	0	0	0	0
Grand Total		187,405	0	187,281	0								

* No information available as of print time
 ** projected as such for year
 *** The PLATS information is taken from City's list of jobs for City and County
 **** The PLATS information provided by City on basis of actual documentation
 ***** Some BATS documentation was either not submitted or not processed

Performance Audit: Tax Increment Financing

PLOTS

Plan Name	1989			1990			1991			1992			1993			1994			1995					
	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized	Actual	Projected	Percent Realized			
Redevelopment Projects																								
West 48th Street Towers	\$ 88,231	m	88%	\$ 81,284	m	88%	\$ 81,284	m	88%	\$ 81,284	m	88%	\$ 81,284	m	88%	\$ 81,284	m	88%	\$ 81,284	m	88%	\$ 81,284	m	
Westwood Court	212,280	365,808	(171,228)	88%	184,217	388,528	(204,311)	89%	184,217	388,528	(204,311)	89%	184,217	388,528	(204,311)	89%	184,217	388,528	(204,311)	89%	184,217	388,528	(204,311)	89%
Westchester	84,427	84,800	(18,873)	89%	88,488	88,380	(8,382)	89%	88,488	88,380	(8,382)	89%	88,488	88,380	(8,382)	89%	88,488	88,380	(8,382)	89%	88,488	88,380	(8,382)	89%
West Farm	84,427	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Westview	41,748	--	--	41,748	--	--	41,748	--	--	41,748	--	--	41,748	--	--	41,748	--	--	41,748	--	--	41,748	--	
Westwood Hills	11,477	--	--	11,477	--	--	11,477	--	--	11,477	--	--	11,477	--	--	11,477	--	--	11,477	--	--	11,477	--	
Westwood Plaza	73,280	38,800	87,288	287%	73,280	38,800	87,288	287%	73,280	38,800	87,288	287%	73,280	38,800	87,288	287%	73,280	38,800	87,288	287%	73,280	38,800	87,288	287%
Westwood Square	83,813	288,887	(205,074)	28%	83,813	288,887	(205,074)	28%	83,813	288,887	(205,074)	28%	83,813	288,887	(205,074)	28%	83,813	288,887	(205,074)	28%	83,813	288,887	(205,074)	28%
Subtotal	235,297	243,732	(8,435)	89%	217,438	18,118	(219,353)	89%	217,438	18,118	(219,353)	89%	217,438	18,118	(219,353)	89%	217,438	18,118	(219,353)	89%	217,438	18,118	(219,353)	89%

* No information available as of print time
 - indicated as sum for area
 - The PLOTS information is taken from City's list of MIs
 - BATS information provided by City on basis of actual
 - Some BATS documentation was either not submitted or



TAX INCREMENT FINANCING COMMISSION OF KANSAS CITY, MISSOURI

Memorandum

August 3, 1998

TO: John Crawford, Executive Director

FROM: Pat Sterrett, Senior Planner *PS*

RE: **12TH & WYANDOTTE HOTEL TIF PLAN**
AMERICANA HOTEL TIF PLAN
Comparison of Actual and Projected TIF Revenues

12th & Wyandotte (Muehlebach) – Please find attached a copy of a memorandum from Randall Landes, City Treasurer, to Janice Reed, CFO and Director of Finance, regarding a comparison of actual and projected TIF revenues for the 12th & Wyandotte Hotel TIF Plan. As the memo from staff at the City Finance Department notes, TIF revenues generated by the Hotel are 95% of projections, which according to City staff, is sufficient to pay debt service for the project. To date the City has not had to withdraw funds from the General Fund to assist with the payment of debt service.

Americana (Doubletree) – A similar memorandum concerning the comparison of actual and projected TIF revenues for the Americana Hotel TIF Plan is expected from the City Finance Department later this week. Although the hotel opened 6 months later than expected and was only open for 9 months in 1997, according to the developer the hotel came within approximately 15% of the projected revenues for 1997. As noted by the developer, the hotel is currently operating within approximately 11% of projected revenues, due in part to a change in the flag in late 1997, from Omni to Doubletree. At this time we know that the City has had to withdraw funds from the project's reserves, primarily due to the late opening of the hotel. The forthcoming memorandum from City Finance will address how accurate the TIF revenue projections have been regardless of the late opening of the hotel.

