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# Framework for Sustaining Economic Development

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January 2007

Session 1

**CSG** | advisors



COLUMBIA CAPITAL MANAGEMENT, LLC  
FINANCIAL AND INVESTMENT ADVISORS

Economic & Planning Systems

Public Finance Real Estate Economics Regional Economics Land Use Policy

## Why are we here?

1. Economic development is a hot topic in Kansas City
2. “Economic development” means different things to all of the parties involved
3. Need to develop a shared understanding of where we’ve been and where we’re going
4. Is what the City doing sustainable?
5. Is it desirable?
6. What is the City doing well and what can it do better?

## Study Tasks

1. Evaluate Kansas City’s economic development incentives
2. Compare to best practices nationally
3. Create a detailed model for analyzing fiscal impacts, both positive and negative
4. Determine the sustainability of current approaches
5. Identify risks and issues facing the City

## Goals

- Sustain the City’s ability to encourage economic development over many years to come
- Protect the City’s financial integrity
- Strengthen the City’s ability to provide City-wide services
- Not overburden existing taxpayers
- Improve City’s strategic economic development positioning vs. other communities in the region and around the country

## Council Concerns

1. Will we have to stop? (Have we taken on too much risk, can we sustain it?)
2. We give incentives to any project that asks
3. Competition from other cities, suburbs & Kansas
4. What about my District? What about economically distressed areas?
5. We (and City staff) get “blindsided”—projects are a “done deal” when they come to us for action
6. We (and City staff) become increasingly responsible under SEC rules without access to all the information—assume that agencies, but not the City, can review “confidential” information
7. We need more analysis and a staff recommendation for projects
8. Guidelines are good; rules are bad

## **Incentives: What Is Their Purpose and How Do Cities Decide on Them**

1. To assist projects that meet a city's most important economic development priorities
2. To provide no more than the minimum assistance to fill a gap
3. To use all other private/public investment monies before asking for city assistance
4. To provide a positive direct financial return to the city
5. To stimulate nearby projects that will not need city assistance (e.g., to help change the market)

## Incentives: Special Challenges for Kansas City

### Compared to other cities:

1. Kansas City's very large size, undeveloped land, and many diverse types of living and business areas create extraordinary demand on City resources
2. As the Metro Area core, Kansas City has limited resources and major regional burdens (mass transportation, older infrastructure, lower-income housing)
3. Kansas City has no clear economic development plan that prioritizes and targets limited resources for economic development
4. State law permits greater and more types of incentives than some projects may need or City can afford
5. Economic development will be an ongoing need for Kansas City for many, many years to come
6. Most important challenge: *How does City use incentives to increase its limited resources?*

## Incentives: Which Ones Can City Choose From Under State Law?

- 1. Tax Redirection (council initiatives / tax increment)**
  - Net new property, sales and economic activity taxes
  - Up to 23 years
- 2. Tax Abatement ( PIEA / LCRA / Ch. 100 / 353)**
  - Property taxes
  - 10 to 25 years
  - 0% to 100% of taxes (via abatement or PILOTS)
- 3. Annual Appropriation Debt Guarantees**
  - Annual appropriation
  - Guarantee Economic Development Bonds

## Scope of Incentives Provided

- 1. Tax Redirection (council initiatives / tax increment)**
  - 52 tax increment areas (1995-2006); \$472.9 million bonds issued; \$23 million annual revenues diverted 2005; “But For” determination
- 2. Tax Abatement ( PIEA / LCRA / 353 / Ch. 100)**
  - 138 projects abated; \$5.8 million annual revenues foregone (2005); \$18.7 million annual revenues to schools foregone (2005); foregone revenue leveraged for future growth
- 3. Annual Appropriation Guarantees**
  - \$550 million total bonds guaranteed (to date); \$17.9 million annual debt service guaranteed (2005)

For Comparison: Annual Revenues were \$340 million for 2005 (excluding enterprises, special purpose funds, etc.)

