

LIVESTOCK EXCHANGE, LLC

1600 GENESSEE, SUITE 846
KANSAS CITY, MO 64102

(816) 221-4501 • FAX (816) 842-5078

August 30, 2007

Honorable Mayor Mark Funkhouser
and Members of the City Council
City of Kansas City
414 East 12th Street
Kansas City, Missouri 64106

VIA HAND DELIVERY

Dear Mayor Funkhouser and City Councilmembers:

Please find attached the policy recommendations of the Economic Development and Incentive Task Force empanelled on May 31, 2007. This document represents the consensus work of 14 citizens and 6 councilmembers over a very brief three-month period.

It goes without saying that this policy document is different than what would have been produced if any single person had been asked to draft policy recommendations on this subject. But, I believe you intended in the construction of this body to ensure voices were heard from a variety of backgrounds, interests and perspectives. You certainly see those voices reflected in the document.

There is much work to be done, even if the City Council were to adopt this policy recommendation without changes. Many of our recommendations require substantial work in an implementation process. We understand that City staff – along with the consultants to this process – stand ready to engage in that effort. Having said that, I do believe we have made some significant headway toward addressing the very public concerns both you and the citizens of the community have expressed about the way economic development incentives have been administered in the past.

The resolution establishing the Task Force identified five tasks to be addressed. I believe we have addressed each concern as described below:

1) Goals and criteria to define the economic benefit both to the government and to the entities receiving the incentives.

The Task Force identified six desired outcomes of the City's economic development efforts:

- Create quality jobs
- Strengthen the economy and build the wealth of Kansas City
- Sustain a high quality of life
- Promote stewardship of the City's resources
- Maintain and develop affordable, quality housing opportunities
- Promote comprehensive opportunities for education, skills development and lifelong learning

Within each of these six areas, the Task Force identified a number of policy factors that contribute to a project's success in producing a desired outcome. Further, the Task Force prioritized a list of key policy factors to serve as the basis for an objective evaluation system for projects seeking public investment.

The Task Force felt strongly that *every* project seeking public investment should be subject to a "but-for" test addressing both fiscal and social concerns (not just developer rate-of-return) and that each project should be analyzed to determine the fiscal impact on the City.

2) Conditions under which incentives should be granted

The Task Force felt that a worthy project located anywhere in the City should have the potential to qualify for incentives, but that the use of incentives is not universal. The use of incentives should vary based upon the type of project, the project's attention to the City's desired policy outcomes, and the fiscal impact on the City and other taxing jurisdictions. The Task Force did identify specifically the types of incentives and the uses for those incentives it felt were appropriate in Kansas City.

3) Actions taken should actual benefits differ from planned benefits

The Task Force developed a three-stage recommendation for project and policy evaluation: **application intake and review**, performed by the EDC and City staff, leading to approval by the city council; **project compliance**, performed by the City, to determine the project's actual achievements and performance after public investment has been granted and to enforce "clawbacks" in the event of project underperformance; and, **policy evaluation**, conducted by a citizens' panel and assisted by EDC and City staff, to determine the overall success of the City's economic development efforts in achieving desired outcomes.

4) Methods to measure and compare established goals and criteria

As discussed above, the Task Force's three-step recommendation encompasses the entire life of the project, from initial application to conclusion. The process provides for a rigorous, objective evaluation of the project application's attention to desired policy outcomes, continuous on going monitoring of the project's performance, and an assessment of the success of the overall program.

5) Other issues identified by the Task Force

There are a number of other issues the Task Force addressed. Among them, the Task Force's desire to see economic development activity directed to economically distressed areas of the community and the City's attention to the development of small business seemed to generate the most conversation. The Task Force's consensus was that economic development should benefit *all* Kansas Citians. The evidence to date suggests that public investment has not benefited the entire community and that the City needs to realign its efforts to ensure distressed neighborhoods are included in the future success of the City's economic development efforts.

On behalf of the 19 other members of the Task Force, please accept my gratitude for the opportunity to serve the City of Kansas City. It has been a challenging summer, but I feel that we have provided you with a strong foundation from which to retool an economic development process that is goal-driven, accountable, open and fiscally prudent. I wish you much success in your continued efforts.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bill Haw". The signature is written in black ink and is positioned above the typed name.