■ ■ ■

ECONOMIC DEVELOPMENT CORPORATION OF KANSAS CITY, MISSOURI

10 PETTICOAT LANE ■ SUITE 250 ■ KANSAS CITY, MISSOURI 64106-2103 ■ 816-221-0636 ■ FAX 816-221-0189 ■ 800-889-0636
 INTERNET: <http://www.edckc.com> ■ E-mail: edckc@edckc.com or 73531.625@compuserve.com



Interdepartmental Communication

DATE: July 20, 1998
TO: Janice Reed, Chief Financial Officer and Director of Finance
FROM: Randall Landes, City Treasurer *RL*
SUBJECT: 12th & Wyandotte TIF

Attached please find a comparison of projected to actual tax revenues for the 12th & Wyandotte TIF. The comparison uses the projected tax revenues as shown in Exhibit B of the Cooperative Agreement between the City and Land Clearance for Redevelopment Authority. To date, actual tax revenues are 95 percent of projections.

A preliminary report by the City Auditor shows the actual as a percent of projected to be 247.9 percent. The City Auditor's report compared actual tax revenues to date to the original projections for the 12th & Wyandotte TIF and did not incorporate Super-TIF revenues.

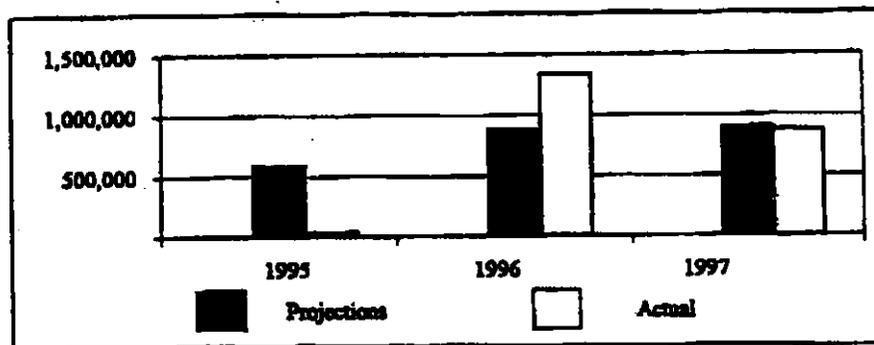
If you have any additional questions or concerns, you may contact me at 274-1317.

cc: Bob Fitzgerald
Bob Graham
Larry Kravitz

MUEHLEBACH / ALLIS PLAZA TIF PLAN
Medium Scenario - Super TIF Begins 9-1-95 & Muehlebach opens 1-1-98
Projections Compared to Actual

	PROJECTIONS			ACTUAL		Total Project Revenues	VARIANCE
	Developer's Projected Revenues	Restricted Taxes	Adjusted Revenues	TIF	Super TIF		
1995	\$ 827,321	\$ 239,662	\$ 587,659	\$ 38,675	\$ -	\$ 38,675	\$ 548,985
1996	1,268,121	382,835	885,286	22,868	1,313,679	1,336,547	(451,261)
1997	1,285,138	383,257	901,881	36,065	835,273	871,338	30,543
1998	2,643,858	544,426	2,099,432				
1999	2,705,509	568,883	2,136,626				
2000	2,822,106	584,653	2,237,453				
2001	2,943,261	601,029	2,342,232				
2002	3,055,828	616,143	2,439,685				
2003	3,192,621	632,325	2,560,296				
2004	3,317,685	649,116	2,668,569				
2005	3,371,273	656,595	2,714,678				
2006	3,427,176	660,871	2,766,305				
2007	3,953,044	660,923	3,292,121				
2008	3,954,649	661,060	3,293,589				
2009	4,001,081	661,006	3,340,075				
2010	4,002,099	661,072	3,341,027				
2011	4,051,134	660,977	3,390,157				
2012	4,052,051	661,013	3,391,038				
2013	4,106,964	661,043	3,445,921				
2014	4,106,939	660,955	3,445,984				
2015	4,165,834	661,006	3,504,828				
2016	2,246,528	415,151	1,831,377				
2017	2,310,985	415,197	1,895,788				
2018	2,311,595	415,175	1,896,420				
Totals	\$ 74,122,900	\$ 13,714,373	\$ 60,408,527	\$ 97,608	\$ 2,148,952	\$ 2,246,560	\$ 128,267

