

Approved: February 20, 1997  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Bill Mason at 3:30 p.m. on February 13, 1997 in Room 423-S of the Capitol.

All members were present except: Barbara Allen (Excused)  
Carol Beggs (Excused)  
Lisa Benlon (Excused)  
Jerry Henry (Excused)  
Bill McCreary (Excused)  
Ethel Peterson (Excused)

Committee staff present: Lynne Holt, Legislative Research Department  
Renaë Jefferies, Revisor of Statutes  
Beverly Renner, Committee Secretary

Conferees appearing before the committee: James L. "Butch" Hardman, Hardman Real Estate, Parsons  
Karen France, Kansas Board of Realtors  
Don Witzke, Liberal Mayor  
Delores Dalke, Hillsboro  
Arthur L. Brown, Mid-America Lumbermens Association  
Christopher K. McKenzie, League of Kansas Municipalities  
Albert G. Smith, Mid-America Incorporated written testimony  
James R. Jacquinet, Commercial Bank, Parsons written testimony

Others attending: See attached list

Chairman Mason opened the hearing on HB 2179 - an act concerning tax increment financing; providing for use thereof for residential purposes. Lynne Holt, Legislative Research explained the elements of the bill to add definition and change provisions to include residential development. There is no fiscal impact.

James L. "Butch" Hardman, Hardman Real Estate, Parsons spoke as a proponent for **HB 2179** to encourage economic development for communities and to allow for industry recruitment with the possibility of new housing availability (Attachment 1).

Karen France, Kansas Board of Realtors, appeared as a proponent for **HB 2179** as a means to spur the development of new homes and a means to "move up" in the housing spectrum (Attachment 2). This bill would enable communities to create new property tax dollars over time and spur housing development.

Don Witzke, Mayor of Liberal, testified for **HB 2179** because enactment should relieve the shortage of single family moderately priced housing (Attachment 3). This incentive would provide the needed public infrastructure of sewers, water lines, roads, street lighting, traffic signals, etc. This law continues to provide veto capability to school boards and county commissions if planning is not in the best interest of the local governing body.

Delores Dalke, Hillsboro, spoke in favor of **HB 2179** (Attachment 4). Hillsboro has been able to attract industrial development but because of a lack of suitable housing only half of the employees in the business community live in Hillsboro. The high cost of providing streets and sewers makes it impossible for many middle income families to purchase a home in a newly developed subdivision.

Arthur Brown, Mid-America Lumbermens Association, appeared as a proponent for **HB 2179** (Attachment 5). This is the number one issue for the Association's rural membership and will be as good an economic tool as the people of the community care to make it. The combined efforts of private sector involvement, community leadership and progressive and useful programs will allow a community to grow.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, Room 423-S  
Statehouse, at 3:30 p.m. on February 13, 1997.

Christopher McKenzie, Kansas League of Municipalities, spoke in favor of **HB 2179**. He offered a 1995 presentation as background and explanation for the need of tax increment financing in the residential sector (Attachment 6). Mr. McKenzie offered changes to the bill that might clarify and better define the area involved.

Written testimony was submitted by Albert G. Smith, President, Mid-America, Incorporated and James R. Jacquinet, Senior Vice President, Commercial Bank in favor of **HB 2179** (Attachment 7 and 8).

Seeing no further proponents or opponents, Chairman Mason closed the hearing on **HB 2179**.

Representative Long moved that the minutes for February 3, 4 and 5 be approved as submitted. Representative Henderson seconded the motion. The motion carried.

Chairman Mason adjourned the meeting at 4:40 p.m.

The next meeting is scheduled for February 18, 1997.

# HOUSE ECONOMIC DEVELOPMENT COMMITTEE COMMITTEE GUEST LIST

DATE: February 13, 1997

NAME	REPRESENTING
Arthur Brown	Mid-2m Lumberman 1884
John Cobb	Hillside
Alison Dahl	Kansas Assoc of Realtors
James J. (Beth) Hard Jr	HARDMAN R.E. INC.
Karen J France	KC ASSOC. OF REALTORS
DON WITZKE	City of Liberal, K + Kansas Assoc. of Re
Aurii Hozzmann	Pinegar-Smith Co.
Tim Paris	Kansas, Inc.
EA Mosher	City of Topeka
Kelly Kuitala	City of Overland Park
Heather Randall	Whitney Jamron, AA
Kay Witzke	Liberal, KS.
Janet Stubbs	Ks. Bldg. Ind. Assn.
Leo Hafner	Legislative Post Audit



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PARSONS, KANSAS 67357  
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Rep. Bill Mason, Chairman  
Economic Development Committee  
300 SW 10th, Room 446 North  
Topeka, KS 66612-1504

RE: HB-2179 Tax Increment Financing

Dear Rep. Mason and Committee,

I regret that I am unable to meet with the Economic Development Committee on February 13, 1997. I would like to ask the committee for their support on the Tax Increment Financing Bill, which now has a number of HB-2179.

Prior obligations and responsibilities will make it impossible to attend. However, I have asked some supporters of this Bill to attend and testify. I strongly feel there is a growing list of support for the use of this Bill.

As the committee may recall, the use of Tax Increment Financing is a win-win situation for rural communities all across Kansas. It creates something from nothing and all of the controls stay within the bodies of the local cities, counties, and school districts. If any one of them decide they are not in agreement with it's use, then it is not used. You must have total agreement.

Another point is, in rural communities it is hard, or imposible, to develop property without some form of assistance. Special Assesment's have been a tool that has been available for a long time and provides a method. However, with the high monthly obligations it creates, it has not been utilized very often.