Bill Haw
Chairman
Economic Development Policy and Incentive Task Force

3 enclosures

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Final Recommendations

Economic Development and Incentive Policy Task Force

Bill Haw, Chairman
August 30, 2007

TABLE OF CONTENTS

STATEMENT OF PURPOSE	1
WHAT IS ECONOMIC DEVELOPMENT?	1
OUTCOMES OF KANSAS CITY'S ECONOMIC DEVELOPMENT AND INCENTIVE POLICY	2
▶ CREATE QUALITY JOBS	2
▶ STRENGTHEN THE ECONOMY AND BUILD THE WEALTH OF THE KANSAS CITY.....	3
▶ SUSTAIN A HIGH QUALITY OF LIFE	4
▶ PROMOTE STEWARDSHIP OF THE CITY'S RESOURCES.....	5
▶ MAINTAIN AND DEVELOP AFFORDABLE, QUALITY HOUSING OPPORTUNITIES.....	5
▶ PROMOTE COMPREHENSIVE OPPORTUNITIES FOR EDUCATION, SKILLS DEVELOPMENT AND LIFELONG LEARNING.....	6
APPLICATION REVIEW, PROJECT COMPLIANCE, AND POLICY EVALUATION.....	6
▶ APPLICATION INTAKE AND REVIEW.....	6
▶ PROJECT COMPLIANCE.....	9
▶ POLICY EVALUATION	9
▶ DEVELOPMENT OF ECONOMICALLY DISTRESSED AREAS	9
▶ SPECIAL CONSIDERATION FOR SMALL BUSINESSES	10
USE OF INCENTIVES AND OTHER PUBLIC INVESTMENTS.....	10
▶ INVESTMENTS VARY FROM PROJECT TO PROJECT	10
▶ "BUT-FOR" STANDARD FOR ALL INCENTIVES	10
▶ EVALUATION OF IMPACT	11
▶ APPROPRIATE USES FOR PUBLIC INVESTMENT	11
▶ APPROPRIATE LOCAL TOOLS FOR PUBLIC INVESTMENT.....	11
▶ LEVERAGING ECONOMIC DEVELOPMENT SUCCESS.....	12



ECONOMIC DEVELOPMENT AND INCENTIVE POLICY RECOMMENDATIONS

August 30, 2007

Statement of Purpose:

The purpose of the Kansas City's Economic Development and Incentive Policy is to:

- ✓ Define economic development in Kansas City
- ✓ Establish a framework for actions needed to make Kansas City more livable for all residents
- ✓ Generate lasting private investment in Kansas City, benefiting all residents
- ✓ Guide decision-making regarding how public investments are made in support of economic development

The City's Economic Development and Incentive Policy is a living document and is periodically evaluated to ensure that the policy direction reflects the City's desired outcomes.

What is Economic Development?

For Kansas City, economic development is defined as:

the process whereby a community creates the conditions which foster economic growth, the outcome of which is an improvement in the quality of life. The outcomes of economic development are the return for the City's investment in this process. Economic development that only benefits one segment of the community, despite an investment by all, is not sustainable. Therefore, sustainable economic development must encompass an evolving strategic plan that produces outcomes for all concerned.

Desired outcomes include: an increase in human capital development, such as education, job skills, and childcare; an increase in financial capital development, such as job growth, small business development and access to credit; the protection of natural capital, including natural and physical resources; and the betterment of the community, such as blight reduction, poverty reduction, crime reduction and increased recreational opportunities. Achieving these outcomes consistently requires a clear vision; specific tools for evaluation, decision-making and monitoring individual projects, supported by strong partnerships; creative leadership; and political will.

Outcomes of Kansas City's Economic Development and Incentive Policy:

Quality of life and economic development are interdependent community priorities. Achieving one cannot be at the expense of the other. A strong, vibrant community attracts economic investment. Outcome-driven economic investment results in long-range financial returns, as well as community benefits that improve quality of life. To improve the quality of life for all residents and secure Kansas City's future as a vital, livable community, certain outcomes must be achieved as a result of economic development investments:

- **Create quality jobs**
- **Strengthen the economy and build the wealth of Kansas City**
- **Sustain a high quality of life**
- **Promote stewardship of the City's resources**
- **Maintain and develop affordable, quality housing opportunities**
- **Promote comprehensive opportunities for education, skills development and lifelong learning**

The six Policy Outcomes, and a number of factors for each outcome, are described in more depth below.

► Create Quality Jobs

Kansas City's Economic Development and Incentive Policy assists the City in generating and maintaining quality jobs. Quality jobs, for businesses with 50 or more employees, are full-time jobs in a business whose average wage is equal to or greater than the county average wage (as published by the Missouri Department of Economic Development), include affordable health insurance with at least 50% of the premium paid by the employer, provide opportunities for advancement and offer a comprehensive benefits package including opportunities to save for retirement. Quality jobs, for businesses with less than 50 employees, are full-time jobs that pay a wage of at least 110% of the hourly mean wage for comparable occupations (as published by the Bureau of Labor Statistics in its most recent "Metropolitan Area Occupational Employment and Wage Estimates" report for the Kansas City, MO-KS Metropolitan Statistical Area), include affordable health insurance with at least 50% of the premium paid by the employer, provide opportunities for advancement and offer a comprehensive benefits package including opportunities to save for retirement. Full-time jobs are regular jobs averaging at least 35 hours per week and eligible for the same benefits provided to all full-time jobs in the business.

- ✓ **Business Assistance:** support small businesses in the city; preserve, develop and sustain businesses, and promote an entrepreneurial culture.
- ✓ **Focus on Economically Disadvantaged Areas:** target economic opportunities for economically disadvantaged areas of the city.
- ✓ **High Quality Benefits:** focus on jobs that provide quality benefits, including affordable health insurance and retirement; subsidize the health insurance costs of employers who employ workers who live and work within certain empowerment zones or communities.