Projections as shown on Exhibit B of the Cooperative Agreement from Official Bond Transcripts



⊙ 1997 actual revenues include TIF and Super-TIF estimates for the second half of the year

Prepared by Treasury Division
7/21/98



Finance Department

Office of the Director

3rd Floor, City Hall
414 E. 12th Street
Kansas City, Missouri 64106

(816) 274-1732

Fax: (816) 274-1799

TELECOPY INFORMATION SHEET

DATE: 7/22/98 TIME: 3:15 PM

PAGES INCLUDING THIS COVER SHEET 3

TO: Mr. Bob Graham 391-2037
Mr. Bob Fitzgerald 374-0509
Mr. Larry Kravitz 435-8680
Ms. Laura Whitener 221-0189

FROM: Dan Baguna

OPERATOR: _____

SUBJECT: 12th & Wyandotte TIF

COMMENTS: _____



TAX INCREMENT FINANCING COMMISSION OF KANSAS CITY, MISSOURI

Memorandum

August 3, 1998

TO: John Crawford, Executive Director

FROM: Pat Sterrett, Senior Planner *PS*

RE: **MIDTOWN REDEVELOPMENT TIF PLAN**
Comparison of Actual and Projected TIF Revenues

Please find attached a copy of a memorandum from Robert Collins, City Manager, to Mayor Cleaver and members of the City Council regarding a comparison of actual and projected TIF revenues for the Midtown Redevelopment TIF Plan. The analysis illustrates that at the end of Fiscal Year 2003-2004 the City will have paid out of the General Fund less than a total of \$80,000 over the previous six years to pay for debt service, utilizing State tax credits as called for in the bond financing and the continued use of the PIAC reserve.

Should the TIF Commission sell a portion of the property at the Linwood/Gillham site, or the State approves the use of 50% of state sales taxes generated by Mill Street Station for debt service payment, the TIF revenues generated would create a surplus for the City of Kansas City, perhaps as much as \$1.7 million.

Since the time the analysis was conducted, documentation of Economic Activity Taxes has been received from some of the tenants of Mill Street Station that meets or exceeds the projections used in the analysis.

ECONOMIC DEVELOPMENT CORPORATION OF KANSAS CITY, MISSOURI

10 PETTICOAT LANE ■ SUITE 250 ■ KANSAS CITY, MISSOURI 64106-2103 ■ 816-221-0636 ■ FAX 816-221-0189 ■ 800-889-0636

INTERNET: <http://www.edckc.com> ■ E-mail: edckc@edckc.com or 73531.625@compuserve.com

IN-12-98 11:14 FROM:

TO: 816 221 8189

PAGE: 001/004

Post-It Fax Note	7671	Date	6-17	# of pages	4
To	Pat Stewart	From	[Signature]		
Co./Dept.		Cell			
Phone #		Phone #			
Fax #	221-0189	Fax #			



Office of the City Manager

DATE: June 10, 1998
TO: Mayor Emanuel Cleaver and Members of the City Council
FROM: Robert L. Collins, City Manager
SUBJECT: Midtown Redevelopment Project/Revised Revenue Estimates

The April 23rd Business Session of the City Council included a discussion of the Midtown Redevelopment Project. Among the items discussed were the Tax Increment Financing (TIF) revenues being received and how those revenues compared to the original revenue estimates and the Missouri Development Finance Board (MDFB) Bond Debt Service. We also discussed the status of the debt service reserve funded with "PIAC" funds. During the discussion, the staff advised the Council that the revenue figures presented were estimates and that actual numbers would be forthcoming. The staffs of the TIF Commission and the City Finance Department have been working since that time to develop revised revenue figures and to refine the estimate under the following assumptions:

- ◆ Anticipate the continued use of the PIAC reserve;
- ◆ The sale of Missouri tax credits at 95% of face value;
- ◆ Includes other potential sources of revenue such as sale of property and State sales tax.