Tax Increment Financing would offer a method that does not break a developer and allows him to continue with the development without the fear of the high monthly cost of specials on all the unsold lots. In Rural areas we must normally rely on our local builders, realtors, and lumber yards to put up a development. We don't have the advantage the cities do with large development companies, so the cost of a development to a small town builder is expensive to maintain.

Tax Increment Financing has been called " The Forgotten Tool", because of the restrictions that it now has. HB-2179 is a slight ammendment to this existing law. It will allow this law to become a very usable assett in today's need for housing in our rural communities across Kansas.

HOUSE ECONOMIC DEVELOPMENT  
February 13, 1997  
Attachment 1

RESIDENTIAL • FARMS • COMMERCIAL •





3106 MAIN  
PARSONS, KANSAS 67357  
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In closing, I would just like to point out that in order for our communities to compete for new industries we must have adequate housing to attract them. If there is one thing that I have learned throughout this process is that "Economic development and housing go hand in hand". Without housing it is almost impossible to land new companies into your communities.

Again, I thank you in advance for your support, and if anyone has questions, please contact me.

Sincerely,

James L. "Butch" Hardman Jr. CRS GRI  
Hardman Real Estate, Inc.



Kansas Association of REALTORS®

3644 S.W. BURLINGAME ROAD • TOPEKA, KANSAS 66611-2098  
TELEPHONE 913/267-3610 • 1-800-366-0069  
FAX 913/267-1867



**TO:** HOUSE ECONOMIC DEVELOPMENT COMMITTEE  
**FROM:** KAREN FRANCE, DIRECTOR, GOVERNMENTAL AFFAIRS  
**RE:** HB 2179, TAX INCREMENT FINANCING FOR RESIDENTIAL CONSTRUCTION  
**DATE:** FEBRUARY 13, 1997

Thank you for the opportunity to testify today. On behalf of the Kansas Association of REALTORS®, I come today to ask for your support of HB 2179.

Our membership of over 6,500 members represents a major segment of our state's economy. Studies performed by the NATIONAL ASSOCIATION OF REALTORS® show that home ownership contributes to community responsibility, civic stability and family well being. It is still the American Dream to own a home.

Oftentimes, the legislature considers proposals which are geared towards providing "affordable" housing. We ask you to keep in mind that affordable housing means different things to different people--clean apartments, first homes, move up homes.

One key component of affordable housing is availability. We believe the ability for communities to utilize TIF financing for building the infrastructure for new residential construction could be one of the "missing links" for spurring the development of new homes. If you create mechanisms for building at all levels of the housing spectrum, you leave room for people to move up within that spectrum. Individuals who are in their first home move up to their next home, presumably a larger one which costs more. They leave behind their first home for someone else to have a first home, instead of renting a house or apartment. The family who moves into their first home opens up the rental apartment or home for another family to move into. This is how the housing market flows.

A key example of how government can help facilitate this market flow is this Tax Increment Financing (TIF) proposal. By fine tuning the TIF statutes, you can set up an excellent mechanism for encouraging cities and counties to become active partners in developing housing at all levels. It can be done by creating new property tax dollars over time and without using additional state or local tax dollars to do so. In the communities which are struggling to spur housing development this method for financing infrastructure is very attractive to all parties involved.

Several other proponents will go into more detail about how they believe TIF financing for new home construction could benefit their communities. Over 200 persons from the public and private sector attended our Housing Development Symposium in Hutchinson in June. That program was a joint project of the League of Kansas Municipalities, the Kansas Association of REALTORS® and the Kansas Department of Commerce and Housing. The overwhelming response to the concept of having this legislative change was positive. It may not be used by every community, but for many communities it is that missing link in the chain of homeownership. We ask for your support of that opportunity.

Thank you again for the opportunity to testify. We commend you for your study of housing issues and stand ready to assist you in any way you might need us.

HOUSE ECONOMIC DEVELOPMENT  
February 13, 1997  
Attachment 2



WITZKE  
AND ASSOCIATES

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LIBERAL, KS 67901  
BUS. (316) 624-1212  
BUS. (800) 279-9948  
FAX (316) 624-1249

February 12, 1997

House of Representatives  
Economic Development Committee  
300 S.W. 10th., Room 446 North  
Topeka, KS. 66612-1504

Committee Members,

As Mayor of Liberal and a Realtor, I respectfully ask you and your committee's support of the amendment to existing legislation that will encourage housing construction throughout Kansas.

In Liberal, as other communities throughout Kansas, we are experiencing a shortage of single family housing for sale to those in need of moderately priced homes.

The Kansas Tax Increment Financing law is a way to "make this happen". It has become very apparent that the current law targets the use of such a tool to blighted areas and pre-July 1992 designated enterprise zones. TIF does not currently allow such financing to be used to develop or re-develop areas which are unable to meet the blight test set forth in the law.

I firmly believe that construction of single family homes will increase in Kansas if the community can use the incentive provided by TIF to finance such public infrastructure as sewers, water lines, roads, street lighting, traffic signals, etc.

The proposed amendment to K.S.A. 12-1770 and 12-1771(a) will allow a City, with the permission of the County and local School District, to adopt a TIF plan where land is (1) currently used as agricultural land and (2) adjacent to a City where it is not currently served by sewers, has limited water supply and which agree to be annexed by the City prior to any TIF funded infrastructure construction.



The TIF law, and this amendment, continue to assure the School Boards and County Commissions the power of veto of any TIF plan if, in the opinion of one of those bodies of government, a plan is not in the best interest of the School district or the County.