## **Economic Development Success**

**Kansas City has aggressively supported economic and real estate development, especially in recent years**

**Has stimulated development and redevelopment:**

- ✓ Downtown (hotel, entertainment and retail)
- ✓ Conversion of historic & other buildings to condos
- ✓ Big box retail in commercial corridors
- ✓ Office retention and attraction

**...too early to measure success of some major efforts**

## Examples of Success

**Over the last 7 plus years, Kansas City has been very successful in:**

- ✓ Stimulating private development



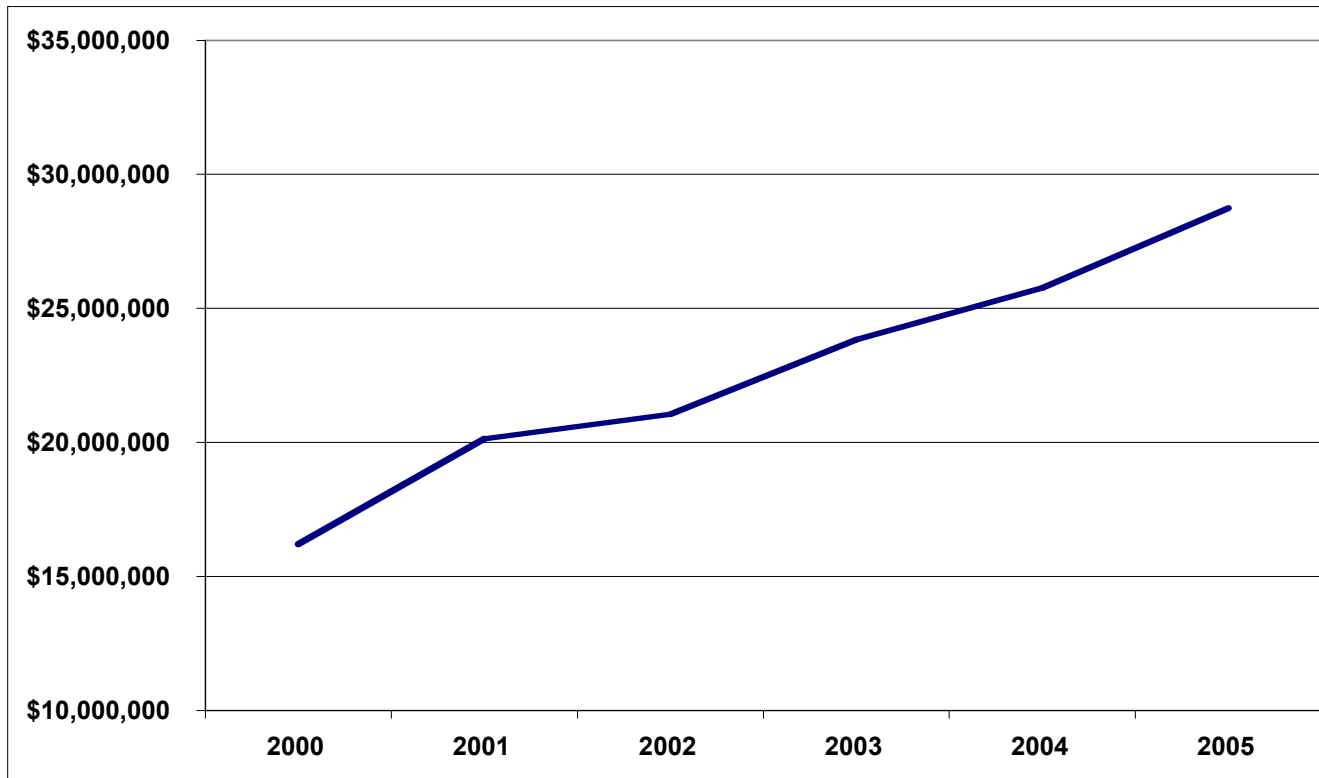
## Examples of Success

**Over the last 7 plus years, Kansas City has been very successful in:**

- ✓ Creating a new market environment

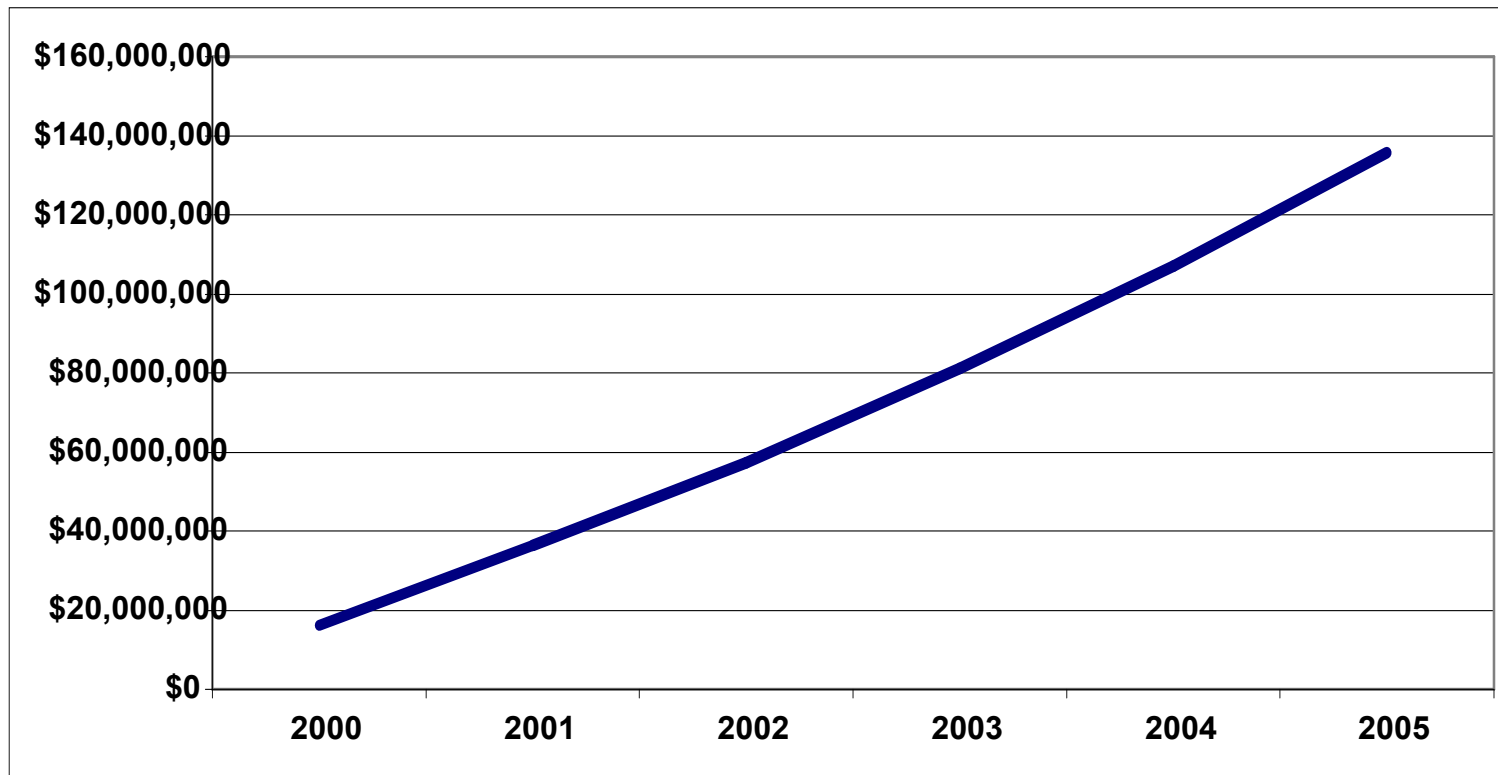


Annual Revenues						
	2000	2001	2002	2003	2004	2005
Redirected	12,132,717	15,086,339	16,399,157	19,086,842	20,648,809	22,966,936
Abated	<u>4,072,935</u>	<u>5,038,445</u>	<u>4,656,171</u>	<u>4,738,670</u>	<u>5,121,258</u>	<u>5,772,090</u>
<b>Total</b>	<b>\$16,205,652</b>	<b>\$20,124,785</b>	<b>\$21,055,328</b>	<b>\$23,825,512</b>	<b>\$25,770,067</b>	<b>\$28,739,026</b>