Attached is a copy the most recent update of project cash flow. The revised cash flow analysis indicates that the project will:

- ◆ Provide a potential net surplus over 6 years of approximately \$1.7 million if other sources of revenue such as State sales tax and sale of property are available.
- ◆ Require a City General Fund contribution of approximately \$120,000 in FY 2000. This is due to the MDFB tax credits not being available until FY 2001. However, the City will be able to use tax credits in FY 2001 and can seek reimbursement for the General Fund expenditure of FY 2000, resulting in a repayment of the FY 2000 City funds in FY 2001. General Fund expenditures for the subsequent three (3) years are projected in the \$17,000 - \$20,000 ranges, with a total net General Fund contribution of approximately \$77,000.

LN-12-98 11:14 FROM:

TO: 816 221 0189

PAGE: 002-004

Mayor & Members of the City Council
June 10, 1998
Page Two (2)

- ◆ The available of State sales tax revenues would eliminate the FY 2000 General Fund expenditure, and reduce the expenditures in the following years.

The second page of the attachment includes details on the source of the numbers as well as some additional information recently available from the State of Missouri regarding actual Tax Credit sale history.

In summary, our most recent figures indicate that the City's General Fund exposure over the next 6 years may be limited to a total in the \$70,000 range, even without additional development at Linwood and Main. Additionally, there are potential added revenue sources, which could further reduce this deficit number and result in a \$1.7 million surplus to the City. I believe these numbers provide a much more optimistic potential for this project than was reported earlier.

I hope this information is of assistance. Please feel free to contact me if you have any additional questions.



Robert L. Collins

RLC:emm
Attachments

cc: Mark Bunnell, Economic Development Corporation
John Crawford, Economic Development Corporation
Janice Reed, Finance Department
Robert Langenkamp, City Planning & Development

6/3/98

Midtown TIF Plan - Project Cash Flow
Mill Street Station without Linwood Anchor Tenant

	Actual & Receivables		Projections				Cumulative	
	FY 96-97	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02		FY 02-03
Total Income								
EATS	141,806	371,024	408,889	426,559	443,043	452,816	462,309	471,868
PILOTS	34,880	198,796	198,796	202,772	202,772	208,827	208,827	210,984
City Project Revenues	76,015	194,213	213,033	221,708	229,892	235,011	239,965	246,008
A.	252,601	764,033	820,668	851,037	875,707	894,654	908,101	927,940
Debt Service								
Interest	288,570	939,247	964,500	964,500	979,000	988,000	961,500	938,000
Principal	0	0	0	100,000	200,000	300,000	300,000	400,000
B.	288,570	939,247	964,500	1,064,500	1,179,000	1,288,000	1,251,500	1,338,000
C. TIF Income After Debt Service(A-B)	-46,669	-175,214	-165,812	-233,463	-303,293	-373,346	-342,399	-407,060
Use of PIAC Reserve								
Starting Balance	500,000	453,431	278,217	114,405	0	0	0	0
Draw on PIAC Reserve	-48,569	-175,214	-183,812	-114,405	0	0	0	0
PIAC Reserve Carry-Forward	453,431	278,217	114,405	0	0	0	0	0
E. Shortfall from Gen. Fund (C-D)	0	0	0	119,058	303,293	373,346	342,399	407,060
F. Net Utilization of MO Tax Credits (95%) (repaid to City Gen. Fund)	0	0	0	0	401,234	354,878	325,279	306,707
MO Tax Credits Available for Issuance	0	0	0	0	700,000	659,877	624,409	591,881
G. Net City Gen. Fund Payment (E-F)	0	0	0	119,058	-97,941	18,667	17,120	20,353
H. Other Potential Income Sources								
State Sales Tax Available	0	0	73,508	186,109	186,413	200,289	204,746	208,260
Land Sales - Net Proceeds (Main St. parcel)	0	0	350,000	0	0	0	0	0
Land Sales - Net Proceeds (Main/Linwood parcel)	0	0	400,000	0	0	0	0	0
Other Sources	0	0	0	0	0	0	0	0
Total	0	0	823,508	186,109	186,413	200,289	204,746	208,260
I. Potential City Midtown Loss/Surplus (H-G)	0	0	823,508	67,050	293,354	181,621	187,628	188,907