Briefly, this is the way TIF works: in the area to be developed, money for streets and other infrastructure needs is raised with special obligation bonds on a 10 or 15 year term. When houses are built and bought, the tax the homeowner would pay in property taxes instead goes to pay off the special obligation bond.

This would require the taxing entities to forego the property tax (other than the tax that was in place prior to TIF) they would otherwise receive until the special obligation bond is paid off. When it is paid off, the property will go on the tax rolls and provide a boost to the city, county and schools.

I urge you to support this amendment? The State of Kansas is not negatively impacted by the amendment and all of the controls remain with the community bodies of government. I believe that the availability of single family housing, regardless of price, remains the principal obstacle for cities to overcome if they are to be successful in retaining and attracting employment. The amendment will give communities an even chance of winning the battle for jobs and tax base that are our life blood.

Suitable sites for single family housing are rarely found in the developed areas of a community but more often on the perimeter. This amendment will allow a community to "partner" with the developer/builder in an effort to reduce the cost of extending water and sewer lines and building roads.

Kansas must address housing needs if we are to continue the successful economic growth we have experienced over the past few years. Housing needs continue to rank as one of the greatest causes we, at times, are not able to lure new business and manufacturing or grow existing businesses and opportunities these businesses create for the citizenry of our area. The proposed TIF legislation amendment language will create a better opportunity to solve the housing needs. I feel that your support of this amendment is critical for the long term well-being of our area and Kansas.



Your support of the proposed amendment to K.S.A. 12-1770 and 12-1771(a) would be very much appreciated by myself and others.

Thank you for your support of this proposed amendment.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald E. Witzke". The signature is written in a cursive style with a large initial "D".

Donald E. Witzke, CRS, GRI

Broker



# Real Estate Center, Inc.

116 North Main St. • Hillsboro, KS 67063 316/947-2321 • FAX 316/947-5616  
206 East Main St. • Marion, KS 66861 316/382-8871 • FAX 316/382-8871

February 13, 1997

TO: HOUSE COMMERCE COMMITTEE

RE: TAX INCREMENT FINANCING

Please let me introduce myself, I am a Realtor as well as a former Mayor of Hillsboro. I am here to seek your support for House Bill 2179.

As you are aware, Hillsboro has been one of the outstanding small cities in our state regarding economic development. Our reputation in attracting and promoting industrial development has been an example to other smaller cities across the state. Recently, the service sector has followed the industrial growth to help create a complete city. However, with this success comes a major problem: HOUSING. Approximately two years ago a survey was done with interesting results. Hillsboro with less than 3,000 residents has 2,000 jobs available. The survey asked how many employees lived in Hillsboro, only one half of all employees are living in Hillsboro. Why? Lack of suitable housing.

The high cost of providing streets and sewers makes it impossible for many middle income families to purchase a home in a newly developed subdivision.

Not only must they pay Ad Valorem taxes but they must also pay "Special Assessments", often adding an additional \$75-80 per month to the housing costs of young working middle class families. This equates to an additional



HOUSE ECONOMIC DEVELOPMENT  
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Attachment 4

income of \$300 per month to qualify for a mortgage. \$300 per month is approximately \$1.75 per hour for a working person.

If available, Tax Increment Financing could be used to solve the housing shortage. I believe this is a tool that should be given to local government to use if necessary in meeting the housing demands. Local government units should be given the tools they need to solve their community needs.

I have noted with interest the comments that a local city can issue General Obligation Bonds to fund up to 95% of public improvements for housing. Of course, local governments have chosen not to use this method as General Obligation Bonds count towards total indebtedness ratios which have limits placed on them by statutes and cause a burden to the tax payers in general.

After the passage of this legislation, many cities will choose not to use the Tax Increment Financing but please make it available to the communities that recognize their own needs and through feasibility studies find that this could be the solution to their needs.

Please be assured that all local units, cities , counties and school districts would be involved in making the decision to use TIFs. Should one unit of government not approve this method, it could not be used.

Increased housing availability will allow communities to grow which in turn will bring more income to the State of Kansas through sales and income taxes, etc. while benefiting the local economies.

Thank you for allowing me to express my concern for the future of housing in Kansas.

Respectfully submitted,

A handwritten signature in cursive script that reads "Delores Dalke". The signature is written in dark ink and is positioned above the printed name.

Delores Dalke





800 WESTPORT ROAD • KANSAS CITY, MISSOURI 64111-3198  
816/931-2102 FAX 816/931-4617

## MID-AMERICA LUMBERMENS ASSOCIATION

### TESTIMONY BEFORE THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

House Bill # 2179

February 12, 1997

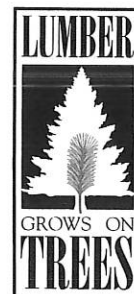
*Mister Chairman, members of the Committee, my name is Art Brown. I represent the retail lumber and building material dealers in Kansas through the Mid-America Lumbermens Association. I appear before you today as a strong proponent of House Bill No. 2179.*

*It was decided at our State Committee meeting in September that this issue was the number one issue for our rural membership. This was a mandate from the members of our Committee to seek passage of this bill.*

*After that strong statement of support, I will say, that this bill, should it pass into law, will only be as good an economic development tool as the citizens in a community let it become. We feel the three pronged effort of the private sector involvement, community leadership and progressive and useful economic development programs are all a must for a community to realize the growth that it hopes to achieve.*

*We feel the bill addresses a prime cost concern in the construction of new housing, that being the financing of special assessments by the issuance of Special Obligation bonds issued and backed by the local unit. We like the fact that the County Commissioners, and the School District have to sign off on the proposed development. We see an active role by the*

HOUSE ECONOMIC DEVELOPMENT  
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Attachment 5



citizens of the Community through the public hearing process as a tool that will energize the community effort to adopt this form of financing for housing development.

