Engineering Management
Field Project

The Effective Use of Economic Development Incentives in the City of Lee's Summit, MO

By

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Spring Semester, 2019

An EMGT Field Project report submitted to the Engineering Management Program and the Faculty of the Graduate School of the University of Kansas in partial fulfillment of the requirements for the degree of Master's of Science.

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Date Accepted: 4/15/19

Acknowledgements

Thank you to my wife Abbie, my daughter Ame, and my son Guy for allowing me the time to complete the program. It would not have been possible without the incredible amount of support from my family. I am so very thankful for everything that you do.

Thank you to BHC Rhodes for starting me on the journey of completing my Master's Degree.

Thank you to the City of Lee's Summit for supporting my research efforts. This community is amazing, and I am very thankful to be a part of it.

Thank you to everyone who participated in the research project, either by being an interviewee, reviewer, or simply a reader. I appreciate your time and effort.

Thank you to the faculty of the Engineering Management program for being flexible as I completed the program. The experience has been fantastic and I have learned a lot from each of you.

Executive Summary

The City of Lee's Summit has been utilizing economic development incentives for many years, and recently there has been an increase in projects seeking incentives. Many individuals feel incentives are an unnecessary use of potential public funds for private gain, while others believe their use is essential to attract and retain business in the area.

Interviews were conducted with key city officials to identify overall themes present when evaluating incentive projects. The primary theme identified was clearly defining the public benefit a project will provide, and how an incentive is necessary to achieve the desired outcome.

This report discusses the process used by the City of Lee's Summit when evaluating incentive projects. An overview of the various incentive tools used, a summary of the themes identified from the key interviews, and a brief review of past projects are included. A suggested tool for evaluating, monitoring, and reporting on individual projects is proposed.

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Introduction

The City of Lee's Summit (COLS) has been utilizing economic development incentive (EDI) tools for many years, and has recently taken a more proactive approach towards their use. Many individuals feel they are an unnecessary use of potential public funds for private gain, while others believe they are essential to attract and retain business in the area. The use of EDIs can create an opportunity for public-private partnerships to form, fostering a mutually beneficial relationship between the business entity and the local government.

In order to discuss the use of EDIs it is helpful to discuss the multiple incentive structures and concepts that may be utilized. In this research report, an overview of the general incentive process is outlined including identifying targets, incentive options, negotiating terms, implementing agreements, monitoring the outcomes, and evaluating the effectiveness of achieving those outcomes. Various EDI tools are also discussed including tax abatement strategies through the use of redevelopment corporations, tax redirection strategies through the use of Tax Increment Financing (TIF) tools, and levying additional taxes through the creation of special taxing jurisdictions such as Transportation Development Districts (TDD) and Community Improvement Districts (CID).

The specific use of the various incentive tools within COLS is discussed with key leaders and common themes are identified. Strengths and weaknesses of the current approach are identified and a simple tool for evaluating projects is developed.

Literature Review

The literature available concerning EDIs is extensive and broad. A large portion of the existing research has been focused on the question of whether incentives are a prudent use of public funds, if they play a large role in the decision making process of a business, and if they are effective at achieving their targeted outcome(s). Much of the available research has also focused on state level incentive programs and job creation. In order to narrow the breadth of research available, this report focuses on incentive policies and the EDI process used by COLS.

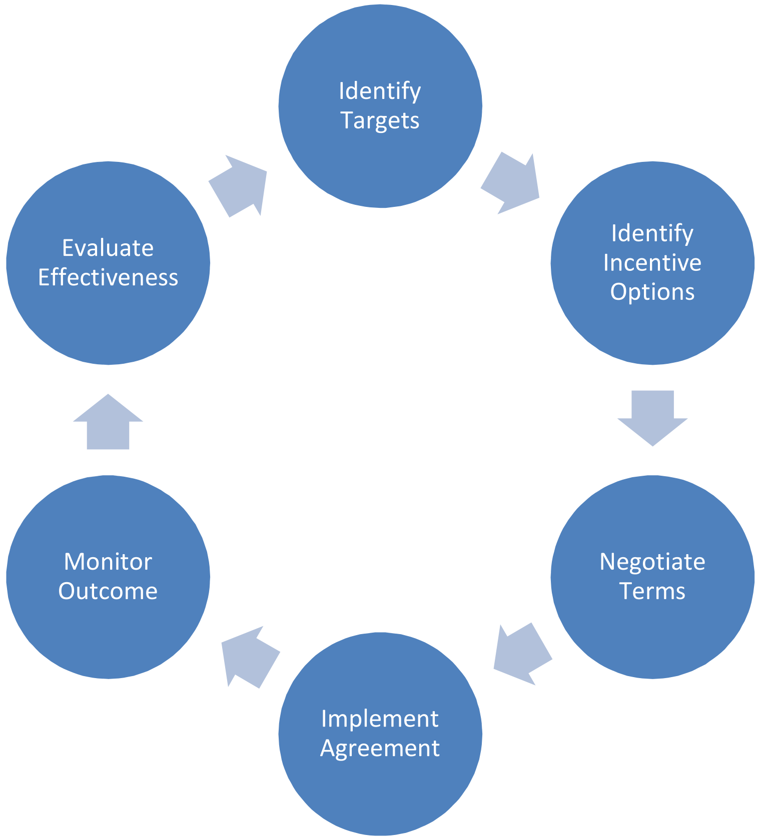
Incentive Policies

The Government Finance Officers Association (GFOA) provides a best practice document for establishing EDI policies. Their recommendations include establishing clear goals and objectives, limiting the number of incentive tools available for use, clearly defining an evaluation process, identifying performance standards, and providing a means for monitoring compliance (GFOA, 2017). Generally, there are two primary purposes for a public entity to offer incentives: to influence where a project should locate, or to provide a financial boost to allow a business to undertake a project that otherwise would not be feasible (Downing, 2004). Incentive policies can have a combination of entitlement incentives and discretionary incentives. Entitlement incentives are those incentives that solely require a business to meet certain statutory requirements in order to qualify for the incentive. Discretionary incentives require a business to meet certain statutory requirements and receive executive approval in order to be granted (McGee, 2015). Many modern incentive policies include performance standards, or “clawbacks”, that contain penalty provisions if certain public purpose goals are not achieved within a prescribed period (Downing, 2004).