77,258

1,819,328

1,742,068

Midtown TIF Plan — Project Cash Flow (NOTES)

TIF Income (EATs, PILOTs, City Project Revenues)

- FY 1997 & 1998 PILOTs are actual. PILOTs projections are based on 2% biennial growth.
- FY 1997 and 1998 EATs include receipts of \$319,024. Remaining \$193,906 consists of:

County EATs	\$150,126
City EATs	\$43,780

➤ *County EATs consist of \$139,007 of previously documented EATs that will be reimbursed by County; remaining \$11,119 based on EATs data provided by tenants; support documentation forthcoming.*

➤ *City EATs based on data provided by tenants; support documentation forthcoming.*

- FY 1999-2004 EATs projections based on forecasts from Block & Co. and Associated Wholesale Grocers (AWG). AWG predicts 15.27% sales growth for *Sunfresh* for FY 98-99. Midtown forecast uses lower 12% growth. Projected growth rates are as follows:

FY 1999	12.05%	
FY 2000	3.48%	
FY 2001	4.25%	(new stores in currently vacant space)
FY 2002	2.18%	
FY 2003	2.08%	
FY 2004	2.07%	

- Actual City Project Revenues received for FY 1997 and FY 1998 is \$230,727. Remaining \$39,501 based on EATs data provided by tenants; support documentation forthcoming.

Debt Service

- Debt Service Schedule per actual payments (FY 1997 & 1998) and Bond Documents.
- Per Bond Documents, shortfall to be paid from General Fund, to be reimbursed with Missouri Tax Credits.

Missouri Tax Credits

- Missouri Tax Credits can be drawn upon beginning December 15, 2000 (first request will cover City's cumulative contributions from City's General Fund from December 2, 1998).
- MDFB states that credits have not sold for less than 95% of face value. \$8.75 million in credits were issued in the last year at 100% of face value. Forecast assumes Missouri Tax Credits are sold at just 95% of face value.
- Missouri Tax Credits to be repaid upon final bond issuance regarding Linwood project site, when new anchor(s) secured.
- MDFB states that City's draw-down of Tax Credits will in no way harm relationship between City and MDFB/State— that is what they created the program for.

Other Potential Income Sources

- State Sales Tax: Project is eligible to receive half of State's Sales Tax revenues. City's application submitted to State; not yet approved.
- Land Sales: One possible sale has been tentatively negotiated for a restaurant on Main Street; another for complete redevelopment of the Linwood/Main corner (currently the *Toto*/gas station), into neighborhood convenience center—combination gas service, restaurant.



May 15, 1997

Ms. Kay Waldo Barnes, Chairman
Tax Increment Financing Commission
809 W. 57th Street
Kansas City, Missouri 64113

Dear Kay:

In recent discussions concerning the relationship between the Economic Development Corporation, the Tax Increment Financing Commission, the Land Clearance for Redevelopment Authority and the Port Authority ("the Statutory Agencies"), it appears to be necessary to reaffirm that relationship so that it is absolutely clear to all concerned, and to set forth some guidelines governing the day-to-day inter-relationship and activities.