- ✓ **Local Jobs for City Residents:** tie public investments in private enterprise to the creation of quality jobs for existing residents of the city, especially jobs that will create opportunities for the city's unemployed.
- ✓ **Provide Connections:** connect skilled workers with employers needing skilled help using city partnerships, such as faith-based organizations, community colleges and vocational/technical facilities.
- ✓ **Workforce Development:** invest in workforce development activities, such as job training and development of life skills; improve opportunities for high-tech educational opportunities and jobs.
- ✓ **Workforce Support:** provide support to employees, such as assistance with day care, transportation or housing needs; ensure displaced employees are reintegrated quickly into the city's workforce.

▶ Strengthen the Economy and Build the Wealth of the Kansas City

Kansas City's Economic Development and Incentive Policy assists the City in strengthening the local economy and building the wealth of the city by increasing the income of all residents while reflecting a concern for the distribution of income, growing the profits of city businesses, reducing poverty and strengthening the tax bases of the city's local governments.

- ✓ **Business Development:** grow small businesses into larger ones and create opportunities for new businesses to flourish; promote an entrepreneurial culture.
- ✓ **Business Recruitment:** recruit and relocate existing businesses from outside of the city.
- ✓ **Business Retention:** retain a diverse array of current businesses within the city. Develop and maintain business relationships with existing businesses and gather better business intelligence (who is growing and who is shrinking).
- ✓ **Cluster Development Promotion:** recruit, retain and grow multiple and complementary businesses in the same industry type. Kansas City, for instance, is seeking to develop a biosciences cluster following the construction of the Stowers Institute.
- ✓ **Improved Business Climate:** improve the City's friendliness to business; streamline the City's practices and procedures by which businesses obtain permits, licenses and other requirements for operation; ensure quality customer service by City employees through high expectations, training and multilingualism.
- ✓ **Integration of Diversity:** ensure the integration of all races, ethnicities and cultures into the city's economy and social structure.
- ✓ **Marketing Efforts:** promote Kansas City through electronic, print and other media to attract private investment, promote tourism and encourage enjoyment of the city's many benefits by residents of the Metro area.
- ✓ **Sustainable Development:** ensure development meets both today's needs and those of future generations.
- ✓ **Target Development Areas:** identify specific areas within the city that will be the target of economic development activity.

▶ Sustain a High Quality of Life

Kansas City's Economic Development and Incentive Policy assists the City in enhancing Kansas City as a "most livable city" by supporting basic public services, promoting public safety (both real and perceived), protecting the environment and fostering a vital creative culture.

- ✓ **Blight Reduction:** reduce or eliminate blight.
- ✓ **Collaboration:** link neighborhood groups, religious institutions and businesses to work together in a collaborative way to improve quality of life.
- ✓ **Crime Reduction:** pursue strategies that reduce crime and enhance the perception of safety in every neighborhood.
- ✓ **Culture/Arts:** enhance existing or develop new arts and culture infrastructure, programs, activities and opportunities for residents and visitors to experience a diverse, high-quality mix of arts and culture (examples of outcomes to be measured include the numbers of resident artists, galleries, artist studios and live/work spaces, performance venues, arts organizations, and museums, as well as annual attendance at arts and cultural events and facilities).
- ✓ **Environment:** focus on development/redevelopment projects that are "climate-friendly" meaning they help minimize or reduce greenhouse gas emissions; promote "green construction," such as requiring developments to design and construct according to the U.S. Green Building Council's LEED (Leadership in Energy & Environmental Design) Standards.
- ✓ **Infrastructure Plans:** preserve, enhance & construct physical infrastructure to support economic development.
- ✓ **Land Preservation/Restoration:** acquire, preserve land as a tool of economic development. Examples include preserving the City's green infrastructure and remediating "brownfields" sites.
- ✓ **Livability:** create livable neighborhoods that help in making physical and social connections between people.
- ✓ **Maintain Unique Assets:** preserve and enhance the natural and man-made assets unique to the city.
- ✓ **Neighborhoods/Community Development:** preserve and enhance neighborhoods and small communities within the city. Examples include micro development business opportunities and the preservation of historic neighborhoods.
- ✓ **Partnerships:** build long-term partnerships between law enforcement, community groups, developers and other key parties in troubled communities to reduce persistent crime, disorder and fear.
- ✓ **Physical Improvements:** target physical improvements and improve development design to prevent crime and improve the perception of public safety.
- ✓ **Public Transit:** promote "transit-oriented design," promoting the use of public transportation as a tool of economic development.
- ✓ **Quality of Life:** promote city quality of life. Examples include park and open space development, walking/biking trails, and access to unique retail and dining within the city.

- ✓ **Youth Involvement:** develop programming and opportunities to engage the city’s youth, including job opportunities and skills development, and to steer youth away from crime.

