

Tax benefits' cost proves elusive

KC's PIEA doesn't account for number, fiscal effect of abatements

By Jim Davis. Kansas City Business Journal: January 13, 2006.

The agency responsible for one of Kansas City's most popular downtown development incentives doesn't know how many property tax abatements it approved in 2005.

The Planned Industrial Expansion Authority also doesn't require or record estimates of how much revenue is foregone by abatements, which last 25 years.

But an analysis of tax records by the Kansas City Business Journal shows that PIEA abatements granted in 2003 and 2004 alone will result in tens of millions of dollars of foregone property taxes during the life of the breaks -- with the Kansas City School District the biggest revenue loser.

Proponents of the abatements argue that losses of property taxes are offset by increases in sales, earnings and other economic activity taxes.

Information on the cumulative effect of abatements could become more valuable as new applications continue to flow in, including one for the proposed \$340 million East Village project.

City Councilman Troy Nash said he's uncomfortable with an arrangement in which the PIEA "is free to do whatever it wants." He said he wants more council oversight of the agency, even if it slows the abatement approval process and boosts applicants' costs.

"There's a tension in the system," Nash said, "between the (City Council) and the PIEA, between how much discretion is enough."

Al Figuly, the PIEA's executive director, said the agency doesn't ask developers to make projections like those required for tax increment financing, another city incentive.

Figuly said the PIEA wants to support Kansas City Mayor Kay Barnes' call for more urban housing and other development.

"The PIEA doesn't set policy," said Figuly, who promised to compile a list of the agency's 2005 abatements by the end of January. "It just implements policy."

Small agency, big impact

For an agency in a small River Market office with just one dedicated staff person, Kansas City's PIEA is a force. It has the power to grant development rights to private developers for districts found to be

blighted. These rights include the power of eminent domain and the ability to seek property tax abatement for projects within the district.

Standard abatement allows a property owner to pay property taxes only on the unimproved value of the land for 10 years, then to pay half of normal property taxes on improvements for the next 15 years.

The effect of abatements on tax revenue can take awhile to show up. That's because the breaks don't kick in until the projects are completed.

The PIEA approved abatements in 2003 and 2004 that cost tax jurisdictions \$1.4 million last year. The portion of this total that would have gone to schools, \$800,000, is nearly enough to cover Sugar Creek Elementary School's operating budget for the fiscal year ending June 30.

Among those taking advantage of PIEA tax abatements last year were owners of units in two large condominium conversion projects. Owners of the Metropolitan Condominiums, 600 E. Eighth St., were excused from paying \$456,493 in property taxes in 2005. Owners of the Western Auto Lofts, 2107 Grand Blvd., got a break worth \$382,863.

In 2005, smaller breaks went to owners of Urban Coeur Development LP's housing along Gillham Road in Midtown (\$131,907) and the 1819 Lofts at 1819 Baltimore Ave. (\$81,741).

Yet to go into effect are breaks for a handful of commercial and condo conversion projects:

- Boulevard Brewing Co.'s \$20 million plant expansion on Southwest Boulevard.

- HOK Sport Venue Event's \$20 million-plus headquarters at 300 Wyandotte St.

- WallStreet Tower, 1101 Walnut St.

- The Greenlease Cadillac building, 2929 McGee St.

- The W Lofts, 1803 Wyandotte St.

The total value of abatements is even greater for the HOK building, owned by Opus Northwest LLC, and buyers of The View condominiums at 600 E. Admiral Blvd. The PIEA granted these projects full tax abatement for 25 years.

And more PIEA-authorized tax breaks are coming. On Jan. 11, a Kansas City Council committee was scheduled to discuss a proposed PIEA district extending two blocks north of 39th and Main streets. The plan would enable a projected \$24 million renovation of the Hawthorne Plaza apartments, 3835 Main St., and a retail or office rehab of the former Goodenow Textiles building, 3710 Main St.

The \$340 million East Village proposal, which calls for reviving 12 blocks east of City Hall, could qualify for the largest PIEA tax break to date. The plan went to the PIEA in September.

Besides its size, the East Village project could stand out among abatement recipients in another way. The project's 1,200-plus residential units would be geared to buyers who are more likely to have children than those who buy pricey condos, thus increasing the load on public schools.

Figuly said denser residential development "encourages the highest and best use of existing infrastructure." The Metropolitan's 238 units, for example, use existing water and sewer lines. This alternative to suburban sprawl also makes better use of other public services, Figuly said, requiring fewer police officers and firefighters to be hired and no new road construction.

"By encouraging higher density in the urban core, where infrastructure is already there, you're going to end up with lower taxpayer costs down the road," he said.

Figuly said he hasn't gotten much feedback from school district officials. The district receives 57 percent of downtown property taxes.

Bonnie McKelvy, the district's executive finance officer, said Figuly tells her and other district officials about abatement requests before they're considered by the PIEA. These briefings satisfy McKelvy enough that she said she hasn't sought more information from the agency, including projections about the abatements' total value.

A call for more oversight

The PIEA isn't the only issuer of commercial property tax abatements in Kansas City. Developers also can seek this relief from the City Council through Chapter 353 of the Revised Statutes of Missouri.

The city granted its first Chapter 353 abatement in 1950 for an apartment building on Quality Hill.

In 1967, Chapter 353 was approved to help finance Crown Center. In the 1980s, the tool was used Downtown for the Town Pavilion and One Kansas City Place office buildings.

More rigorous public accounting of the abatements was required after a 1986 lawsuit alleged that Chapter 353 had been used capriciously.

Developers now must project the value of requested abatements, though the city isn't required to match these estimates with actual amounts.

The use of Chapter 353 abatement increased through the 1990s and peaked from 2000 to 2002, when the city approved an average of five applications a year.

But activity has shifted to the PIEA in recent years, with the city approving just one Chapter 353 abatement in 2005.

In 1967, Missouri granted cities the authority to form planned industrial expansion authorities to help revive "blighted, insanitary or undeveloped industrial areas."

Before Kansas City's PIEA can abate taxes, the City Council must approve a general development plan. The plan need not explain specific projects that will seek tax abatements.

On Jan. 4, this long-established policy brought scrutiny from Nash, chairman of the council's Planning, Zoning and Economic Development Committee. The committee reviews development plans before they go to the full council.

Nash, chairman of the committee since 2003, pressed for more council oversight of PIEA abatements while the committee reviewed a development plan for the Film Row area.

The area covers about 21 acres on the west edge of the Crossroads Arts District. The anticipated redevelopment wouldn't require City Council approval because each project would be too small to warrant the council's review of an urban redevelopment district.

The Film Row plan, endorsed by the council on Jan. 5, requires projects to be approved by the city's planning director. Still, Nash said he's not satisfied with what he called a compromise designed to appease his concern. He wants more council input and said the PIEA needs to provide more information about the quantity and value of its tax abatements.

Kansas City Councilman John Fairfield said he understands why the PIEA has come into favor. Developers think they can get quicker decisions on abatement requests, he said. But Fairfield cautioned that the PIEA's unelected members don't need to consider the abatements' effect on their constituents, as council members do.

Fairfield, vice chairman of the Planning, Zoning and Economic Development Committee, said he contacted Figuly after the committee's Jan. 4 meeting. Fairfield said he wants the council to have more input into the agency's decisions but hopes to set a simple policy.

"I don't want to stop them (at the PIEA) from doing what they do well and efficiently," Fairfield said. "You want to let those things work. But there has to be enough review in the process."