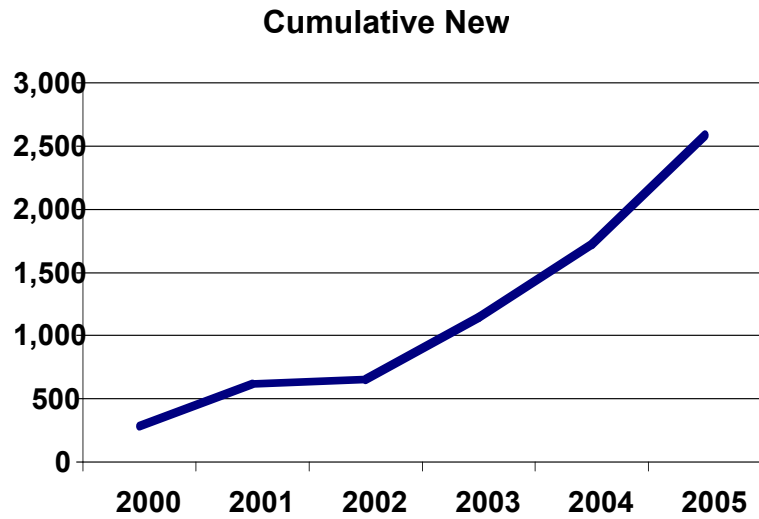


## City Has Made Major Investments In Economic Development

Cumulative Foregone & Redirected Revenues



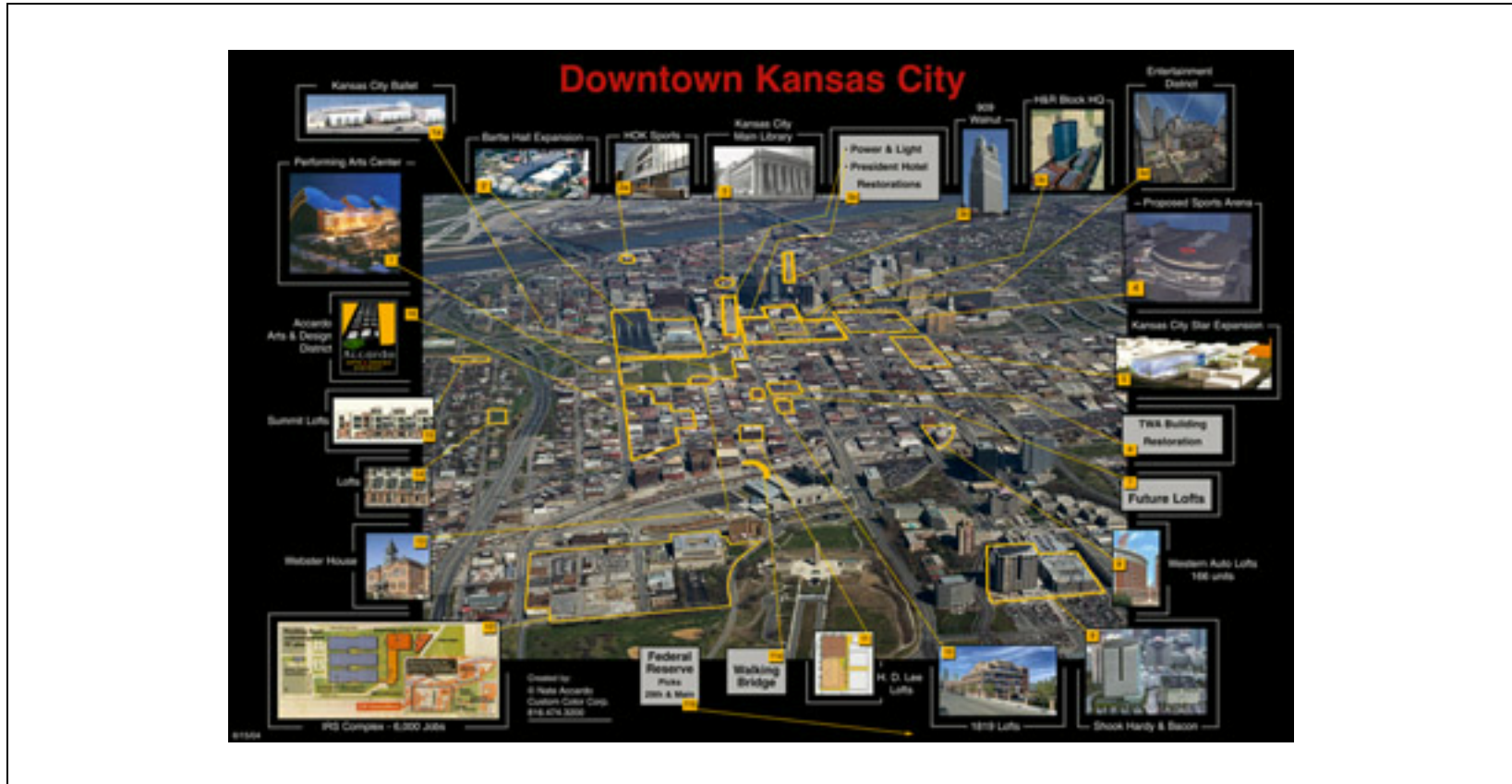
## Encouraged New Housing Downtown



## Re-Made Downtown as a Destination

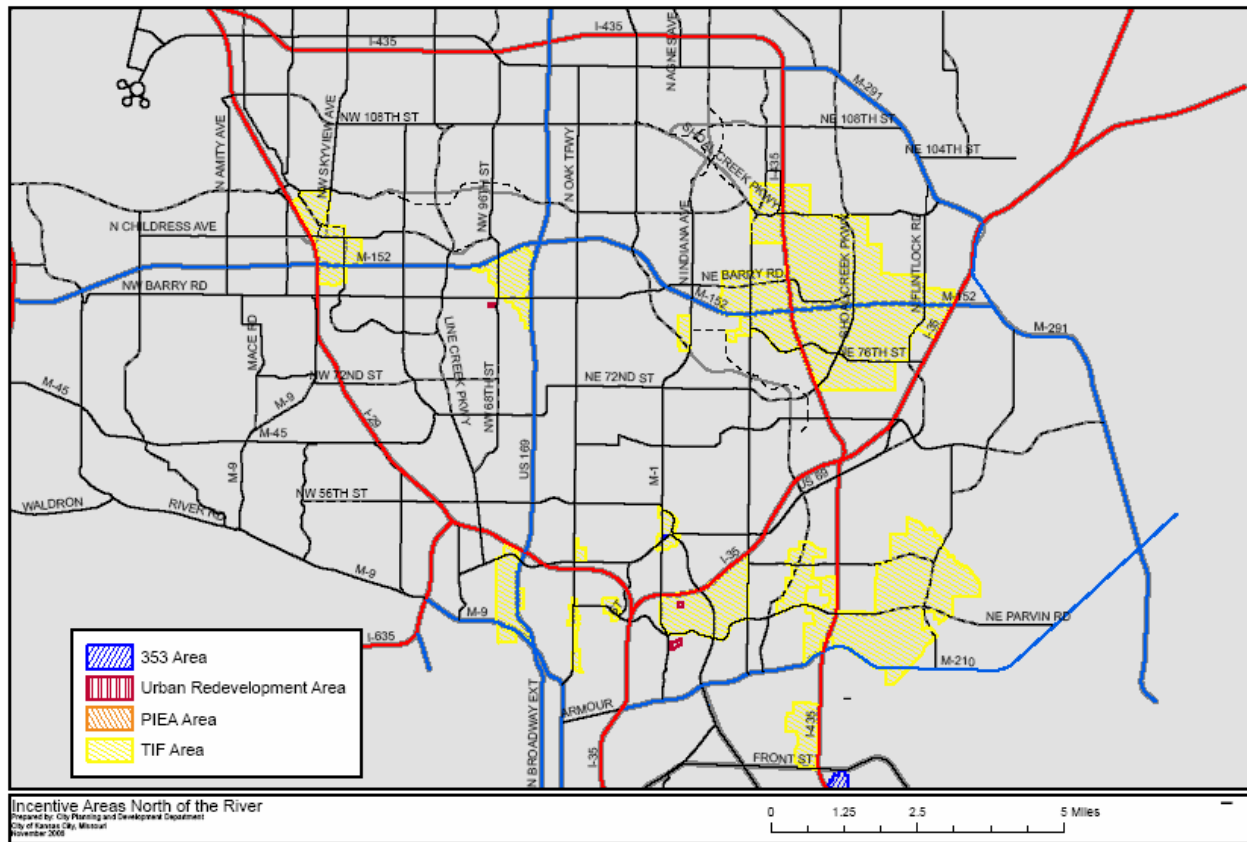


## Stimulated a Wide Range of Projects in Downtown



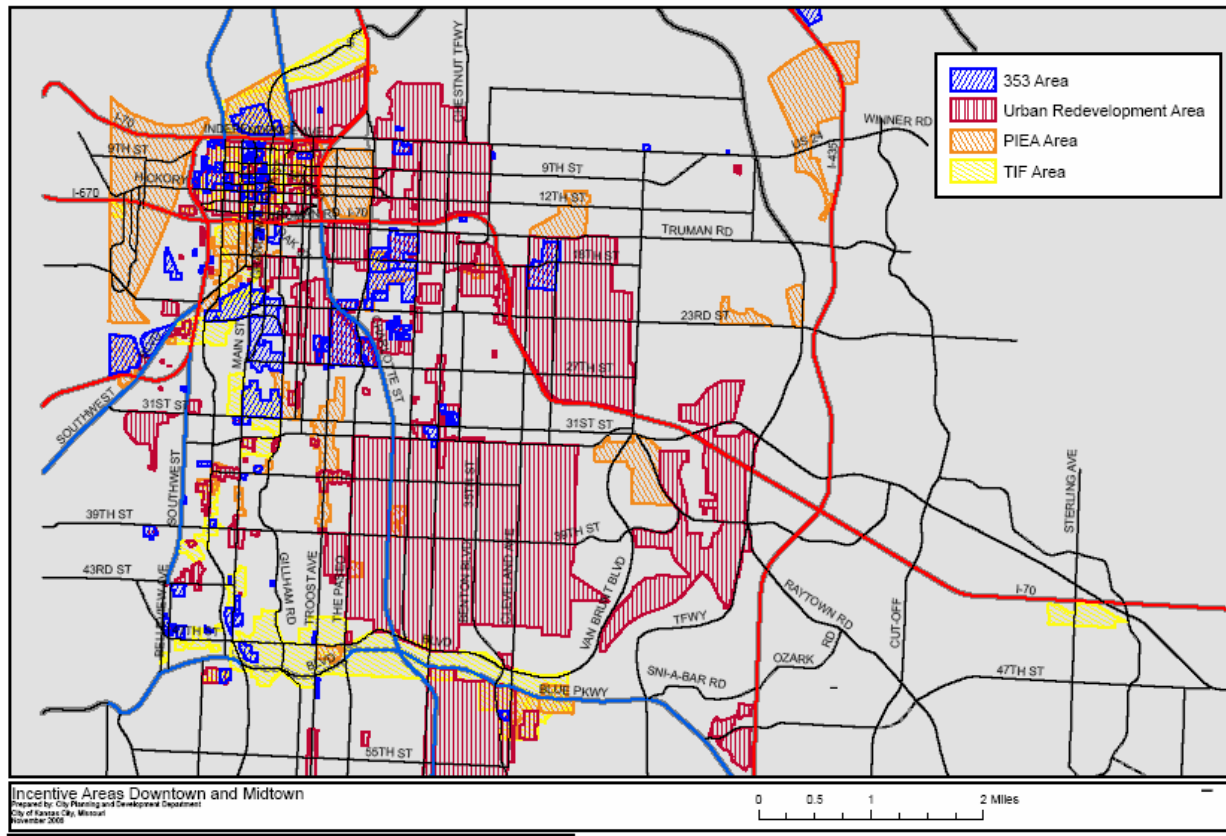
# And Around the City

## North



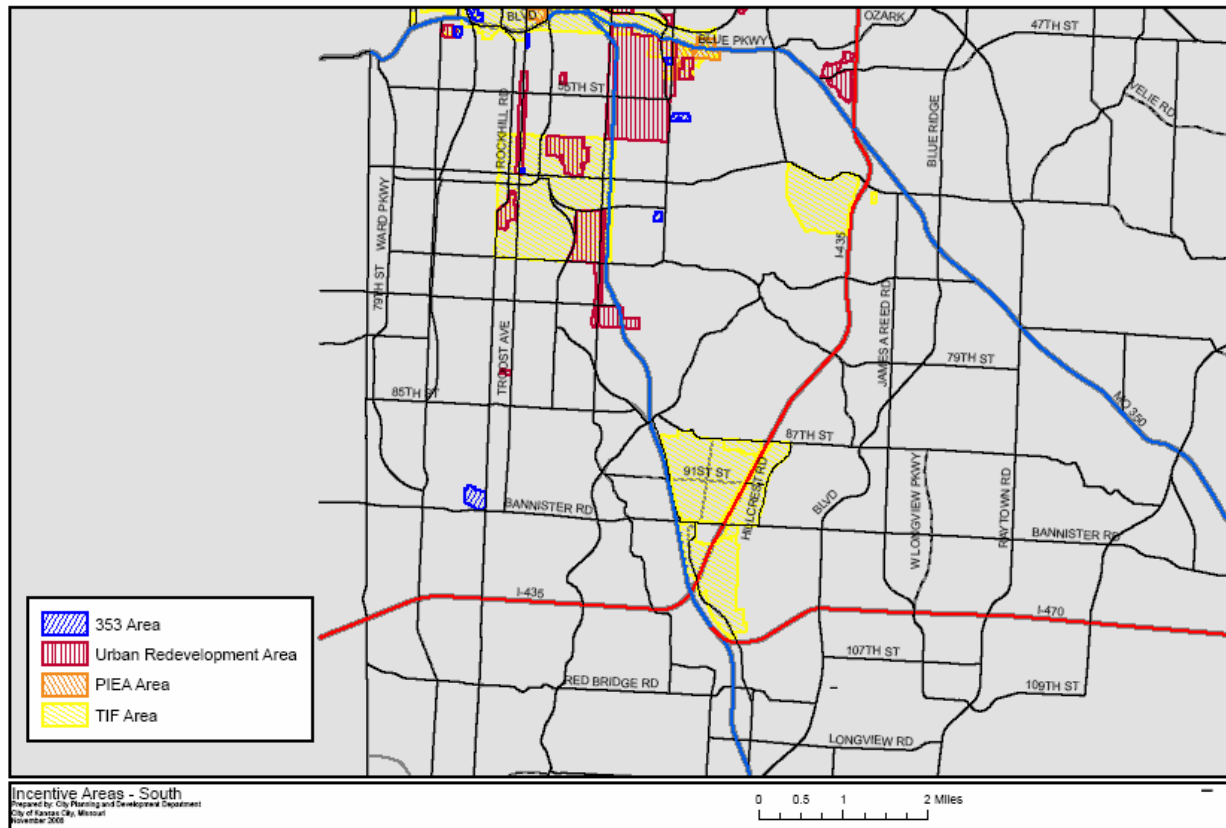