▶ Promote Stewardship of the City’s Resources

Kansas City’s Economic Development and Incentive Policy provides a framework to ensure that public investment in economic development is measured, appropriate, effective and affordable.

- ✓ **Fiscal Impact on City:** control the fiscal impacts of the economic development plan or policy on city government.
- ✓ **Impact on Neighborhoods:** require development applications to include a statement of neighborhood impact including both examples of the positives from the development (for example, the opening of a community grocery) and the negatives (for example, traffic congestion and light pollution).
- ✓ **Measurement:** monitor, measure and report on each development’s progress in delivering on its economic, social and environmental promises.
- ✓ **Social Impact on City:** ensure that private development benefiting from public investment produces benefits broader than just financial.
- ✓ **Sustainability:** make decisions and take actions promoting the “3 Es”—economic vitality, social equity, and environmental quality.

▶ Maintain and Develop Affordable, Quality Housing Opportunities

Kansas City’s Economic Development and Incentive Policy assists the City in ensuring that every Kansas Citian—in every corner of the city—has access to quality, affordable housing. The City promotes a diverse housing supply through implementation of its own housing policy (City Ordinance #070062), and partners with state and local agencies, organizations, non-profits and community groups to ensure the success of its housing initiatives.

- ✓ **Compete for Development:** compete with neighboring communities for new housing development projects.
- ✓ **Construct Quality, Affordable Housing:** use incentives and public/private partnerships to promote the construction of quality, affordable housing, especially in economically distressed areas.
- ✓ **Encourage Mixed-Income Development:** de-concentrate areas of poverty and integrate market rate, affordable and public housing units in the same neighborhood (i.e. mixed income housing development).
- ✓ **Identify Market Impediments to Housing Development:** analyze impediments to quality, affordable and market-rate housing and use public investment to correct problem conditions.
- ✓ **Protect Existing Housing Stock:** re-use and conserve existing buildings so that prevailing character of the neighborhood is maintained; ensure renters, as well as owner-occupants, have access to rehabilitation and improvement funds.
- ✓ **Replace Housing Stock:** require the replacement of housing units that are viable and demolished as a result of development projects receiving incentives.

- ✓ **Target Development Areas:** identify specific areas within the city that will be the target of economic development activity.
- ✓ **Uniform Application of Housing Standards:** apply housing standards uniformly across the city for every type of new and rehabilitated housing to ensure quality construction.

▶ Promote Comprehensive Opportunities for Education, Skills Development and Lifelong Learning

Kansas City’s Economic Development and Incentive Policy recognizes that a quality education for every Kansas Citian forms the foundation for all other economic development efforts. Quality academic, vocational, and technical educational opportunities provide existing and future workforces with the skills necessary to allow Kansas City to build its own knowledge asset base and to compete for private investment.

- ✓ **Early Childhood Education:** ensure availability and access to early childhood education for all families and involving all segments of the city in sponsoring youth education and recreation programs.
- ✓ **Lifelong Learning:** ensure that residents are afforded the opportunity to learn throughout their lives and in every phase of what they do.
- ✓ **Post-Secondary Education:** Provide opportunities for after high school and adult learning through a variety of alternatives, including post-secondary education, continuing education and training, workforce development and on-the-job-training, and “recreational” or vocational learning.
- ✓ **Primary and Secondary Education:** Support kindergarten through high school education by demanding high quality education and supporting positive family involvement.
- ✓ **Quality:** improve both the quality of K-12 public education and the perception of public school quality in the city.

Application Review, Project Compliance, and Policy Evaluation:

The City’s economic development investment process has three steps and includes a feedback loop to promote policy refinement from time to time. The three steps are: **application intake and review; project compliance; and policy evaluation.**

▶ Application intake and review

The Economic Development Corporation (EDC) serves as the initial point-of-entry for all applications for public investment in economic development projects. Once a developer has filed an application with the EDC, the EDC immediately conveys the application materials to the City Manager’s Office which coordinates the City’s review.

- ✓ **Objective system to evaluate applications for assistance:** the EDC and City use the same standard, quantifiable, objective system to evaluate the extent to which project applications address the City’s economic development Policy Outcomes.

- ✓ **Project achievement of City policy objectives:** developers are required to identify how their proposed projects meet the Policy Outcomes of the City.
- ✓ **Evaluation of impact on existing businesses:** the impact on existing businesses of a proposed development is considered when incentives are proposed for new or expanding businesses, including a quantification of potential substitution effects, a quantification of any adverse impact on other areas of the City, including those already having received public investment, and a description of whether unfair competition would result from the public investment being made in the project.
- ✓ **City Council approval of *all* requests for public investment:** the City Council has final approval over *all* incentives or public investments granted by the City or any of its partner economic development agencies.
- ✓ **Summary impact statement:** City staff prepares and the City Council reviews a summary fiscal and social impact analysis, transmitted with any development-related agenda item to be considered by the City Council or its committees, for every project under consideration. This statement identifies the extent to which the proposed project conforms to this policy and achieves the City's Policy Outcomes.
- ✓ **Public access to application:** the City uses a formal process to engage Kansas City residents in the application review process and, at a minimum, makes detailed information about the application and proposed project available to the public timely enough to allow public comment to the EDC, City Council, Council Committees, or the boards of the City's partner agencies, on the pending application.
- ✓ **Exceptions to process:** the City Council may grant exceptions to the evaluation system after making a finding or findings that the project cannot or should not be evaluated using the standard process.

