

PIEA's abatements pick up speed in '05

KC agency's exemptions take \$32M off tax rolls

By Jim Davis. Kansas City Business Journal: February 17, 2006.

The rising influence of Kansas City's Planned Industrial Expansion Authority is clear from a review of Jackson County tax records.

Property tax abatements granted by the agency exempted more than \$32 million in assessed value from the tax rolls in 2005, according to a review by the Kansas City Business Journal. In terms of taxes forgone, the total for the year approached \$3 million.

More striking is that nearly half of the assessed value exempted from taxes in 2005 is the result of abatements that took effect last year. And this number doesn't include several big-ticket projects whose assessed value hasn't been figured. Adding The View and WallStreet Tower residential conversions, HOK Sport Venue Event's new headquarters and Boulevard Brewing Co.'s new plant easily could double the amount of taxes forgone.

Part of the PIEA's popularity is that its standard abatement package eliminates property taxes on improvements completely for 10 years and cuts them in half for the next 15 years. But it doesn't hurt that the PIEA operates much as it did before it became a prime financing tool for downtown housing and other redevelopment.

The agency still doesn't require abatement seekers to project the value of the tax breaks, does minimal tracking of the breaks it grants and provides no public reporting of the total effect on tax rolls.

Patrick Hughes, a longtime PIEA board member and former chairman of the agency, said the city is getting a good return.

"All of the projects we have done, something good has happened," Hughes said. "This is not just a snatch-and-grab deal."

PIEA board members and applicants for abatements contend that abatement-engendered activity is inherently laudable, rendering superfluous the need to gauge its fiscal effect. They note that abatements reflect only one side of their economic impact because beneficiaries -- the new housing's residents and abated businesses -- generate new sales, earnings and other economic activity taxes.

Al Figuly, the agency's executive director, has said that promoting denser development Downtown saves the city money because it makes more efficient use of city infrastructure and money spent on police and fire protection.

But a realization also is growing that the PIEA needs to come in line with other incentive programs.

Tom Trabon, a downtown housing developer and accountant, said the PIEA's reporting standards are more lax than those covering tax abatements approved by the Kansas City Council and tax increment financing, which also requires City Council approval.

Trabon, who has never sought PIEA abatements but has tapped other public incentives, said the PIEA ought to meet the same level of accountability as other agencies.

"That's important because it's the public that's helping to pay," said Trabon, also chairman of the Downtown Council of Kansas City's housing task force. "When the public is involved, there has to be a proper accounting for the benefactor about the results."

#### Defining its job

The PIEA's role as a catalyst for downtown housing is a long way from its origin in 1974. The agency's initial purpose, as outlined in Chapter 100 of the Missouri Revised Statutes written in 1967, was to eradicate "blighted, insanitary or undeveloped industrial areas."

PIEA abatements were first used for downtown housing in Kansas City when Mel Mallin began turning former River Market warehouses and factories into loft apartments. Because the buildings' lineage was industrial, Mallin reasoned, the benefit was applicable. PIEA records show the first such abatement, at 208 Delaware St., was granted in 1987.

"It made all the difference to provide a level of affordability and, frankly, to succeed," said Dana Gibson, Mallin's partner in Mallin/Gibson Family LP.

Gibson, who has continued using the PIEA, said no other financial tools are comparable. He said the benefit is especially valuable for smaller housing rehabs, such as one he's now eyeing.

"It's a foregone conclusion," he said. "If that abatement is not afforded, I'm going to have to scrap the project."

If history is a guide, Gibson doesn't need to worry.

A review of PIEA meeting minutes dating to 2000 shows that only one abatement application has been denied and that just eight votes were not unanimous.

In 2004, the PIEA rejected Oak Pointe, a proposed \$16 million affordable housing project on the East Side. The refusal came after impassioned pleas from nearby residents -- a rarity at PIEA meetings, whose audiences usually are limited to applicants.

Even attendance by PIEA board members is somewhat spotty, according to meeting minutes. For the period from 2000 through 2005, fewer than 10 of the board's 15 members attended agency board meetings on average, and no meeting drew a full complement of board members.