Economic Development Incentive Process

In general, the process of utilizing EDIs can be illustrated using a process loop. Each stage in the process leads to a next stage, and can be looped back on itself to determine areas for improvement. This is illustrated in Figure 1. Presenting the process this way can be a starting point towards a continuous improvement process, by utilizing the illustration as a tool for further discussion and analysis as is done in the balance of this report. Continuous improvement is a philosophy that Deming described simply as consisting of “Improvement initiatives that increase successes and reduce failures” (Juergensen, 2000). The theory of continuous improvement is beyond the scope of this report; however, this report applies an improvement process to EDIs.

Figure 1 – Economic Development Incentive Process



Identify Project Targets

The use of EDIs requires several considerations to be analyzed. Stakeholder needs vary and must be considered from the perspective of the taxing jurisdictions, the developer, and the citizens of the community. Each stakeholder has a unique outlook on an individual project and may define success in very different ways. The taxing jurisdictions need to consider the additional cost of public services, if there is a secondary funding method to mitigate the impact of the development, and if there are additional secondary benefits of the project. Secondary funding methods could include additional fees upon the development or lump sum payments to offset lost revenue. Secondary benefits of the project could include additional property taxes that are not abated, more residents, or secondary spending within the community. The developer needs to consider the economic viability of the project, the amount of the investment required, and the overall market demand for the project. The citizens need to consider the overall impact the project will have on the community. COLS needs to consider all of these factors when evaluating a project.

Common goals used in economic development include: target economic sectors, business retention and/or recruitment, geographic focus, job creation, blight mitigation, improving economically distressed neighborhoods, and environmental improvements (GFOA, 2017). Additional targets can include funding for public infrastructure and historic preservation.

Identify Incentive Options

An incentive is defined as something that incites or has a tendency to incite a determination or action (Merriam-Webster). More simply, an incentive is something that encourages a person to do something. Investment incentives are targeted measures designed to influence the size, location, impact, behavior, or sector of an investment project – be it a new project or an expansion or relocation of an existing operation (Lehmann, et. al., 2016). EDIs come in many different forms, and can generally be categorized into two categories; supply-side incentives, and demand-side incentives. Supply-side incentives are generally tax incentives that make up the largest portion of traditional incentives and include tax abatements, redirection, credits, exemptions, and levying additional taxes. Demand-side incentives are typically non-tax incentives and include grants, loans, loan guarantees, streamlined processes, regulatory assistance, and reductions in fees. EDIs are a means to reduce or redirect taxes for business in exchange for specific desirable actions or investments that might not be financially feasible by the private investor (City of LS, 2015).

TIF is a tool that allows the funding of redevelopment projects in blighted, conservation, and economic development areas through the redirection of newly generated taxes. The primary purpose of TIF is to encourage the redevelopment of blighted or under-utilized properties. Upon adoption of a TIF plan, the existing tax levels paid to each taxing jurisdiction are “frozen”, establishing a base tax rate that is continued to be paid to the taxing jurisdictions. As the property is redeveloped, assessed values increase and an “increment” of new taxes is generated. The property owner continues to pay the full amount of taxes for the property; however, the increment is collected and redirected to pay for eligible project costs as identified within an approved TIF plan. The TIF plan is combined with a TIF contract that details the mechanics of the project financing and identifies what is a reimbursable cost and how those costs will be paid. In addition to the increment generated from increases in real property values, up to 50% of all incremental sales and utility tax revenues may also be collected and redirected to pay for eligible project costs (Gilmore Bell, 2016).

Municipalities also have the option to enter into individual agreements, commonly referred to as a “sales tax reimbursement” or a “development agreement”, with a retail property owner where the retailer finances certain public improvements and is repaid utilizing the sales taxes generated from the retailer. In this scenario, the newly generated sales taxes are redirected back to the retailer paying for the public improvements (Gilmore Bell, 2016).

Missouri state statutes allow for the formation of several different types of special taxing districts. These special taxing districts have the ability to impose special assessments and/or sales taxes in order to pay for public improvements or to eliminate blight (City of LS, 2015). A "Blighted area" is defined in Chapter 99 of the Revised Statutes of Missouri (RSMo) as:

> "an area which, by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use."

For an area to be found blighted, typically a study is performed and action is taken by the governing body required to make the determination.

TDDs are formed to fund, promote, plan, design, construct, improve, maintain and operate one or more projects and to assist in such activity relating to a transportation system or similar related improvement or infrastructure. A TDD is a separate political subdivision of the state and may issue bonds, levy taxes, and apply special assessments (Gilmore Bell, 2016).

A CID is either a political subdivision with the power to impose a sales tax, a special assessment or a real property tax, or a nonprofit corporation with the power to impose special assessments (Gilmore Bell, 2016). CIDs also may continue to operate until dissolved in order to provide maintenance and replacement funds for their improvements.