Each application for public investment will be reviewed for its attention to a number of policy factors. In order of priority, these factors include:

[remainder of page intentionally left blank]

Policy Measurement	Policy Objective	Votes
Reduce or remove blight	Quality of Life	9
Jobs and/or development targeted to economically distressed areas	Strengthen Economy	8
Generate net new jobs for unemployed residents	Create Quality Jobs	7
Generate net new Quality Jobs	Create Quality Jobs	7
High ratio of private to public investment	Stewardship of City Resources	7
Project focused on building small business or microenterprises	Strengthen Economy	7
Preserve, enhance or build infrastructure in priority areas as defined by the City	Quality of Life	6
Results of City fiscal model show net positive benefit to the City	Stewardship of City Resources	6

Mitigates potential financial impacts on other taxing jurisdictions/ provides an immediate share of increment to schools & others	Stewardship of City Resources	5
Offer workforce development activities (job training, advancement opportunities, skill development)	Create Quality Jobs	5
Produce affordable housing opportunities	Affordable Housing	5
Project minimizes negative impacts on existing Kansas City businesses	Strengthen Economy	4
Promote crime reduction and enhance perception of safety	Quality of Life	4
Promote environmental protection, conservation and the protection of natural resources	Quality of Life	3
Protect or enhance existing housing stock	Affordable Housing	3
Provide direct support for primary, secondary, post-secondary, vocational or technical education in Kansas City	Education	3

Requests less than the maximum duration and extent of incentives available	Stewardship of City Resources	2
Promote access to and financial support for public transit	Quality of Life	1
Proposed development adjacent to areas of existing development activity	Strengthen Economy	1
Provide workforce support to employees (day care, housing, transportation)	Create Quality Jobs	1
Enhance the cultural and arts environment of the City	Quality of Life	0
Project complements existing Kansas City businesses/contributes to existing business cluster	Strengthen Economy	0

Note: Task Force members were asked to choose up to eight of the 22 factors listed above they felt to be most important to consider when reviewing applications for public investment. The “vote” column reflects the number of Task Force members identifying that particular factor as being one of their top eight. Please note that *every* factor was considered to be important in the application review process. The prioritization process provides some context for how important each factor is relative to another. Factors receiving an equal priority are listed alphabetically.

▶ Project compliance

Once public investment in an economic development project is awarded, the City, coordinated by the City Manager's Office, conducts on-going compliance review of each project.

- ✓ **Review process:** the City has a formal process by which it measures, on a continuous basis over the life of any public investment granted, the extent to which the performance of a project meets or exceeds the promises identified in the application.
- ✓ **Verification of data:** the City routinely audits information provided in reports from projects having been granted public investment to verify the information provided.
- ✓ **Third-party verification:** the City may employ a third-party to provide verification of project performance.
- ✓ **Enforcement of contract:** the City is responsible for the enforcement of the development agreement, including clawback provisions for underperformance.

▶ Policy evaluation

The City promotes economic development to achieve the Policy Outcomes described earlier in this policy document. In order to ensure that the City's economic development and incentive policy is serving this goal, the effectiveness of the policy is evaluated on a regular basis and the results of those evaluations are reported to the City Council and the public.

- ✓ **Citizens' Evaluation Committee:** the Mayor appoints a standing committee of citizens to coordinate the evaluation of the City's economic development and incentive policy. The committee meets periodically (at least annually) to review information provided by the EDC, the City and other resources as directed by the committee. The committee makes recommendations to the Mayor and City Council about modifications to the policy to improve its effectiveness in achieving the City's Policy Outcomes.

▶ Development of Economically Distressed Areas

- ✓ **Definition:** "Economically distressed" areas are those Census block groups where the median household income (MHI) is no more than 70% of MHI for Kansas City as of the last decennial census or in more recent official data, if available. Special consideration is given to those areas where MHI is no more than 50% of MHI for Kansas City.
- ✓ **Avoiding concentration of poverty:** the City avoids development that results in a concentration of poverty and encourages mixed-income development.

▶ Special Consideration for Small Businesses

- ✓ **Definitions:** a “small business” has between 10 and 49 employees. A “micro-enterprise” has less than 10 employees. The City may consider complementary annual revenue definitions, as well as these employment level definitions.
- ✓ **Improved coordination:** the City coordinates an effort to refocus the mission and activities of existing small business support agencies.
- ✓ **Enhanced accountability:** the City coordinates an effort to enhance the accountability of existing small business support agencies.
- ✓ **Streamlined internal processes:** the City employs a formal process to streamline its internal processes by which small businesses obtain licenses, permits and certifications.
- ✓ **Small business advocate:** the City funds a formal small business advocate/ombudsman function to assist small businesses in obtaining permits, licenses and certifications, and in applying for public assistance.
- ✓ **Focus on distressed communities:** the City addresses the unique concerns of small businesses located in distressed communities.
- ✓ **Financial support:** the City has direct financial participation in programs to create, develop and sustain small businesses.