I am confident by now other conferrees have addressed the financing aspect of this measure and the retirement of the Special Obligation bonds by collected property taxes and the security of the bonds. I will do the best I can to address those issues if called on to do so. Rather, I would like to visit with the Committee on why I feel this measure would be a very timely and useful economic development tool.

When I am not in the Legislature, I travel the entire State of Kansas the other 8 months of the year. I have done so for nine years. When I first started, there were 398 retail lumber operations in Kansas. Now there are 319. That is a lot of boarded windows. What I have started to notice in the past 2 to 3 years, is the number of closings is starting to slow down. Rather than see the lumber yard in the smaller towns close down and not be re-purchased, we are starting to see some "new blood" purchase these operations instead of seeing them close.

Belleville, Minneapolis, LaCygne, Norton, Grinnell, Hoxie, and Syracuse, are examples of yards, that have found new life with owners committed to growth in these communities. Goodland, McPherson, Dodge City, Herington, Ft. Scott, Russell, Colby, El Dorado, Girard, Independence and Lawrence along with some areas I'm sure I have missed showcase highly capitalized new yards that have been constructed, or yards at these locations have been substantially upgraded with a large capital investment. My purpose in telling you this is not to give you a

cooks tour of the lumber yards in Kansas. It is to demonstrate that we have members who have made a statement to their communities that they are ready for solid long term growth and have backed up that committment with these investments in their physical plants be it a new facility or a significant upgrade.

You will notice from the list, this movement is across the entire State.

The current business dynamic in this State is simple. Many folks who came home after the war are now retiring or have retired. They have passed these businesses on to a younger breed, who very much want to see their communities prosper.

To paraphrase the movie "Field of Dreams" build them, and they will come. We are told time and again what the factors are that a business looks for when considering relocation. The tax base, the quality of life, the quality of schools and if there is an inventory of housing for their employees. Certainly, our quality of life in these communities I have mentioned is second to none, and our schools don't take a back seat to any State, the taxes seems to be an issue that this Legislature is working on, but the inventory of housing for the employees of that business can really be a closer in the decision making process for a potential business.

Needless to say, this is a very self-serving issue for us, in that we will sell the materials that go into these houses. We envision this program as an effective tool in seeing that these houses become a reality. It is not a lead pipe cinch to work, nor is it a program that would be ideal for every small community. However, we feel that combined with other such economic development programs, it does add to the menu of incentives that can create the growth that will generate the revenue to make these communities thrive in the years to come.

*We are not just selling lumber, insulation, and roofing. What the final product will be is a quality of life that is totally unique to the rural areas of our State. Believe me when I tell you as sincerely as I can, it is indeed a superb quality of life these folks live.*

*We ask this Committee to give us this economic tool to continue to develop these fine communities and the people in them. We strongly endorse House Bill 2179 and hope that your enthusiasm for passage of this bill is as great as our members. I thank you for the opportunity to visit with you today, and stand ready for any questions or comments on my testimony.*



*Basic Concepts and Mechanics*  
*Tax Increment Financing (TIF) in Kansas*  
*July 1995*

*Presentation by:*  
*David N. MacGillivray*  
*Principal*

Springsted Incorporated  
Public Finance Advisors

**SPRINGSTED**  
*Public Finance Advisors*



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(913) 345-8062

HOUSE ECONOMIC DEVELOPMENT  
February 13, 1997  
Attachment 6

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# The Participants

## City

Elected Officials  
Advisory Commissions  
City Staff  
Fiscal Consultant:  
    Springsted Incorporated  
Bond Counsel

## Landowner/Developer

Attorney

## Other Governmental Jurisdictions

### Increment Participants

County  
School District

### Other

Federal Government  
State Government

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County  
Other Political Subdivisions

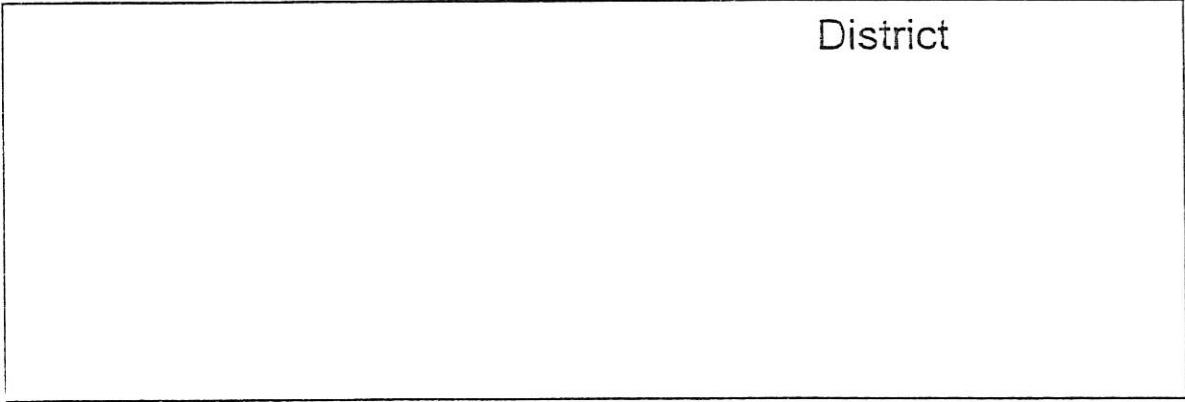
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# The Mechanics