A Neighborhood Improvement District (NID) is an area benefited by a public improvement and assessed to pay for that improvement. An NID is not considered a separate legal entity (Gilmore Bell, 2016). NIDs automatically dissolve upon the completion of all debt payments associated with their improvements.

Property tax abatement is offered through a variety of programs geared towards job creation, private investment, and redevelopment. Typically, the development continues to pay taxes on land and improvements based on their value prior to any new investment. All or a portion of the incremental increase in property taxes are abated for a specified period of time (City of LS, 2015).

Chapter 353 of the RSMo allows for the creation of Urban Redevelopment Corporations (URCs) under the general corporation laws of Missouri. Once created, URCs have the power to operate one or more redevelopment projects, pursuant to a city or county approved redevelopment plan, for the purposes of tax abatement of incremental real property taxes for the clearance, re-planning, reconstruction, or rehabilitation of blighted areas (City of LS, 2015).

Property tax abatement under Chapter 100 RSMo allows for cities, counties, towns and villages to issue revenue bonds to finance projects for private corporations, partnerships and individuals. Revenue bonds are bonds that are issued with a specific revenue source identified to pay the bonds back, such as future sales tax. In these financing situations, the municipality acts as a conduit for the financing of the project (Gilmore

Bell, 2016). The issuance of the revenue bonds allows abatement of personal or real property via the city owning the personal or real property and leasing the equipment or land back to the business entity. Chapter 100 bonds can also be structured to utilize a sales tax exemption on the purchase of certain materials (City of LS, 2015).

A Land Clearance for Redevelopment Authority (LCRA) may be created to redevelop blighted or insanitary areas for residential, recreational, commercial, industrial, or for public uses. (Gilmore Bell, 2016). The LCRA has the power to acquire and dispose of both real and personal property by purchase, lease, eminent domain, grant bequest, devise or gift. The LCRA also has the ability to issue taxable or tax-exempt bonds to fund any of its corporate purposes (City of LS, 2015). The LCRA Act is intended to be a broad grant of authority by which a municipality is afforded maximum opportunity, consistent with the sound needs of the municipality as a whole, to assist the rehabilitation, redevelopment or renewal of areas by private enterprise (Gilmore Bell, 2016). In addition, the LCRA may recommend a tax abatement of up to 100% of the increment created by the investment or development project for a period of up to 10 years. The governing body then considers the LCRA recommendation and may authorize the tax abatement.

Negotiate Terms

Once project targets have been established and incentive options are chosen, additional evaluation is necessary during the negotiation phase. Once a proposed incentive package has been put together, the municipality must determine if the investment of public funding is justified. Policy makers and elected officials for the jurisdiction should consider the following questions (Haynes, 2016):

- Will any of the incentives be financed through bonds? What is the risk to the jurisdiction? (Reeder, 2012)
- Is the incentive necessary? Would the firm still locate in the jurisdiction without it? (Patrick, 2014)
- Has a fiscal impact analysis been performed? What are the total costs of the project being promoted both for the jurisdiction and for the business involved? (Ellis, Hayden, & Rogers, 2014)
- Are the incentive recipients willing to tie the incentive to performance goals? (Kerth & Baxandall, 2011)
- Assuming the best-case scenario has been presented, what would still be a safe case of return to the community to justify the incentive being given? (Patrick, 2014)
- Are there ancillary fiscal impacts to the community? (Haynes, 2016)

Negotiation of the final agreement should work towards a mutually beneficial arrangement. The agreement should include specific performance standards, that are either quantitative or include an objective assessment that can determine if the standard is met (GFOA, 2017). The agreement should also outline remedies the governing body would use in the event that specific performance standards are not achieved (GFOA, 2017).

Implement Agreement

The details and mechanics necessary to implement the agreement should be outlined in the agreement itself. Implementation varies depending on the incentive(s) utilized. The detailed mechanics of implementation are beyond the scope of this report.

Monitor Outcome

Regular monitoring of the economic development agreements adopted by the governing body regarding the performance of each project receiving incentives per the agreements should be implemented (GFOA, 2017). Monitoring of the outcomes should be compared to the planned outcomes and the identified objectives. This should occur on a regular basis and be used when evaluating other incentive proposals within the context of each individual circumstance. The detailed mechanics of monitoring the outcome are beyond the scope of this report.

Evaluate Effectiveness

The literature available on the effectiveness of economic development incentives and tax credits has not conclusively indicated that these tools have successfully increased economic activity or job growth (Zhao, 2013). Much of the research assessing the effectiveness of incentives has been inconclusive or unsatisfactory, in part because of methodological flaws and inadequate data (Gorin, 2008).

The cost incurred when offering an incentive is easily quantifiable, while the economic benefit realized is largely unquantifiable (McGee, 2015). Multiple methods have been used to determine if incentives work; however, none of the methods have produced consistent results (Peters and Fisher, 1996).

A municipality may consider providing an incentive for a variety of reasons, such as to offset extraordinary costs associated with a project, historic renovations, blight remediation, or financing public infrastructure (Downing, 2004). The usefulness of an individual incentive also varies by the sector and size of the firm. For instance, wage and training subsidies may benefit a labor-intensive firm more than a capital-intensive firm (Peters and Fisher, 1996). Reducing effectiveness of multiple incentive packages down to a single measure has proven difficult because of the various reasons why incentives are offered. With multiple reasons for utilizing an EDI and data sharing limitations across multiple agencies, quantifying the overall economic benefit has been inconsistent. Measures of effectiveness need to be identified considering the specific needs of the individual project.