The Economic Development Corporation is a private, not-for-profit corporation whose purposes are to develop programs to aid business, including small businesses, in Kansas City, Missouri, with the objective of retaining existing business, helping existing business to expand, and attracting new business with priority given to the central city; to utilize land and building development and redevelopment, professional marketing and assistance in financial aid procurement to achieve its goals; to establish channels for public and private cooperation in industrial development in order to enhance private investment and the creation of jobs; to serve as a communications link between various Federal, State and local governments, private groups and industry in order to improve and expedite assistance in industrial development in the community; to improve the utilization of public investment and incentives as a catalyst and support for increased private investment in order to maximize the effect of such private investment in industrial development, to cooperate with groups and organizations which desire to perform any of the aforementioned services; to do and perform any and all other things necessary or incidental to any of the foregoing.

The Statutory Agencies have each been created by the City of Kansas City, Missouri pursuant to statutory authority and are independent bodies with specific powers and duties, for the exercise of which they are responsible to the City Council of Kansas City, Missouri.

In order to take advantage of economies of scale, to ensure the most efficient operation of the Statutory Agencies and to promote the goal of financial self-sufficiency for EDC and the Statutory Agencies, EDC entered into a Cooperative Agreement with the City of Kansas City,

E
E
E

ECONOMIC DEVELOPMENT CORPORATION OF KANSAS CITY, MISSOURI

10 PETTICOAT LANE • SUITE 250 • KANSAS CITY, MISSOURI 64106-2103 • 816-221-0636 • FAX 816-221-0189 • 800-887-0636

COPY

Bailus Tate
May 15, 1997
Page 2

Missouri, and the Statutory Agencies whereby EDC agreed to provide staff, administrative support, office space and equipment.

In order to ensure that the intent of the Cooperative Agreement is carried out to its fullest extent in the ordinary course of business, it is hereby understood that:

A. Neither the EDC as a body, nor any of its officers, has authority or control over the policy or decisions of the Statutory Agencies, or the staff persons assigned to such agencies when such staff persons are in the performance of their duties with respect to the policy and decisions of such agencies.

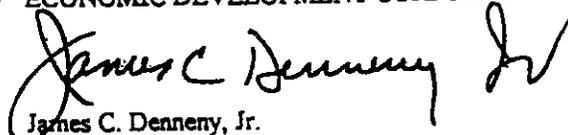
B. Staff shall be provided by EDC commensurate with its budgetary abilities, and shall include an executive director for each Statutory Agency and such other full or part-time personnel as is agreed to from time to time by EDC and each Statutory Agency, and such office space and equipment as is reasonably required for them to carry out their duties.

proposal
ED
3/97
C. An executive director of each Statutory Agency shall be appointed by EDC with the advice and consent of the respective Statutory Agency. Other personnel shall be assigned by EDC to the extent possible to meet the needs of the Statutory Agencies. Compensation for all personnel assigned to a Statutory Agency shall be determined by EDC through its Bylaws, Audit, Finance, Compensation, Funding and Loan Corp Committee, the President and Officers. The executive director and such staff shall perform such duties as deemed appropriate by the respective Statutory Agency. The Agency shall participate in the evaluation of the personnel assigned, including compensation factors.

D. The executive director and all staff assigned to the Statutory Agencies shall be employed by EDC pursuant to EDC's Bylaws as amended September 17, 1996, and Employee Manual adopted September 17, 1996.

Yours truly,

ECONOMIC DEVELOPMENT CORPORATION



James C. Denny, Jr.
Chairman of the Board

jsq

Appendix E

**City Auditor's Comments Regarding the TIF Commission Executive
Director's Response**

This appendix is the city auditor's written comments on the response by the executive director of the TIF Commission. The numbers listed for each comment refer to specific passages in the executive director's response (Appendix D).

1. The City Council directed us to compare actual and projected performance and to suggest ways to improve the use of TIF in Kansas City. Our audit objectives are based on the Council's direction. Our audit was never intended to measure the "full tax base results of TIF projects."

The resolution that directed our audit also directed the city manager to study the effect of funding development through TIF on the city's revenue stream. The city manager's study, together with our audit, would provide a more complete analysis of the impact of TIF. However, the city manager's study was not completed.

