The Real Deal: Incentive reform aims to deliver more than just a cap

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The most discussed element of the incentive-reform ordinance the Kansas City Council passed Oct. 6 was its 75 percent cap on the property tax abatements and diversions that various agencies can grant for development projects.


FILE
Quinton Lucas

More specifically, the ordinance reduces by 25 percent the amount of new property tax revenue generated by a project that can be abated or diverted. For instance, standard abatements granted by the Planned Industrial Expansion Authority will be reduced to 75 percent of the new revenue (instead of 100 percent) for the first 10 years and 37.5 percent (instead of 50 percent) for the following 15 years.

Of course, agencies already had been demanding that developers negotiate with the taxing jurisdictions that forgo revenue as a result of incentives, and those discussions, in many instances, already were reducing percentages and terms of tax breaks. But the new ordinance, which includes cap exceptions for projects in distressed areas or that generate a lot of jobs, is expected to minimize the need for such side deals.

Other issues it will address include:

Unstacking the deck: Representatives of school districts, library systems and other taxing jurisdictions have argued that the incentive deck was stacked in favor of the city. One reason: Barring side deals, property tax breaks prevented non-city jurisdictions from sharing in direct economic benefits of new projects for a decade or more. The city, meanwhile, got to keep as much as 100 percent of new revenue generated through economic activity taxes (EATs), which include the earnings tax other jurisdictions don't collect and the sales taxes that only the city and county collect. In the worst case, the city has to forgo 50 percent of its new EATs revenue for standard tax increment financing or 100 percent of the EATs for so-called Super TIF deals.

Sharing the wealth: Growing taxpayer concern stemmed from a legal definition of "blight" that allowed incentives to continue flowing to projects in thriving areas while little public investment was being made in truly distressed areas like the East Side. Thus, Councilman Quinton Lucas' ordinance created the Shared Success Fund, which provides additional gap financing to attract developers to distressed areas. Part of that funding is expected to come from the city's share of the additional 25 percent of property tax revenue that now must flow to jurisdictions. Thus, the Shared Success Fund also addresses the stacked-deck concern.

Maintaining momentum: The Coalition for Kansas City Economic Development Reform wanted property tax breaks capped at 50 percent with no exceptions. Lucas' ordinance was a compromise that addressed the need to keep Kansas City growing. Mayor Sly James warned that the flow of new projects seeking incentives had slowed to a trickle with the mere discussion of the reforms. But JE Dunn Construction supported them, and a letter from Swope Community Builders characterized the ordinance as "a sound and reasonable approach that permits an organization like ours to continue developing commercial, retail and housing projects."

Ending government by petition: One aim of the ordinance was to stop the growing use of initiative petitions in project-delaying attempts to submit city-approved tax breaks to public votes. The Coalition for Kansas City Economic Development Reform, whose members helped kill a BNIM headquarters project in the Crossroads Arts District with a recent petition drive, endorsed Lucas' reform efforts.

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