Research Procedures

The research of this project was conducted in two phases. The first phase of research was focused on defining the components that make up a successful EDI package. This was accomplished through a series of interviews with various stakeholders involved in the process. Each interview was centered around a core list of questions:

1. What do you consider to be your personal incentive philosophy?
2. What information do you want to know prior to evaluating an incentive package?
3. What do you consider as a decision factor?
4. Do you think your decisions are based more on “gut feel” or hard analytics?
5. What do you consider a successful use of an incentive?
6. What do you consider a failure?
7. What is your biggest concern when dealing with incentives?
8. How do you think we are currently doing at evaluating incentive proposals?
9. Can we be successful as a city without utilizing incentives?

The stakeholders were primarily chosen from individuals directly involved in the decision making process for the use of incentives within COLS. Interviews were conducted with the individuals listed in Table 1 between the fall of 2017 and spring of 2018.

Table 1 – Stakeholders Interviewed

Stakeholder	Title	Organization
Steve Arbo	City Manager	City of Lee's Summit
Mark Dunning	Assistant City Manager – Development & Communications	City of Lee's Summit
Conrad Lamb	Director of Finance	City of Lee's Summit
Rick McDowell	CEO	Lee's Summit Economic Development Council
Rich Wood	Attorney	Gilmore & Bell, P.C.
David Bushek	Attorney	Gilmore & Bell, P.C.

The second phase of the research focused on compiling a comprehensive history of the use of Economic Development Incentives within COLS.

The interviews, historical research, and literature review are combined to evaluate the effectiveness of past projects and form the basis for a suggested continual evaluation procedure.

Results

Phase 1 – Interview Results

A summary of each interview is discussed in this section, followed by an analysis of the overall themes present in the stakeholder's responses.

Steve Arbo – City Manager

Mr. Arbo's responses focused primarily on opportunities for economic growth and fulfilling community needs. When considering his personal incentive philosophy, it was clear that the use of an incentive needed to be connected to an actual need. Several references were made to the "but for test", which is an analysis technique that compares a project against itself with and without the incentive.

When evaluating an incentive package, the preference was for as much information as possible. Hard numbers, pro-forma modeling, lease rates, and rates of return are all considered necessary to evaluate a proposal. Although the numbers were important, a large portion of the decision making process came down to gut feel on whether a community need was being met or not. While important, job creation was not considered a main decision factor; "As a whole we probably play up jobs too much." Ideally, a citizen driven strategic plan identifies the community's needs, and development projects help to fulfill that vision.

The creation of new economic expansion and the funding of needed public infrastructure defined the successful use of an incentive. This was exemplified with the Summit Woods shopping center project, where several million dollars of infrastructure was funded, property tax increased, sales tax increased, additional land was made available for development, and the overall project was repaid ahead of schedule. In contrast, ineffective incentives that place COLS at risk are considered to be a failure.

The quality of the development, the true need for the incentive, fulfilling a community need, and political acceptance were identified as the biggest concerns. A large emphasis was placed on not incentivizing “more of the same”, and being aware of shifts in the economy. With the extended timelines for many larger projects, it is important to think about the long term impacts to the community.

Overall, it was felt that COLS was doing a good job at reacting to proposals that are brought forward; however, there is room for improvement in attracting target investments, such as Class A office space. When considering if Lee’s Summit can be successful without utilizing incentives, the response was “yes, only if EDIs are not available throughout the region.”

Mark Dunning – Assistant City Manager

A desire for true partnership and win-win situations was dominant throughout Mr. Dunning’s responses. There was a preference for a clear justification for the need of the incentive, and why one should be considered. Incentives that are focused more on achieving a specific financial outcome rather than demonstrating the public value of the project can lead to frustration throughout the process. Two examples where incentives were used to protect cultural resources were cited as good examples of unconventional partnerships. Those projects included the New Longview TIF and the 3rd ST Social LCRA project. The New Longview TIF was established to restore historic structures on

Longview Farm. Without TIF assistance, the historic structures would have been demolished due to a lack of revenue available to restore and maintain the structures. The use of LCRA for the 3rd ST Social project allowed a historic community building to be repurposed as a successful restaurant. Both of these projects were able to fill a "community need" or desire that was not specifically related to infrastructure.

Consistent with Mr. Dunning's personal philosophy, knowing what a particular project is solving for is important when evaluating the overall package. The purpose of the incentive needs to be clear.

Decision factors start with considering the impact on all of the taxing jurisdictions that will be affected by a project and what community need is being met. Determining the appropriate community need at any given time can be difficult. It is important to stay involved with the community on many levels and actively listen to what is occurring. Needs evolve over time and need to constantly be reviewed.

At the concept phase, Mr. Dunning relies on experience and intuition to guide the conversations and projects. The numbers are necessary to evaluate, but the track record of those involved in the project, and the amount of number shifting does come into play. When discussing number shifting, the general feeling was moving items from one budgetary category to another was simply an accounting exercise, and did not get to the heart of accomplishing what the incentive was intended to do.

A successful incentive was one where the public value was realized and sustained. This is consistent with Mr. Dunning's desire to clearly identify what the need for the incentive is, and what public goal is being obtained.

A failure is any incentive that puts the public at unnecessary risk. Two examples were cited; Ritter Plaza and Hartley Block. Ritter Plaza was a retail TIF that offered no real gain to the public and struggled to find success due to the recession. Hartley Block was a well-intended TIF in downtown Lee's Summit that had poor execution. The quality of the development was not high, and COLS was put at too much risk. When utilizing incentives, the plans need to be flexible enough that the project can change with market conditions and offer a higher probability of success.