## 1. Geographic Areas

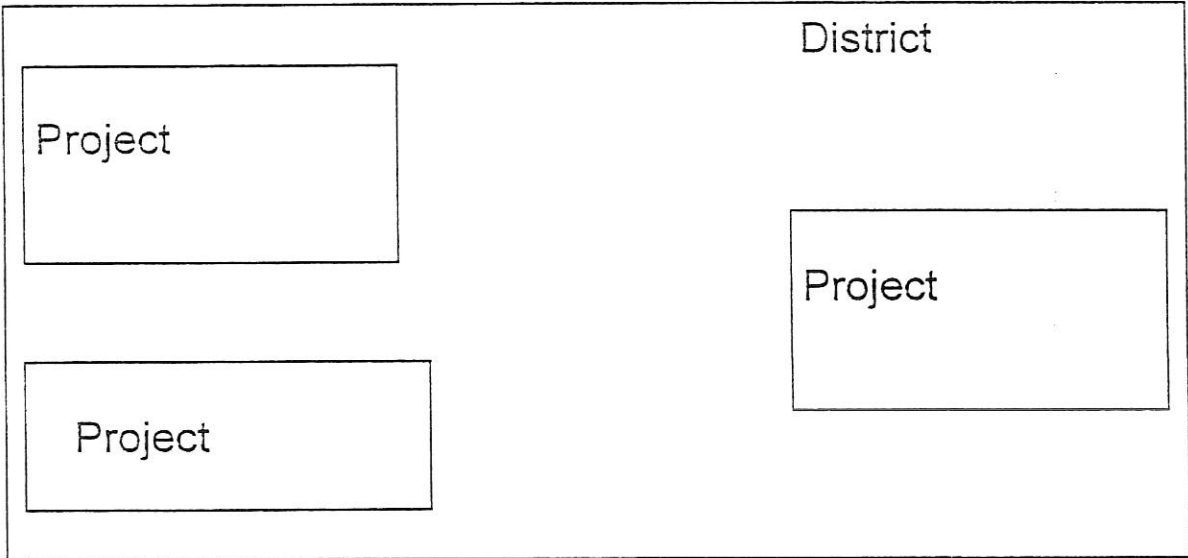
- Redevelopment District

"Generator of Income"



- Redevelopment Project Areas

"Expend Income"



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### 3. Examples of Major Eligible Project Expenditures

- land acquisition (condemnation - 2/3 vote of governing body)
- site preparation
- relocation assistance
- public improvements for street, sewer, water, pedestrian ways and parking facilities
- underground utilities: gas, electric, water
- plazas, arcades, landscaping, fountains, benches, similar amenities
- all necessary related expenses to redevelop and finance the redevelopment project
- can not finance building construction or other improvements owned by developer
- environmental contamination - tax "decrement"

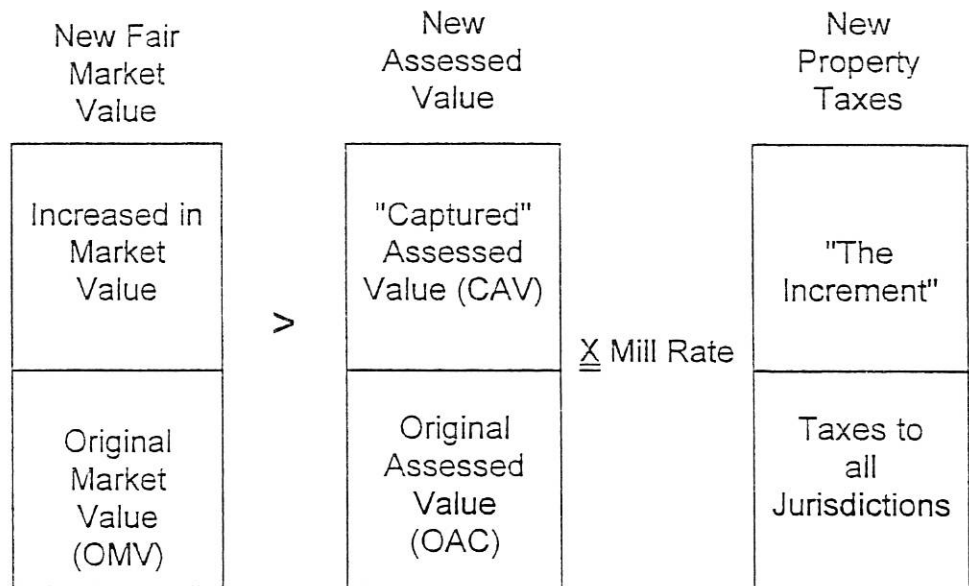


B. When a Tax Increment District is Formed

- The "assessed value" is given the term "original assessed value (OAV)."
- The amount of property taxes collected prior to the forming of the district continue to go to the individual taxing jurisdiction.