Our analysis does measure an important result of TIF – the revenue that is generated and available to reimburse development. The timing of revenue is important. It is particularly important when delays in generating revenue indicate that the problems TIF is intended to address, such as blight, are not being addressed as quickly as anticipated when the plans were approved by the City Council.

The comparison of revenues and projections is also important because the projections are included in proposals that are considered by the TIF Commission and the City Council. Decision-makers should have good information. We found that the projections systematically overstate revenues. The information the TIF Commission and the City Council receive could be improved.

We intended to assess performance in relation to the specific objectives that are included in each plan approved by the TIF Commission and the City Council. However we found that the objectives are not adequate indicators of plan performance. In absence of adequate performance indicators, we have not drawn any broad conclusions about the performance of TIF plans. We recommend the executive director of the TIF Commission develop performance measures for each plan and annually report on these measures.

We believe it is important and appropriate to consider and measure the effects of funding development through TIF. In our April 1997 budget review, we noted that two financial indicators that are directly related to TIF were showing unfavorable trends.¹

¹ *Review of the Submitted Budget for Fiscal Year 1998*, Office of the City Auditor, Kansas City, Missouri, April 1997.

Restricted revenue includes revenue devoted to reimbursing TIF redevelopment costs. The portion of net operating revenues that are restricted has been increasing. Economic development incentives are a significant portion of general fund transfers-out. Net general fund transfers-out as a portion of the general fund have been increasing. Both of these trends are unfavorable and reduce the city's ability to alter spending priorities in response to changing service demands and needs.

It will be difficult to measure the effects of funding development through TIF because we do not know what would have happened without TIF. We do not know the portion of economic activities that occur within TIF areas that would have occurred in other parts of the city. "But for" findings do not address these questions about economic impact because the analyses to support the findings focus on the developer's specific proposal rather than the general development potential of an area.

2. The conflict in the responsibilities that are assigned to the EDC is inherent in the structure and is not based on a value judgement. Staff are in a position in which they cannot objectively and independently evaluate proposals or monitor the progress of TIF plans. This is a serious weakness inherent in the current structure. We recommend a model process that addresses the conflict.
3. We never assumed that developer involvement is "inevitably bad," and the report includes no statements or conclusions to that effect. Developer involvement in the use of TIF and implementation of TIF plans is clearly necessary. However, the interests of developers are not necessarily the same as the interests of the city. It is essential that the process of reviewing, approving, monitoring and reporting on plans is designed with the understanding that the city's interests are not the only, or even the prime, interests of developers.
4. The executive director of the TIF Commission seems to infer that we characterize plans as "failures." There are no conclusions about the "success" or "failure" of individual plans in the report.
5. All TIF plans carry risk for the city. All plans face the risk that public incentives may be used when projects could have been financed privately or when a smaller incentive could have achieved the same public goals. This risk is present whether bonds are issued and city funds are invested, or not.
6. The revenue projections included in proposals considered by the TIF Commission and the City Council have systematically overstated revenue. The projections, which are one part of the information used by decision-makers, are inaccurate.

7. We found that staffing is inadequate and that the EDC has been assigned conflicting responsibilities. Additional staff alone cannot address the structural conflict that is inherent in the current relationship between the EDC and the TIF Commission.
8. The model process that we recommend does not prevent the TIF Commission from entering into a contractual agreement with developers. The model places the responsibility for monitoring and reporting on the developers' progress with the TIF Commission.
9. This is not what the audit report asserts. We found that TIF revenues are substantially below projections. This may indicate further performance problems. We did not determine why revenues are below projections. We did not conclude "TIF is significantly under-performing."
10. The TIF Commission does not have written procedures establishing basic requirements for contracting. The executive director of the TIF Commission provided us with written confirmation of the lack of procedures. The EDC has purchasing guidelines that exclude professional services. Professional services expenditures by the TIF Commission are significant. None of the examples that we cite in the report – legal services, environmental services, engineering services or temporary services – are addressed by the purchasing guidelines.