The amount of risk the public is taking on is a concern with every incentive project. An increase in reasonable performance standards and effective enforcement are areas for improvement.

As a team, COLS is currently doing well evaluating projects. Overall community education and awareness of the various projects and their goals is needed. Periodic reporting on how a project is performing can help shape future decisions and identify positive and negative side effects.

When asked if COLS can be successful without utilizing incentives, the response was "it depends." Defining key success factors is critical to determining if objectives are being met. A long term outlook needs to be considered over short term gains, and the commercial tax base is necessary to support the residential base.

Conrad Lamb – Finance Director

Mr. Lamb was focused on providing the minimum incentive necessary for a project to be successful. His philosophy focused on extraordinary costs that had additional impact on COLS as a whole, as well as using the right tool for the job. With Mr. Lamb's extensive experience it was apparent that each circumstance needed to be evaluated on its own merits, and private costs should not be included in the incentive. The purpose of the incentive needs to be clear, and the appropriate tool matched to the need.

The tone for an incentive request can be set from the beginning of a project. Cash-flow, revenue projections, and what the impediments are were the main points of information needed to begin a true evaluation.

Although the decision to use an incentive was primarily based on the individual project need, the ability to open additional areas for development was a primary consideration for Mr. Lamb. Not only the remediation of blight, but the prevention of blight was also a key factor.

At the beginning of an analysis, a project needs to pass the “smell” test, and the need has to be justified through the numbers.

Successful incentives fill a community need, and open up additional potential.

Failed incentives pay for purely private improvements with limited or no additional benefit. Additional failures include incentivizing projects that are demographically based, such as a grocery store, with no additional benefits. Failing to account for transferred sales in those situations results in a double negative impact to the sales tax revenue of COLS; taking away existing sales and the potential of new sales.

There was a concern of straying too far from past practices and over-incentivizing private needs. The over use of incentives may have created a false market, driving the price of land higher where the only real winner is the seller of the property.

When evaluating current proposals, the multi-disciplinary team works well. Additional education for the elected officials on the tools, and what the incentive is solving for, would improve the process. Currently it is too easy to obtain approval for a new TIF without the City Council understanding the entire project.

When asked if COLS could be successful without the use of incentives, the answer was quick and straightforward, “no”. Redevelopment is inherently more difficult due to a larger number of unknowns and is going to need assistance to help cover those costs. Moving forward it will be critical to understand each tool and where to apply it appropriately.

Rick McDowell – President of Lee’s Summit Economic Development Council

Mr. McDowell is a firm believer in “first in is an exception”, meaning that the use of an incentive should primarily be used to achieve a specific goal related to an industry. The first one in should help prove the market, and therefore reduce the use of incentives moving forward. Throughout Mr. McDowell’s career, the use of State incentives has decreased, and shifted more towards local incentive offerings. Over the last 20 years, the overall use of incentives has only increased. The ability to remain flexible with the use of the available tools is needed to remain competitive.

There was more of a focus on job creation and workforce needs when discussing projects with Mr. McDowell. Capital investment, jobs, wages and benefits, and current location were of primary concern. General impact of the development were secondary concerns.

When discussing decision factors, Mr. McDowell was able to provide an industry perspective on what companies are looking for in a community. Important factors related heavily to community fit, economic fit, policy fit, and overall community involvement, with incentive offerings being further down the companies list of priorities, but still there.

Personally, a heavy reliance on gut feel was used to evaluate projects and assist in the decision making process, starting low and working up to the final solution that is confirmed with the final numbers.

Indicators of success focused on meeting specific goals for new jobs, capital investment, and reasonable rates of return over a period of time. These success factors are largely driven by the overall economic impact that new investment has on the community as a whole. On average, each $1 invested is turned over in the community eight (8) times.

Failures provide no quality jobs and unclear benefits to the community.

Concerns include protecting the school system, doing business with reputable companies, meeting public needs, and enforcing claw backs if necessary.

The current team approach works fairly well, however the ability to remain flexible is a key to future success.

Mr. McDowell does not believe COLS can be successful without the use of incentives. They have become a part of the business process. There may be opportunities to be creative and use alternate incentive tools, such as low interest loans and fast tracked projects, but the use of incentives in general is not likely to go away.

David Bushek and Rich Wood – Economic Development Attorneys

Mr. Bushek and Mr. Wood were focused on the minimum amount of incentives necessary to induce a project to occur, as well as ensuring decision makers were as informed as much as possible to make decisions. Both individuals emphasized the negotiation process, and being able to adjust to the individuals involved with the negotiations.

Prior to beginning negotiations, it was desired to have as much information as possible, that is, budgets, assumptions, and economic analysis of the project.

Decision factors were very technical for both individuals. Percent of reimbursement compared to the total project budget, completeness of the plan, accuracy of the data being presented, and the complexity of the project were all necessary and compared to previous projects.

The hard analytics were relied upon more with this group than with the others interviewed.

Successful projects are ones that are built as promised, with the least amount of impact to COLS resources. Additional success factors included smooth implementations with minimal amendments and changes to the original plan.

In short, failures are projects that never get built. Failures also occur when there are substantial impacts to COLS resources, when the full-faith and credit of COLS is used to back the debt, and when projects become over-extended and cannot stand on their own.

Concerns focused on the proper analysis of the level of incentive that is being used, ensuring the decisions makers have all the information, and that the various angles and impacts of the project are understood.