# And Around the City

## Downtown / Midtown



# And Around the City

## South



## Created National Recognition

### **1. Kansas City Named All-America city (June 2006)**

Kansas City, MO., was named one of 10 All-America Cities for 2006.

### **2. Kansas City Named top Ten Metro for Economic Strength (March 2006)**

The Kansas City metropolitan area ranks No. 10 for economic strength.

### **3. Kansas City, a 5-Star Metro for Business Opportunity (July 2006)**

Kansas City was named a 5-Star Business Opportunity Metro by Expansion Management Magazine

### **4. Entrepreneurialism Hot in KC (August 2006)**

In Entrepreneur magazine's annual Hottest Cities report, Kansas City was named the No. 1 place to start and grow a business in the Midwest. Kansas City ranked No. 11 nationally.

### **5. Kansas City Named One of the Smartest Places to Live (June 2006)**

Kansas City ranked No. 6 on Kiplinger's Personal Finance Magazine's first annual list of 50 Smart Places to Live.

### **6. Kansas City Named Top Destination for Arts (June 2006)**


Kansas City has been named a top Arts destination in AmericanStyle Magazine.

### **7. Kansas City Named One of America's Most Livable Cities for the 2000's (August 2004)**

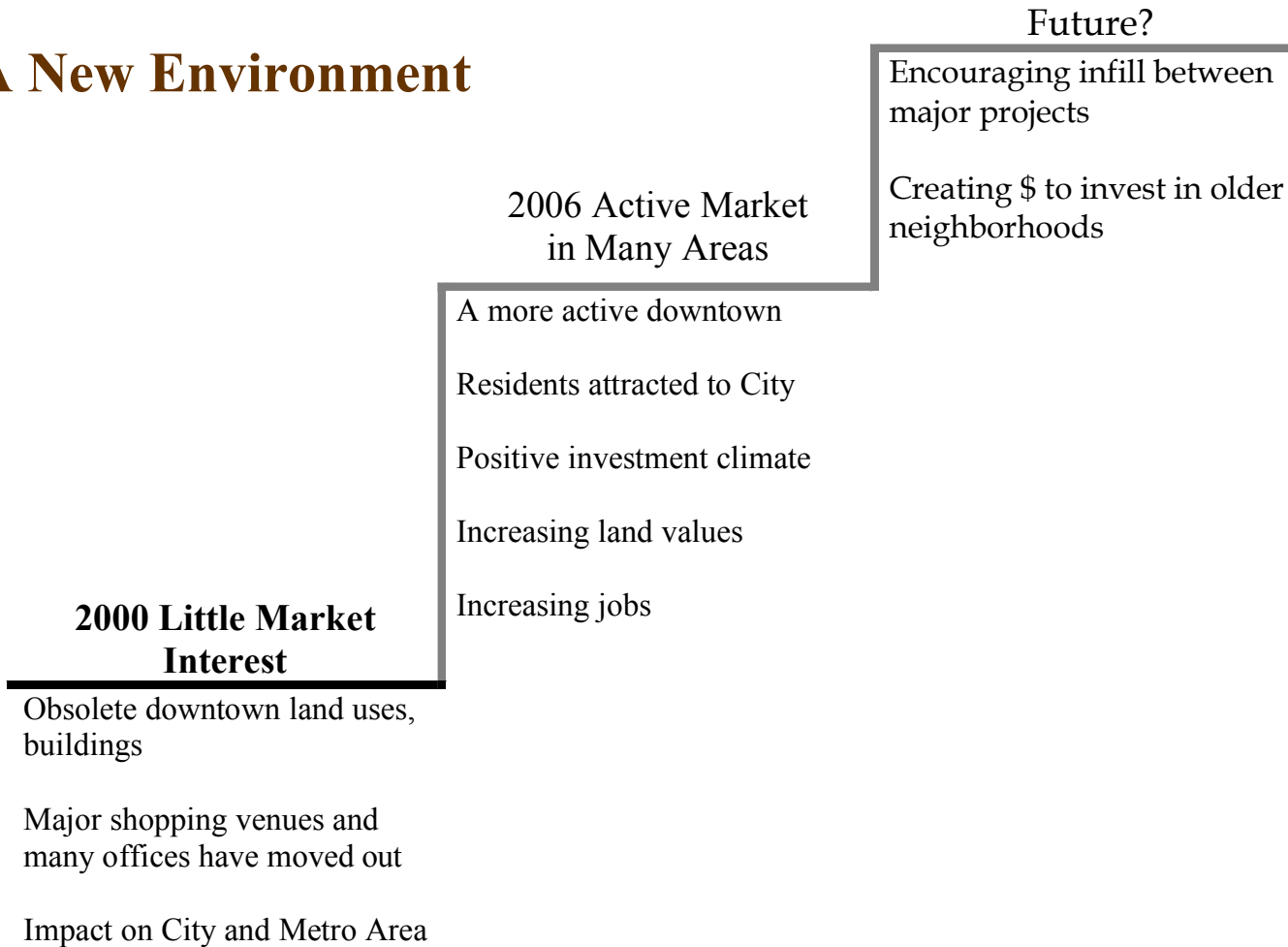
Kansas City has been named one of the most livable large American cities by Partnership for Livable Cities.