C. New Development Occurs in the TIF District

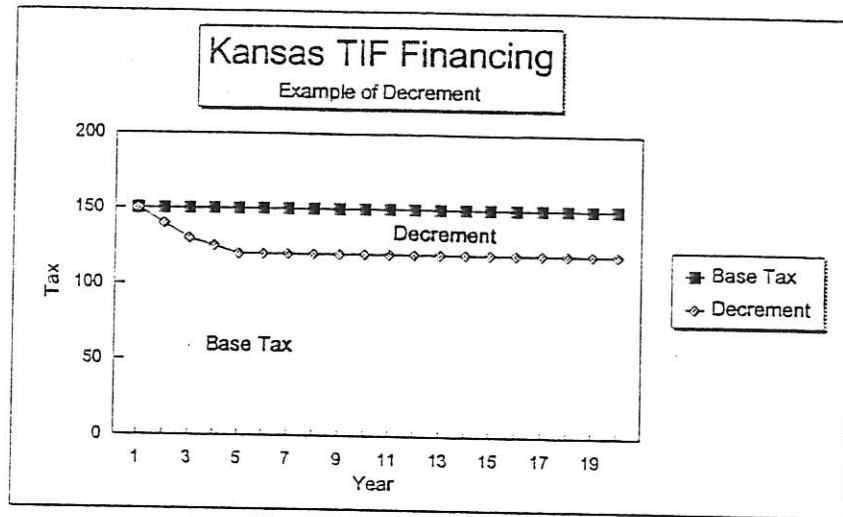
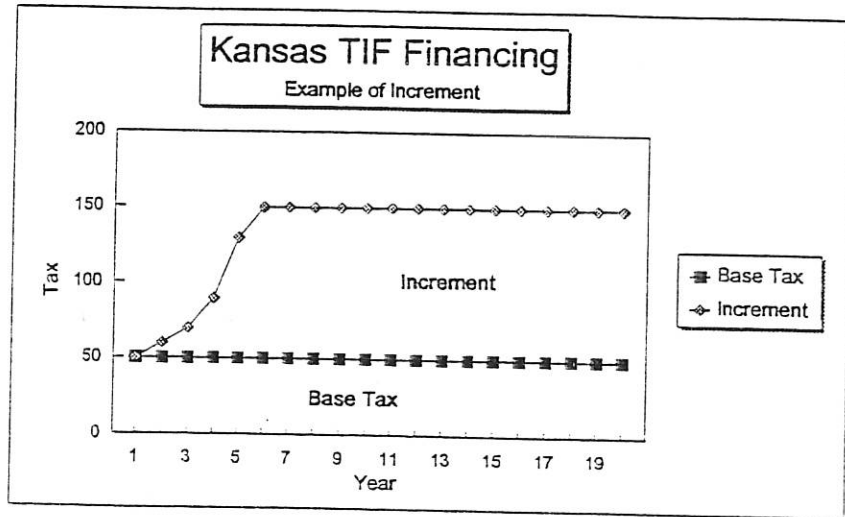
- New market value is added to the existing estimated market value.



- Taxing units included are:
  - ◆ County
  - ◆ City
  - ◆ School District
- Each Redevelopment District is a separate taxing unit

D. Increment Received Over Term of TIF District

- New market value is added to the existing fair market value



- Term of Collection
  - ◆ Project area formed within 15 years of District formation
  - ◆ Bonds have maximum term of 20 years

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## 6. Project Financing

- Eligible costs funded on a cash or debt basis.
- Tax increment income can be pledged for the repayment of debt issued to finance eligible project expenditures.
- Debt can be in the form of general obligation bonds or special obligation bonds. Special obligation bonds pledge only increment income.
- General Obligation bonds are subject to reverse referendum protest petition.
- If protested, General Obligation bonds require an election.
- Maximum term of bonds - cannot exceed 20 years.
- Special obligation bonds can be repaid from:
  - tax increment income,
  - revenues derived from redevelopment activities,
  - private sources,
  - any combination of above.
- Environmental Contamination Remediation Projects
  - increment is set on a yearly basis,
  - increment limited to 20% of tax produced in the year prior to establishment of the redevelopment district.
  - remediation may be funded with special obligation or general obligation bonds.
  - requires status report to legislature detailing progress in remediation efforts.

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# Benefits and Costs

## 1. City's Perspective

### A. Benefits

- TIF allows city to realize new development which would not otherwise occur without the use of TIF.
- City can realize broader economic gains of new development in terms of employment, tax base enhancement and secondary spin-off effects.
- City can facilitate the construction of public improvements which would not otherwise be possible.
- City may have better control over the nature of the development.
- City may be able to fund administrative and/or community development costs with income from the district.
- In some cases the quality of new development is enhanced by TIF.

### B. Costs

- City enters development business
- Potentially convey benefits to certain private parties, not others
- City incurs additional debt

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## 2. Landowner(s) Perspective

### A. Benefits

Without TIF, landowner absorbs development costs:

- Development can proceed because TIF provides a funding source for a public improvement where no other viable funding source exists,
- Special assessments for public improvements, and/or
- Hard costs of land acquisition and site preparation.
- With TIF these costs are funded in whole or in part by TIF bonding, and landowner pays only his property taxes, which are the same whether TIF applies or not.

### B. Costs

- Usually an extended development period required for TIF process.
- Developer/landowner may provide financial guarantees to city securing taxes and debt service on the TIF bonds.
- Greater city monitoring of scope, quality and timing of new development.

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#### 4. City Security Guarantees

A. In order for the special obligation bonds to be marketable, issuer must be in place to reduce risk for bondholders. A number of factors can disrupt payment of property taxes.

- New development is constructed over a longer time frame and/or to a lesser market value than represented to the city at time of approval.
- Property owners don't pay their taxes on time.
- Property owners pay taxes on time, but with decreases in mill rates caused by changes in the funding of local governments or tax structure changes, actual property tax payments are less than scheduled debt service.

B. How does the city protect itself? (Options - some or all).

- Assessment agreement stipulating market value of new development and schedule of completion.
- Withholding bond proceeds or delaying construction of public improvement until all or a portion of new development completed.
- Liquidity guarantees (letters-of-credit) provided by property owners ensuring timely payment of property taxes (number of years?).
- Liquidity guarantees (letters-of-credit) provided by property owners covering debt service shortfalls regardless if taxes are paid on time.