Use of Incentives and Other Public Investments:

The City recognizes that its ability to invest in economic development projects is limited. As a result, its use of public investment is measured, prudent and targeted in such a way as to achieve its desired Policy Outcomes.

▶ Investments Vary from Project to Project

- ✓ **Different incentives for different projects:** the incentives available to a project vary depending upon the type of development proposed.
- ✓ **Incentives available throughout City:** a project in any part of the community has the potential to qualify for public investment.
- ✓ **First movers:** early projects in a redeveloping area should receive larger incentives (incentivizing “first movers”) than those projects that follow.

▶ “But-For” Standard for All Incentives

- ✓ **“But-For” test on every project:** the City and all of its partner agencies use a standard, “but-for” test that includes both fiscal and social considerations, evaluates the project’s attention to the City’s Policy Outcomes, and is broader than just a calculation of developer rate of return. The but-for analysis is used on *every* public investment decision.
- ✓ **Incentives only granted when necessary:** incentives will only be granted to those projects that would not otherwise occur without the incentives requested.
- ✓ **Incentives are limited:** projects qualifying for incentives will receive only those incentives required to make the project feasible, and no more.

- ✓ **Incentives are not universal:** not every economic development project will necessarily qualify for public investment.

▶ Evaluation of Impact

- ✓ **Fiscal and social considerations:** the City determines the economic, fiscal and social costs and benefits of every economic development investments it makes.
- ✓ **Fiscal impact analysis on every project:** every project requesting incentives is analyzed to determine its potential impact on the City's finances.
- ✓ **Use of clawbacks required:** the City requires the use and enforcement of clawbacks on every project as a tool for accountability when making public investments in economic development projects, unless the project presents no risk to the City.
- ✓ **Developer dialogue with other taxing jurisdictions:** applicants for public investment are encouraged to begin an early dialogue with taxing jurisdictions that will be impacted by the public investments requested for the project.
- ✓ **Impact on other taxing jurisdictions:** the City favors projects that provide immediate financial benefit to other taxing jurisdictions, unless those taxing jurisdictions have explicitly consented to the full abatement or redirection of their portion of incremental taxes.

▶ Appropriate Uses for Public Investment

- ✓ **Business recruitment**, including from other areas in the Metro.
- ✓ Direct participation in programs to **enhance job skills** and **develop qualified workers** for local businesses.
- ✓ Direct participation in programs to **create, develop and sustain small businesses** in Kansas City.
- ✓ The creation of **high quality jobs**.
- ✓ The **expansion** of existing Kansas City businesses.
- ✓ The **creation of development-ready sites** in economically distressed areas.
- ✓ **Business retention**, including preventing Kansas City businesses from moving to other parts of the Metro area.
- ✓ The **development of public infrastructure**.
- ✓ **Downtown housing** development (lofts, condos).
- ✓ Urban core, **single-family infill housing**.
- ✓ The **revitalization of economically distressed areas**.

▶ Appropriate Local Tools for Public Investment

- ✓ **Tax increment finance:** the use of tax increment finance (TIF) is an appropriate economic development tool. The redirection of up to 50% of incremental economic activity taxes is appropriate.
- ✓ **Property tax abatement:** the use of property tax abatement is an appropriate economic development tool. Granting the maximum available period and level of abatement is not the City's standard practice. The period and level of abatement are based upon the needs of the project, the needs of the community's taxing jurisdictions, and the benefits of the project to the community.

- ✓ **Use of General Fund guarantees:** the use of General Fund guarantees of economic development debt is *not* appropriate, except in extraordinary cases.
- ✓ **Leverage of State investment:** includes the use of tools that leverage investment by the State of Missouri, including redirection of up to 100% of incremental economic activity taxes (EATs) where appropriate.
- ✓ **Duration tied to asset life:** the duration of a public investment is not longer than the useful life of the asset(s) financed by the investment.

▶ Leveraging Economic Development Success

- ✓ **Success used to support other goals:** the City uses the “profits” from economic development investments to support key policy goals, such as housing, environmental protection and public transit.

The Honorable Mayor Mark Funkhouser
414 E.12th Street
City Hall, 29th Floor
Kansas City, Missouri 64106

Mr. Mayor;

Letter of Transmittal
Of the Recommendations of the Small Business Special Committee
Of the Economic Development and Incentives Task Force

The Small Business Special Committee of the Economic Development and Incentives Task Force, duly commissioned, present these “Recommendations of the Small Business Special Committee”.