## And The City Has Helped Achieve This While Maintaining Its Strong Bond Ratings

<u>Credit Level</u>	<u>Moody's Investors Service</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
Highest Quality	Aaa 1 Aaa 2 Aaa 3	AAA AAA-	AAA
High quality	Aa 1 Aa 2 Aa 3	AA+ AA AA-	AA+ AA AA-
Upper-medium quality	A 1 A 2 A 3	A + A A-	A+ A A-
Medium quality	Baa 1 Baa 2 Baa 3	BBB+ BBB BBB-	BBB+ BBB BBB-

 = Kansas City

## A New Environment



## A New Environment

### Future?

Encouraging infill between major projects

Creating \$ to invest in older neighborhoods

### 2006 Active Market in Many Areas

- A more active downtown
- Residents attracted to City
- Positive investment climate
- Increasing land values
- Increasing jobs

### 2000 Little Market Interest

Obsolete downtown land uses, buildings

Major shopping venues and many offices have moved out

Impact on City and Metro Area

## A New Environment

### Future?

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Impact on City and Metro Area

## **New Challenges and New Opportunities are Results of the City’s Success**

In areas where the City has helped prime the pump, may not need to continue putting in as much money or taking as much risk

In other areas, where values have fallen or stagnated and greater development risks exist, the City may need to partner with the private sector

*These become the City’s investment choices going forward*

## Private and Public Investments in a Project

Focus is usually on a developer's investment

But whether for a developer, a family or the City investment involves:

✓ **Choice**

✓ **Risk**

✓ **Rate of Return**

## Investment Choice

Where to invest:	Which projects
In what form:	Abatement, TIF, Capital Expenditure
How Much to invest:	\$ Amount
For how long:	10 years, 23 years, 25 years

## Risk

### Any Project

- Project changes or parts not completed
- Project doesn't provide expected revenues
- Revenues don't cover City operating costs
- Revenues are reduced elsewhere in the City as result of development
- Project delay

### Additional Risk if City Guarantees

- City General Fund guarantees on project bonds are drawn on

## Rate of Return

- Financial benefit to City:
- ✓ How it helps other taxpayers and pays for City services
  - ✓ Strengthens City’s ability to deal with economic downturn
  - ✓ What additional return to City if project does well
- Non-financial benefits:
- ✓ Net new jobs
  - ✓ New amenities

## Investment Decisions for City Council

- To a developer, these dollars and commitments from City are “incentives”
- To a land-seller, they may mean higher prices
- To a City auditor, these may be “subsidies”
- But to the City Council that has to make these decisions, these are **investments**
- Investments can be compared to each other and to the City’s priorities and evaluated in terms of their long-term impact on the City.

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