Hughes, who served as the PIEA's chairman in 1996, said the agency works efficiently, with less red tape than City Hall. Board members usually don't see development proposals until the day they're made, Hughes said, but they become more familiar with projects before granting abatements at a subsequent meeting.

"We're not just giving money away," he said.

PIEA approval comes in two main steps.

The agency must find that an area is blighted before forming an abatement district, some of which cover wide areas. But there is no uniform definition of what constitutes blight. So PIEA board members, who come from a wide variety of backgrounds and have little previous training in real estate, must rely on reports from developers and consultants.

After an area is established, developers can seek abatements for specific projects and even use the PIEA's power of eminent domain to buy property within the district.

Unless a developer seeks something more than a standard abatement, the process of granting abatement requests can be done with little paperwork or debate.

Take, for example, a tax abatement request made in April 2003 for the residential conversion of a former warehouse at 1819 Baltimore Ave.

The request given to PIEA board members contained just three pages of text. No financial numbers were included in the proposal from a group led by Crossroads developer Nate Accardo. Accardo's group didn't include a budget for its condominiums or estimate the value of the abatement.

The PIEA board unanimously approved Accardo's proposal on the day it was made. In August 2003, the Kansas City Council passed a general development plan for the building. The ordinance contained no reference to abatements, and the council does not vote on specific abatement requests once a development plan is approved.

In 2005, Jackson County tax records show, more than \$80,000 of property taxes were forgone at 1819 Baltimore.

Minding the store

PIEA board members have rebutted criticism of what they termed their "non-bureaucratic processing approach" in a 2003 meeting. Board members disputed the organization's characterization as a fiefdom and said developers don't go "incentive shopping." Rather than seeking the largest incentive, they said, applicants go "process shopping" for the fastest approval.

This rationale conflicts with criticism from Kansas City Mayor Kay Barnes, who began pushing the PIEA to work more closely with the Economic Development Corp. of Kansas City shortly after she took office in 1999.

But Barnes' call for the PIEA to become more accountable has done little to make the agency's processes more transparent.

Six years of on-and-off negotiations produced a June agreement that refers groups seeking PIEA abatements to make applications to the EDC. Figuly, the PIEA's executive director, said in an e-mail to the Kansas City Business Journal that he then meets with EDC and city staff "as often as necessary on new PIEA areas and projects in those areas."

Barnes said she still wants the PIEA to operate more like the city's other incentive-granting agencies. Improved record-keeping "will be a matter of discussion" with Figuly, she said, declining to offer more details.

Former Kansas City Council member Ed Ford said he thinks the council needs to take more responsibility for the PIEA and set clearer policy for where abatements ought to be granted.

"Without that tool (PIEA abatements), we would not be that far along with downtown housing," said Ford, who left the council in 2003 and is now a lawyer with Ford & Cooper PC. "But we need to know who's entitled to abatements. There is no City Council policy that spells that out. Without that, the PIEA is on its own."

City Councilman Troy Nash, who succeeded Ford as chairman of the council's Planning, Zoning and Economic Development Committee, which reviews the PIEA's recommendations on general development plans, expects to meet Feb. 22 with Figuly to clarify the agency's relationship with the committee.

At the committee's Feb. 1 meeting, Nash told Figuly the PIEA's allocation of tax dollars brings a "heightened sense of responsibility" and a "need to communicate."

Ford said the PIEA's role in the city's economic development strategy needs to be defined better.

The City Council and Barnes "need to look at the big picture," he said, "including the PIEA, but not exclusive to the PIEA."

"The City Council has never come up with a policy that would give direction to agencies such as the EDC and PIEA as to when (and where) tax abatements should be granted," said Ford, who conceded that this failure extends back to his time on the council.

"Without that policy on the front end, these (economic development agency) officials don't have any guidelines from elected officials," he said. "Who should keep records? How much record-keeping should be required?"

"The City Council has two jobs -- to set policy and provide oversight. It's hard to say they're doing either job with the PIEA."