Overall the current process is working very well. The diverse team and quality of staff working on the projects provides an in depth, thorough review of each project. The level of questioning is fair, and the level of detail provided to the decision makers is excellent.

Without of the use of incentives, it is likely that development would not stop; however, the pace would slow and quality would decrease. In order to be successful and achieve the quality goals COLS has set out, incentives will continue to be necessary.

Overall Themes

The following items summarize the overall themes present in the stakeholder responses:

- In general, the majority of personal philosophies focused on creating true partnerships where multiple needs where being met by the use of an incentive, while using the least amount of incentive possible.

- The most important piece of information needed to evaluate a project appears to be identifying what the incentive is solving for, and what are the benefits of the project.

- The key decision factor is identifying what public need the project is fulfilling.
- The process begins with an initial gut reaction and moves towards justification.
- Successful projects fulfill the identified community needs, and are sustained without putting the public at risk.
- Failed use of an incentive provides no public benefit and pays primarily for private costs.
- The primary concern is evaluating the true need for the incentive.
- The use of a diverse team for evaluating projects is highly effective and should continue.
- The use of incentives has become part of the business process and will continue to be a key component of COLS ability to reach long-term development goals.

Phase 2 – Past Incentive Projects

This portion of research focused on gathering information available about past incentive projects and identifying positive and negatives associated with their performance. The incentives provided by COLS have been discretionary incentives and largely supply-side based. A few demand-side incentives have been used in the form of low interest loans combined with other supply-side incentives. There has been little direct incentive of workforce development practices; however, a large amount of effort has been focused to streamline the overall development process for all applications.

Historically projects have been tracked based upon the type of incentive used, and it has been difficult to obtain a comprehensive look at the overall incentive program being utilized. One expected outcome of this phase of research was to produce a simplified history of all incentives used by COLS. Since 1988, a total of 81 incentive projects were identified. Figures 2 and 3 below illustrate the number of incentives utilized by type, and the total number of incentives utilized per year.

Figure 2 – EDI by Type

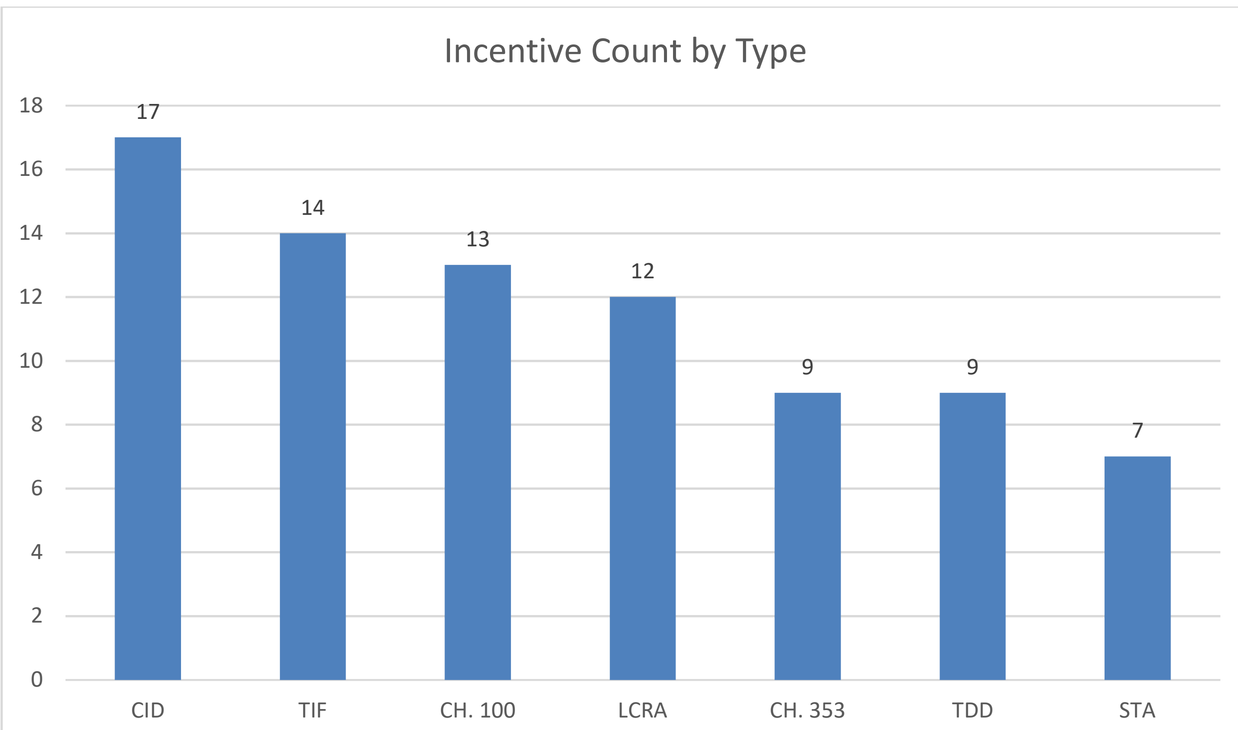
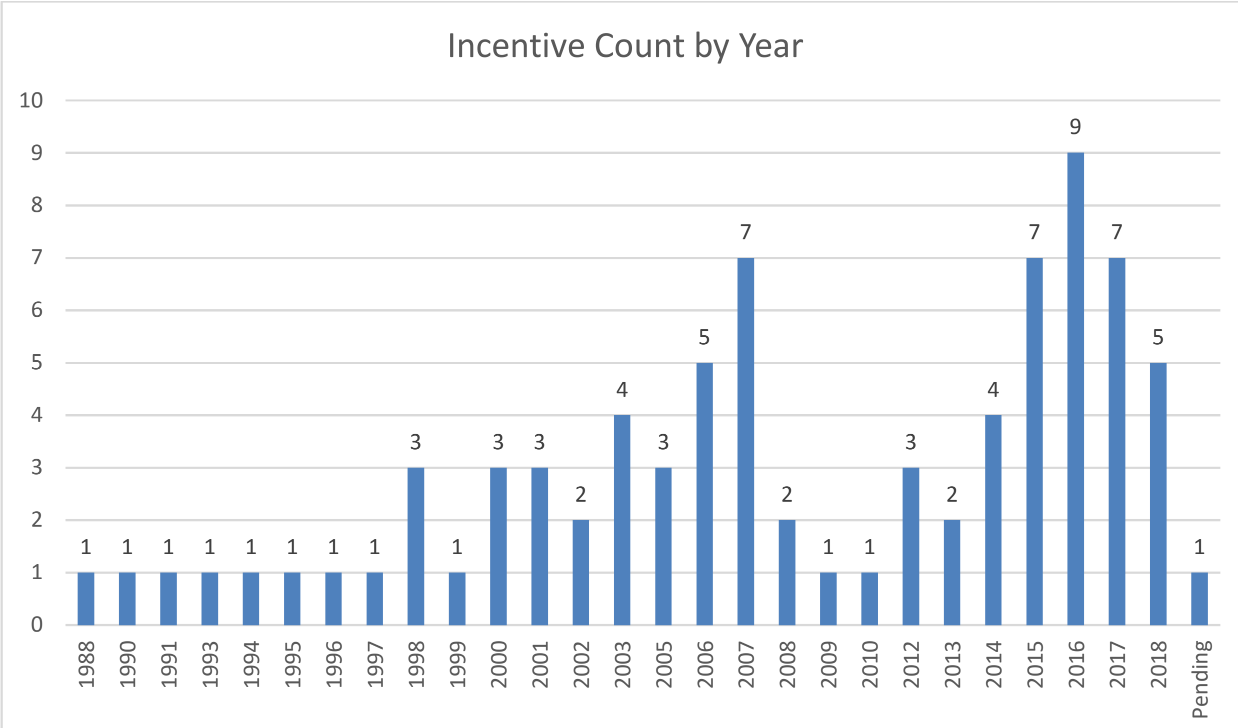


