

NINTH & NEW HAMPSHIRE PROJECT

Frequently Asked Questions

Q: What is a TIF?

A: Tax Increment Finance (TIF) is an economic development tool, authorized by the State, to allow communities to support projects that provide a substantial and significant public benefit. Property Tax TIF measures the difference between the amount of property taxes generated before and after improvements, using the difference, or captured value, to subsidize eligible project costs (e.g. land acquisition, public and site improvements). The value of the property prior to development (the base or non-captured portion) continues to generate property taxes which are distributed to all appropriate taxing jurisdictions. Within Kansas, 1.5 mills for the State and 20 mills for the school district are shielded from property tax TIF, reducing the overall TIF eligible mill levy by 21.5 mills. A sales tax TIF can also be requested, which amounts to an additional sales tax within the defined district to help finance the cost of eligible public infrastructure expenses. Justification for the use of TIF relies upon the “but for” text (see below).

Q: What is a TDD?

A: Transportation Development District (TDD) is an economic development tool, which municipalities can use to fund transportation related projects to promote economic development. The TDD imposes an additional sales tax (up to 2%, although 1% is commonly used) within the defined district to help finance the cost of eligible transportation-related improvements.

Q: What is a “pay-as-you-go” TIF and TDD?

A: The TIF and TDD statutes permit the City to issue bonds to finance the cost of the improvements in a TIF or TDD project area. Generally, the City of Lawrence does not do this and instead the TIF and TDDs are structured where all costs associated with the eligible expenses are paid up-front by the Developer and then repaid to the Developer as the revenues are generated from the project.

Q: Does this mean that all risk associated with not generating sufficient project revenues from the development to repay eligible costs is held by the Developer?

A: Yes.

Q: Is there a cap on the kinds of expenditures that are eligible to be reimbursed?

A: Yes. Both TIF and TDD statutes define the types of expenditures eligible to be reimbursed. Typically, eligible costs relate to “public infrastructure” expenses such as parking, water lines, street costs, utility extension, certain landscaping, alleyway improvement costs, and utility relocation, among others. In addition to recovering these costs, the Developer is also eligible to receive interest on any monies that the Developer has advanced for these improvements.

Q: What is the “but for” test and why is it required?

A: The City has a general policy that before granting TIF or TDD incentives to a development, there must be a showing that “but for” the incentives granted, the project would not be built. Analysis for the “but for” test generally presents the expected rates of return on the project with and without incentives. For the Ninth & New Hampshire project, a third-party consultant, Springsted, performed the analysis. Their report concludes that the project does meet the “but for” test.

Q: The TIF statute requires a feasibility study for the project. Why is this study required and what does it need to show?

A: The State requires a feasibility study be performed, primarily to ensure that if City-issued bonds, there are sufficient projected revenues to repay the bonds. Because the Ninth & New Hampshire TIF and TDD districts are structured as “pay-as-you-go”, there are no bonds issued, and the only risk of non-payment falls upon the developer who has advanced these costs. Although the city is not issuing bonds to help finance improvements within the Ninth and New Hampshire TIF district, the feasibility study is still mandatory and done as part of the overall approval process.

Q: What are Industrial Revenue Bonds?

A: Industrial Revenue Bonds (IRBs) are used in Kansas to finance acquisition and construction of a broad variety of commercial and industrial properties (under K.S.A. 12-1740 et seq) on behalf of private businesses or non-profit agencies. Generally, property and services acquired with the proceeds of IRBs are eligible for sales tax exemption, which is the primary reason the Ninth & New Hampshire project has requested the use of IRBs. When utilizing IRBs, the City actually takes title to and owns the project during the period of time the bonds are issued. However, it should be noted that repayment rests solely on the applicant with no City liability for the bonds.

Q: Are the proposed projects eligible for Industrial Revenue Bonds?

A: Because the projects are located in an “enterprise zone”, they are eligible for IRB financing despite the fact they are not “industrial” projects.

Q: What is being requested for the Ninth & New Hampshire project?

A: The developer has requested a tax increment financing (TIF) district, transportation development district (TDD), and industrial revenue bonds (IRB) for a mixed-use, commercial project encompassing the southeast (South Project) and northeast (North Project) corners of 9th & New Hampshire.

Q: Why is a Tax Increment Financing District and Transportation Development District both needed to finance this project?

A: Both the South Project and North Project require additional off-street parking facilities. The South Project is a planned, mixed-use center with retail and hotel lobby space on the first floor and 81 hotel units on the upper floors. Hotel franchise requirements (Marriott) require dedicated parking for hotel guests for this project component. The North Project is a planned, mixed-use center supporting ground-level commercial uses and 90-120 apartment units on upper floors.

The developer believes there is not enough close-in parking currently available to meet the needs of either project. In order to alleviate an excessive burden on existing downtown parking, the developer will front the expenses for building underground parking for both projects. Because of the high costs associated with the construction of underground parking facilities, the Developer needs both a TIF (sales and property tax TIFs) and TDD to help finance the costs. It should be noted that even utilizing both, the revenues estimated to be generated by the TIF and TDD are not projected to be sufficient to fully amortize the cost of these facilities.

Q: Why is property being removed from the existing TIF district and placed in a new TIF district?

A: Three parcels are proposed for removal from the existing Downtown 2000 TIF district: 946 New Hampshire (Salvation Army site), 940 New Hampshire (Lawrence Arts Center), and 900 New Hampshire (vacant, undeveloped parcel). As 946 and 940 New Hampshire are and will remain exempt from property taxes, there is no impact on property tax revenue as a result of removing these parcels from the current district and placing them within a new district. In addition, the 900 New Hampshire parcel has remained undeveloped since the existing TIF district was created in 2000. Thus, there is minimal incremental value captured to support the existing district. (See staff memo, [900 New Hampshire: Financial Impact on removal from current TIF district.](#))

TIF allows the incremental tax value of improved property to be captured and utilized for financing necessary and eligible project expenses for up to 20 years. Of the three parcels proposed for relocation to a new TIF district, only the 900 New Hampshire parcel has the potential, if developed, to generate an incremental property value. The developer has indicated that the TIF revenues generated over the entire life of the district are necessary to help finance the underground parking facility that will service the project.

Q: Is there any compensation for removal of 900 New Hampshire from the existing TIF district?

A: When the original Downtown 2000 TIF District was created, the City utilized general obligation bonds to help finance construction of the 9th & New Hampshire parking garage. From the onset, it was anticipated that district TIF revenues would not be sufficient to fully cover bond repayment and that City at-large funds would also be required. As such, the City utilizes district TIF revenues as well as general funds to help pay for the bonds and expects to have fund revenues sufficient to pay these bonds through maturity (2020).

As noted above, the 900 New Hampshire parcel has remained vacant since the district was established and has not contributed substantial TIF revenues to repay the original bonds for the parking garage. As proposed, parcel improvements are expected to go on the tax rolls at the end of 2014. Taking into consideration the remaining bond payoff period and contribution expectations as originally envisioned, the City recommends the developer contribute \$850,000 in exchange for relocating the parcel from the existing to the new TIF district. (See staff memo, [900 New Hampshire: Estimated bond payoff contribution.](#))