This set of recommendations with regards to Small Business Economic Development in Distressed Communities addresses your first question to the Task Force; “What do we want to achieve with incentives?” That question was given clear direction from you by your letter to the Task Force, indicating that “both mission and money matter”.

Those with a concern for the growth of Small Business in Distressed Communities believe that such growth is vital to the mission of this City. This set of recommendations addresses that mission in concert with Task Force stated goals of improving the assistance to, support for, and retention of small businesses. The recommendations address the accomplishment of those goals, not in general, but through the use of incentives, and as a way for the small developer and small business to participate in the incentives arena from which they have been heretofore virtually excluded; in order to address the lack of economic development in Distressed Communities.

Small Business development was a top priority for the Task Force as a whole, and in developing these recommendations we have taken as our guide public testimony, particularly testimony from small developers and business owners who have attempted to navigate the current system through EDC and the City. They have testified¹:

1. Expressly asking for “Separate mechanisms for small developments”.
2. That it is “difficult for small developers to use TIF and other development tools”.
3. That we should “Institute apparatus for small business projects and micro projects”.
4. That “Small developers should be able to utilize TIF”.
5. That “Greater assistance should be provided to small business”.
6. That “EDC has not done a good job for small business creation”.
7. And, that the “City should have staff to seek out small businesses”.

The above public testimony, and the absence of incentive development projects in distressed communities, is testimony enough that whatever we are currently doing with regards to small business support for incentive projects is ineffective; going no well beyond simple inefficiencies

¹ Reference Report of the Economic Development and Incentives Task Force.

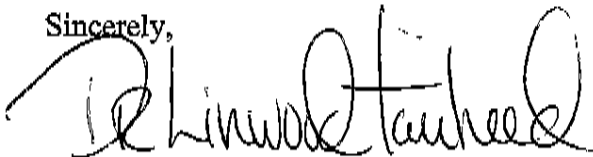
at the EDC or the City. These recommendations recognize that the inefficiencies at the City and even at EDC are the result of structural deformities and makes “structural” recommendations to overcome those deformities recognizing that behavior follows structure.

In making recommendations for structural change we have aligned the interests of these recommendations with the interest of the City, by recommending funding a “Small Business Economic Development Incentives Agency” from the benefits to the City from incentives projects, rather than from the costs; avoiding the current apparent EDC conflict of interest.

Finally, the majority of members of the Small Business Special Committee are either past or current small business owners or heads of organizations responsible for small business development. They have decades of experience with existing agencies, including EDC (one is an EDC Board member), and their experiences mirror the public testimony. Their experience in support of small business development tells them these issues can only be addressed as part of a comprehensive restructuring of the way the City and its development agencies focus resources to address small businesses and small developments.

Finally, the members of the Small Business Special Committee thank you for the opportunity to serve on the Economic Development and Incentives Task Force and to participate in this important work. We know that there is important work left to do and we stand ready to continue with you and the Council as we move forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Dr. Linwood Tauheed". The signature is fluid and cursive, with a large initial "D" and "L".

Dr. Linwood Tauheed, on behalf of
Joe Arce
Lance Conley
Bernardo Ramirez
Sis. Berta Sailor
A. Marie Young

Recommendations from the Small Business Special Committee.
August 27, 2007

Dr. Linwood Tauheed, chairing
Joe Arce
Lance Conley
Bernardo Ramirez
Sis. Berta Sailor
A. Marie Young

A. Small Business Economic Development Incentives Agency (SBEDIA)

The City shall establish a Small Business Economic Development Incentives Agency (SBEDIA).

- a. The purpose of the SBEDIA shall be to implement the goals of this Economic Development and Incentives Policy focusing on small businesses and micro-enterprises¹. This focus includes but is not limited to the stated goals of the Policy including Business Assistance, Business Development, Business Retention, Improved Business Climate, Neighborhoods/Community Development, and providing a formal, streamlined application review and ongoing evaluation process for small businesses and micro-enterprises.
- b. It is not the intent of the SBEDIA to duplicate or replace technical or other services available from the EDC, the City or other small business development agencies. Instead its intent is to provide small businesses with “one-stop shop” access to a focused and streamlined “partnership” with the EDC, the City, and other small business development agencies, in order to increase the effectiveness and efficiency with which these agencies accomplish their individual and combined missions with regards to small business and micro-enterprise support and development.

B. Governance

The SBEDIA shall be governed by its Board of Directors

- a. The “Charter” Board of the SBEDIA shall consist of members of the Economic Development and Incentives Task Force wishing to serve.
- b. The “Charter” Board shall have the responsibility for developing SBEDIA policies and programs, and overseeing the implementation of those policies and programs for the first three years.

C. Point of Contact for Small Business and Micro-Enterprise Applications

- a. The SBEDIA shall be the initial point of entry for all small business and micro-enterprise applications seeking incentives and needing support for development projects.

- b. The SBEDIA shall interact directly, without intermediary, with other statutory agencies responsible for approval of incentive projects as required by law.
- c. The SBEDIA shall interact directly, without intermediary, with the City Manager's Office for City review of applications.