Figure 3 – EDI by Year



A list of projects by year and incentive type is included in Appendix A. There were several instances were multiple incentive tools were used on a single project to reach a desired financial outcome. Generally, the largest projects involved the use of TIF combined with TDDs and CIDs. The combination of tools was generally deemed necessary to make the project feasible.

With the extended timeline of complex development projects, management and tracking of key performance measures has been highly varied. Multiple individuals have been involved in the process for several years with different aspects of the project requiring different tracking procedures. Some projects have also evolved with multiple names and amendments for various pieces of the original project. Most of the tracking has been performed by COLS Finance Department and has been focused on required reporting related to TIF. As a result of this, there has been little formalized tracking or measurement of broader project goals. A lack of formalized tracking of broader project goals does not imply that project goals were not met. If the financial aspects of the project are monitored and the financial goals are achieved, then the broader project goals are met through the expenditure of the funds on their designated purpose.

For the purposes of this report, the identified projects were analyzed to see if the improvements were built or the company remained a part of the community. Of the 81 EDIs identified, only three (3) have not produced the desired results. Those three projects include the Tuscany Manor TIF, the Hartley Block TIF, and the Primary Eye Care LCRA redevelopment project. The Tuscany Manor TIF and the Hartley Block TIF were not able to generate the projected revenues, impacting the business operations of the original owners, and the TIFs were dissolved ahead of schedule. Even though they were dissolved ahead of schedule, the improvements outlined in their respective redevelopment plans were built and COLS did not assume any risk for the project. The Primary Eye Care LCRA project has not resulted in a new building being constructed, and the property value has decreased since the incentive was originally approved.

In general, projects utilizing EDIs have been successful in COLS. Many have performed better than projections and have been able to close out ahead of schedule. Many also do not have outstanding debt obligations.

Conclusion

When considering the use of EDIs, COLS has a history of selectively applying incentive tools to projects based upon the specific needs of those particular projects. COLS works closely with applicants to scrutinize the details of projects and ensure public interests are being fulfilled. The basic process has areas for improvement, particularly in defining what success for a project is, and reporting those results in a manner that is easily understandable by the public. A more direct tracking of the broader project goals may provide a better understanding of the public value of the project.

It is recommended that a standardized Project Goal Sheet (PGS) be utilized throughout the EDI process. The PGS would act as a simplified version of the overall project plan and outline the general and specific objectives of the plan, as well as identify the key metrics that are going to be used to measure the project success. The PGS can be a public document that is monitored and reviewed on an annual basis in conjunction with existing tracking procedures. A sample template for a PGS can be found in Appendix B.

The content of the sample PGS has been developed to summarize the information present in the themes identified through the research process. The PGS includes a section for basic information describing the project, what tools are being utilized, and what the expected outcomes are. An important section of the PGS is identifying the public benefit of the project. The need to clearly document the public benefit of the project was a central theme identified through the interview process as well as through the research of past projects.

When identifying project targets, the PGS can be utilized to document the public purpose that is being served by offering the EDI. Identifying the purpose early can remind the organization of why the EDI is being offered as discussions move to more detailed items. This has the potential to add clarity and alignment to the overall process by bringing focus to the public benefit of the project.