- 
- Pay-as-you-go: No debt is issued. The landowner finances his own improvements and is reimbursed over time by the city from the actual collection of increment income.
- C. The level of guarantees depends on the ability to present a financing package which represents an acceptable degree of risk to the potential bondholder.



by Gary Anderson, Attorney-At-Law, Gilmore & Bell.

The Kansas legislature adopted tax increment financing legislation in 1976. During the 20 years since its original adoption there had been very few tax increment projects completed. There was a desire by a number of city officials to amend the tax increment statute to allow for greater flexibility. During the period prior to the start of the 1996 legislative session, a group of city officials made a proposal to the Special Committee on Assessment and Taxation regarding several proposed modifications to the Kansas tax increment financing law. These proposed amendments (which ironically became

## The 1996 Kansas Tax Increment Financing Amendments

known as Proposal No. 13) were discussed at several hearings by the Special Committee. After these hearings, the Special Committee approved Proposal No. 13 and it was introduced in the 1996 legislature as Senate Bill 405. After a somewhat tortuous path during the 1996 legislative session, the substance of Proposal No. 13 emerged as House Bill 2878 and was passed overwhelmingly by both the House and Senate and signed by the Governor.

The major changes to current Kansas tax increment financing contained in HB 2878 are:

- Creation of conservation areas, which are areas that are not yet blighted.
- Extension of the time frame for completion of tax increment projects from 15 years to

20 years.

- The ability of cities to pledge new sales taxes and franchise fees generated within the redevelopment area to repayment of TIF Bonds.
- Clarification that the increment in ad valorem taxes imposed by all taxing jurisdictions within the redevelopment area was subject to capture.

The new conservation area within the statute is defined as "any improved area within the corporate limits of a city in which 50% or more of the structures in the area have an age of 35 years or more, which area is not yet blighted, but may become a blighted area due to the existence of a combination of two or more of the following factors: (i) dilapidation, obsolescence or deterioration of the structures; (ii) illegal use of individual structures; (iii) the presence of structures below minimum code standards; (iv) building abandonment; (v) excessive vacancies; (vi) overcrowding of structures and community facilities; or (vii) inadequate utilities and infrastructure." In addition, not more than 15% of the land area of a city may be declared a conservation area.

The addition of the conservation area to tax increment financing in Kansas is very important. This change will allow city officials to be proactive in connection with problem areas of their cities. Instead of having to wait until the area became blighted under the old law, city officials may utilize the benefit of tax increment financing for redevelopment as the area starts to decline. This change should greatly assist local government officials in their redevelopment efforts.

However, one provision that was included in the final bill that was inserted by the conference committee limiting redevelopment efforts in conservation areas is the prohibition against using eminent domain in conservation areas. Prior to the 1996 amendments, the use of eminent domain by a city for tax increment



Signing Ceremony for 1996 House Bill 2878 on May 17, 1996. From left to right: Chris McKenzie, Executive Director, League of Kansas Municipalities; Senator Pat Ranson; Randy Speaker, Director of Housing, Kansas Department of Commerce and Housing; Governor Bill Graves; Joe Swalwell, President, Downtown Topeka, Inc.; Representative Shari Weber; and Representative John Toplikar

projects required a two-thirds affirmative vote of the governing body. The prohibition against using eminent domain in conservation areas will impair the ability of cities and developers to acquire the necessary property in many circumstances to complete a comprehensive redevelopment in conservation areas. This provision may need to be addressed by future legislatures.

The other very important change to Kansas tax increment financing by the 1996 amendments is the ability of cities to pledge all or a portion of increased city sales taxes and franchise fees generated within the redevelopment area. By their nature, most of the tax increment projects that have been undertaken in the past and probably most of the tax increment projects to occur in the future, have included or will include a retail component that generates sales taxes. The clear ability of a city to pledge increased city sales taxes and franchise fees should greatly enhance the marketability of special obligation tax increment revenue bonds. This should assist cities in considering tax increment projects since the enhanced marketability of special obligation bonds should reduce the necessity of cities using their general obligation bond authority for tax

increment projects.

The final legislation also contained certain "clean-up" amendments. These included a provision to extend the period of time for tax increment projects from 15 to 20 years, which then matches the maximum maturity of tax increment bonds that can be issued. Another provision clarified that the increment of ad valorem taxes of all taxing jurisdictions could be captured. There had been some difference of opinion as to whether only the county, city and school district ad valorem taxes were captured. Another new provision makes it clear that a city may approve a tax increment project that only uses a specified percentage of the tax increment generated within the redevelopment area.

The final legislation also became tied up in the Legislature's wrangling over the extension of the 35-mill school finance levy. During the consideration of the bill, a provision was added that provided that any redevelopment district created after the effective date of the bill would lose the benefit of the 35-mill school finance levy. This provision would reduce the amount of revenue available in future redevelopment projects. However, please be aware that a few days

after HB 2878 was adopted by the House and Senate, House Bill 2167 was approved, which was the extension of the school finance mill levy. HB 2167 did not contain the provision contained in HB 2878 prohibiting future redevelopment districts from receiving the benefit of the 35-mill school finance levy. Consequently, a strong case can be made that HB 2167, as the later legislation controls over the earlier adopted HB 2878, that the 35-mill levy continues to be included for future redevelopment districts.

Another noteworthy TIF development in 1996 was Attorney General Opinion No. 96-45, which stated that the tax increment revenues may be used for redevelopment projects without the necessity of issuing bonds. This allows a city to pay for redevelopment costs or to reimburse a developer for redevelopment costs without the city issuing bonds.