D. Funding

- a. The sources of funding for SBEDIA operations, and SBEDIA projects shall be a combination of the General Fund, Fee for Service, and a portion of revenue generated from City incentive projects overall.
- b. Fee for Service
 - i. Fees charged to small business and micro-enterprise clients of SBEDIA shall be a significant reduction (no less than a 90% reduction) from fees charged to clients of the EDC.
 - ii. Fees charged SBEDIA clients shall be on a sliding scale based on business revenue, with micro-enterprise fees being a further level of reduction from small business fees.

E. Relationship with outside "Agencies"

- a. Relationship with the Economic Development Corporation
 - i. The EDC shall provide, on permanent assignment to the SBEDIA, "technical assistance" staff to support SBEDIA projects and services.
 - ii. The assigned staff shall have access to EDC and SBEDIA resources in support of this responsibility.
- b. Relationship with City Departments, Agencies, and Programs
 - i. Existing City departments, agencies and programs with responsibility for small business support and assistance, shall provide on permanent assignment to the SBEDIA, "technical assistance" staff to support SBEDIA projects and services.
 - ii. The assigned staff shall have access to City and SBEDIA resources in support of this responsibility.
- c. Relationship with Kansas City Small Business Support Organizations and Resource Providers
 - i. The SBEDIA shall work in partnership with existing small business support organizations and resource providers in order to further their individual and combined missions with regards to small business and micro-enterprise support and development.

d. Relationship to Neighborhood Associations.

- i. Development applications submitted to SBEDIA shall include a statement of neighborhood impact, as recommended in the FOCUS Plan, summarizing the positives from the development (for example, the opening of a community grocery) as well as the negatives (for example, traffic congestion and light pollution).
- ii. Neighborhood Associations representing neighborhoods affected by an SBEDIA development project shall provide citizen oversight for the development projects via review of the statement of neighborhood impact.

F. Additional Small Business and Micro-Enterprise Support to Overcome Competitive Disadvantages in Distressed Communities.

The economic environment in which small business and micro-enterprise businesses operate is a significantly different one from the economic environment of large businesses because of the inabilities to benefit from economies of scale.

This is more so when small businesses and micro-enterprises operate in Distressed Communities² which because of additional barriers to entry and growth require additional support in order to more level the competitive playing field.

In order to provide that support, the SBEDIA shall provide full or partial reimbursements for the following expenses when such expenses are connected to the employment of a resident of a Distressed Community.

- a. Workforce Development expenses including but not limited to; basic skills development, vocational training, and specialized training unique to the particular business enterprise.
 - i. Where there are already applicable workforce development programs, or State or Federal funding available to provide workforce development, SBEDIA projects shall utilize these resources to provide that support in order to minimize the cost to the SBEDIA Development Fund.
- b. Health Care premiums
 - i. To minimize the cost to the SBEDIA Development Fund for Health Care premium reimbursements the SBEDIA shall “sponsor” a group Health Care Plan in which SBEDIA clients shall participate, but open for participation by any small business and micro-enterprises.
- c. Child Care and Early Childhood Education costs
- d. To and from work Transportation expenses
- e. Additional expenses related to higher Public Safety expenses for small businesses and micro-enterprises located in Distressed Communities. Such expenses can be:

increased insurance and security costs because of the higher crime rates in Distressed Communities.

- f. Additional expenses related to the creation of Quality Jobs in Distressed Communities (see definition below).

In all applicable cases where reimbursable expenses are available for a project, the SBEDIA shall endeavor to minimize the cost to the SBEDIA Development Fund by utilizing support services already provided by its partnership agencies and programs already in existence.

G. Quality Jobs in Distressed Communities

For the purposes of the SBEDIA a Quality Job is defined as:

1. A full-time job³ that pays a wage of at least 120% of the hourly mean wage for comparable occupations (as published by the Bureau of Labor Statistics in its most recent “Metropolitan Area Occupational Employment and Wage Estimates” report for the Kansas City, MO-KS Metropolitan Statistical Area);
2. Includes affordable health insurance⁴;
3. Provide opportunities for advancement, and
4. Provides a comprehensive benefits package including opportunities to save for retirement.

Notes

¹ As defined by this Economic Development and Incentives Policy

² As defined by this Economic Development and Incentives Policy

³ A full-time job means a job with no predetermined end date, with a regular work week of 35 hours or more for the entire normal year of local company operations, and with benefits provided to other regular employees of the local company, but does not mean a job classified for federal tax purposes as an independent contractor.

⁴ Affordable health insurance is defined as a 50% cost share between employer and employee for jobs with hourly wages at or above the hourly mean wage for the Kansas City, MO-KS MSA (as published by the Bureau of Labor Statistics in its most recent “Metropolitan Area Occupational Employment and Wage Estimates” report for the Kansas City, MO-KS Metropolitan Statistical Area). Jobs with hourly wages less than the hourly mean wage for the Kansas City, KS-MO MSA require health insurance that is paid in full by the employer, i.e. no cost to the employee.