As the project moves through the EDI process, the PGS can be used to document the tools chosen in a location that is connected to the public purpose. As information becomes more detailed through the negotiation and implementation steps, the PGS can act as a way to summarize the project specifics in a clear and simple format. The PGS can be easily shared with elected officials and citizens for quick access to information.

Throughout the monitoring step, the PGS can be updated and referred to in a simplified way to show progress towards the stated outcomes of the project.

When evaluating the effectiveness of an EDI, the effectiveness of the project meeting community needs is what is being evaluated. The PGS can clearly identify the expected outcomes, and can be compared to current strategic plans to determine if outcomes are being met.

The continuous, standardized monitoring of each project provides an opportunity to compare projects to each other and determine their fit with the overall goals of COLS.

Suggestions for Further Research

Identified opportunities to extend and deepen the research reported here include:

- Further research on the specifics associated with past incentive projects may reveal patterns associated with their use.
- Continued monitoring and use of a standardized PGS would allow for easier comparisons between projects of different scopes in order to determine their effectiveness.
- A community discussion over perceptions of the use of incentives and identification of what information they would like to know can provide improvements to standard reporting procedures.
- A comparison of the amount of projects utilizing incentives and the amount of projects not utilizing incentives can be studied to identify patterns.

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Appendix A – Table of Past Incentive Projects

Tool	Project	Approved
CH. 100	Townsend Summit	1998
CH. 100	BHA Technologies	1998
CH. 100	Bennett Packaging	2007
CH. 100	Kokam America	2009
CH. 100	Cerner Personal Property	2010
CH. 100	Residences at New Longview	2014
CH. 100	Bennett Packaging	2015
CH. 100	Cerner Personal Property	2015
CH. 100	Cerner Real Estate	2015
CH. 100	Summit Residences LLC	2016
CH. 100	KC Summit Technology	2016
CH. 100	M 150 Echelon Land Development	2017
CH. 100	Villages at View High	2017
CH. 353	Colt Technologies	1991
CH. 353	Toys R Us	1993
CH. 353	A. Zerega's	1994
CH. 353	GEHA	1996
CH. 353	American Meat	1998
CH. 353	Colt/Sprint	2000
CH. 353	John Knox Village	2003
CH. 353	Unity Village	2012
CH. 353	John Knox Village	2015
CID	Timber Hills CID	2003
CID	Tiffany Woods CID	2005
CID	Park Ridge CID	2006
CID	Raintree 150 Center CID	2006
CID	I-470 CID	2007
CID	Summit Point CID	2007
CID	Langsford Plaza CID	2008
CID	Summit Fair CID	2008
CID	Blue Parkway & Colbern Road CID	2012
CID	Highway 50 & Todd George CID	2013
CID	Downtown CID	2014
CID	I-470 & View High CID	2015
CID	Ritter Plaza CID	2016
CID	Pine Tree CID	2017
CID	740 NW Blue Parkway CID	2017
CID	Village at View High CID	2017
CID	Summit Orchards CID	2018
LCRA	Licata Flowers	2012

Tool	Project	Approved
LCRA	Stanley	2014
LCRA	Grider Orthodontics	2015
LCRA	JCI Industries	2016
LCRA	HT Solutions	2016
LCRA	Primary Eye Care	Pending
LCRA	3rd ST Social	2016
LCRA	Minsky's Pizza	2016
LCRA	Co-Work Lee's Summit	2018
LCRA	Coleman Equipment	2018
LCRA	MAR Building Solutions	2018
LCRA	Higdon Construction	2018
STA	Savannah Square	1995
STA	Douglas Square	1997
STA	Murray Road	2005
STA	Home Depot	2005
STA	Hyvee East	2013
STA	Walmart	2014
STA	Quik Trip	2016
TDD	The Strother Interchange TDD	2001
TDD	I-470 & 350 Highway TDD	2001
TDD	Douglas Square TDD	2001
TDD	Douglas Station TDD	2002
TDD	Raintree North TDD	2003
TDD	New Longview TDD	2003
TDD	Independence Ave & Colbern Road TDD	2007
TDD	Raintree Lake Village TDD	2007
TDD	Southwest I-470 & View High TDD	2017
TIF	Northeast TIF	1988
TIF	Southeast TIF	1990
TIF	Tuscany Manor TIF	1999
TIF	Chapel Ridge TIF	2000
TIF	Summit Woods TIF	2000
TIF	New Longview TIF	2002
TIF	I-470 Business & Technology TIF	2006
TIF	Lee's Summit East (Summit Fair) TIF	2006
TIF	Hartley Block TIF	2006
TIF	East 50 Highway Corridor TIF	2007
TIF	Ritter Plaza TIF	2007
TIF	New Longview TIF (2016)	2015
TIF	I-470 & View High TIF	2016
TIF	Village at View High	2017

Appendix B – Sample Project Goals Sheet

Sample Project Goals Sheet

Project Name:

Project Description:

Project Inception: Date

Expected Termination: Date

Expected Duration: XX Years

Incentive Tool:

- Incentive 1
- Incentive 2
- Incentive 3

Project Budget: $

Projected Incentive: $

General Objective:

- Blight Remediation
  - Measurement
- Job Creation
  - Measurement
- Tax base increase
  - Measurement

Specific Objective:

- Reimbursement $ Amount
  - Measurement
- Reimbursement $ Amount
  - Measurement
- Reimbursement $ Amount
  - Measurement

Public Benefit Objective:

- New Infrastructure
  - Measurement
- New Opportunity
  - Measurement