In summary, the amended tax increment statute should allow greater flexibility to cities in connection with redevelopment efforts in their cities and allow cities to be proactive in addressing declining areas of their communities without having to wait until the area becomes blighted.

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# 1996 City Population: Descending Order

## Cities With Population Over 10,000

City	Population	City	Population	City	Population
Wichita	310,238	Emporia	25,522	Merriam	13,095
Kansas City	142,630	Garden City	24,902	McPherson	12,937
Overland Park	125,225	Leawood	24,852	Arkansas City	12,480
Topeka	120,646	Prairie Village	23,056	Coffeyville	12,191
Olathe	72,455	Dodge City	22,033	Winfield	12,090
Lawrence	71,721	Junction City	20,380	El Dorado	12,032
Salina	44,167	Hays	18,632	Parsons	11,474
Manhattan	43,836	Pittsburg	18,483	Ottawa	11,418
Leavenworth	42,250	Newton	17,012	Atchison	10,639
Shawnee	40,471	Liberal	16,949		
Hutchinson	39,770	Derby	16,588		
Lenexa	36,990	Great Bend	15,144	<b>TOTAL</b>	<b>1,442,308</b>

*Handwritten notes: 30,000 (under Lenexa), 20,000 (next to Junction City), 10,000 (next to Atchison)*

## Cities With Population of 5,000 - 9,999

City	Population	City	Population	City	Population
Independence	9,909	Roeland Park	7,530	Paola	5,527
Chanute	9,497	Bonner Springs	7,118	Park City	5,375
Mission	9,145	Abilene	6,727	Mulvane	5,101
Wellington	8,574	Pratt	6,702	Goodland	5,034
Haysville	8,561	Iola	6,336		
Augusta	8,439	Concordia	5,897	<b>TOTAL</b>	<b>143,010</b>
Fort Scott	8,087	Ulysses	5,859		
Lansing	7,967	Colby	5,625		

## Cities With Population of 2,000 - 4,999

City	Population	City	Population	City	Population
Andover	4,991	Edwardsville	3,554	Burlington	2,904
Clay Center	4,786	Hiawatha	3,550	Eureka	2,884
Russell	4,760	Lyons	3,494	Ellsworth	2,827
Osawatomie	4,758	Galena	3,376	Neodesha	2,817
Larned	4,474	Columbus	3,367	Frontenac	2,793
Warrego	4,435	Kingman	3,302	Girard	2,756
Baxter Springs	4,365	Marysville	3,276	Osage City	2,719
Gardner	4,277	Lindsborg	3,272	Phillipsburg	2,710
Fairway	4,124	Holton	3,253	Hillsboro	2,681
Beloit	4,052	Garnett	3,252	Herington	2,643
Valley Center	3,942	Hoisington	3,246	Fredonia	2,583
Bel Aire	3,934	Hugoton	3,240	Louisburg	2,499
Eudora	3,818	Tonganoxie	3,100	Spring Hill	2,487
Scott City	3,731	Hesston	3,078	DeSoto	2,475
Baldwin City	3,654	Rose Hill	2,986	Cherryvale	2,471
Mission Hills	3,633	Norton	2,905	Anthony	2,376



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INCORPORATED**

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*The Blair Agency  
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*President*

**Bruce Fairbank**  
*Director, Mid-America  
Certified Development Co.*

**Karen Johnson**  
*Administrative Assistant*

February 11, 1997

The Honorable William Mason  
Chairman, House Economic Development Committee  
Kansas House of Representatives  
Room 446-N, State Capitol  
300 SW Tenth Avenue  
Topeka, Kansas 66612

SUBJECT: HB-2719

Dear Chairman Mason:

By way of introduction, Mid-America is a public-private not-for-profit economic development organization formed in 1957 that serves a twelve county area in Southeast Kansas.

Southeast Kansas, like much of the rest of the state, is experiencing a housing shortage of critical proportion. The shortage is particularly acute in the lower end of the "market rate" sector of the housing market — houses selling for \$60,000 to \$150,000. Existing state and federal programs low income, elderly and handicapped housing, but no attention is given to market rate shortages.

Mid-America is concerned because this shortage is having an adverse affect on development in the region. It is difficult to convince development prospects that the labor supply in the region is adequate to meet their needs, and, in turn, difficult to recruit labor to move to the area because there aren't adequate housing resources to meet the needs of an expanding population.

We believe that there are two factors behind this problem: an inadequate supply of improved building sites and a shortage of developers/entrepreneurs/contractors.

Passage of HB-2719, permitting the use of tax increment financing to install residential infrastructure, would add a valuable tool to those available for this purpose. It will help to reduce the cost of new residential construction and encourage housing starts in Kansas.

Sincerely,

MID-AMERICA, INCORPORATED

Albert G. Smith  
President

HOUSE ECONOMIC DEVELOPMENT  
February 13, 1997  
Attachment 7



# **B Commercial Bank**

February 11, 1997

Representative Bill Mason  
Chairman of the Economic Development Committee  
300 Southwest 10th Room 446 North  
Topeka, Kansas 66612-1504

RE: Tax Increment Financing Bill

Dear Representative Mason:

The Tax Increment Financing Bill is very important for the development of housing in small rural communities. Over the past three years, Butch Hardman has worked to put this bill into reality. We are asking for your support. Commercial Bank sees that need in the rural communities for ways to stimulate housing growth and this is one very feasible alternative to developing new housing.

We look forward to seeing this bill approved and this option available for rural communities.

Sincerely,



James R. Jacquinot  
Sr. Vice President

JRJ/jab

CC: file

HOUSE ECONOMIC DEVELOPMENT  
February 13, 1997  
Attachment 8

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