



## **PERFORMANCE AUDIT REPORT**

### **Tax Increment Financing in Kansas, Part II: Reviewing a Sample of Districts**

# ***Executive Summary***

***with Conclusion and Recommendations***

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
April 1997**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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LEGISLATURE OF KANSAS  
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April 29, 1997

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Tax Increment Financing in Kansas, Part II: Reviewing a Sample of Districts*.

The report also contains an appendix showing basic information provided by city officials about 32 tax increment districts in the State.

This report recommends that Kansas City change some procedures to come into compliance with tax increment law, and that the Legislature consider whether any current uses of tax increment law might be different from how you intended it to be used.

If you would like a copy of the full audit report, please call our office and we will send you one right away. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

  
Barbara J. Hinton  
Legislative Post Auditor

**Tax Increment Financing in Kansas, Part II:  
Reviewing a Sample of Districts  
EXECUTIVE SUMMARY  
LEGISLATIVE DIVISION OF POST AUDIT**

**Question 1: Have Cities Followed State Law  
When Using Tax Increment Financing?**

**In general, compliance with tax increment financing laws appears to be fairly high.** We reviewed six projects in five cities—Leavenworth, Manhattan, Kansas City, Merriam, and Lenexa—for compliance with 19 different requirements contained in State law. The only instance of noncompliance we found was Kansas City's failure to establish separate funds to account for the tax increments as the law requires. There was a problem with two different projects in Kansas City. In addition, Kansas City didn't appear to have a very good system to account for the amount of development costs incurred for one of those projects (Palavista). ..... page 9

**City and county officials raised some concerns about tax increment financing.** These included a concern that counties and school boards can't veto specific redevelopment projects, and that an area that isn't pervasively blighted can be declared blighted under current State law. .... page 11

**Some cities are using the tax increment law in ways the Legislature might not have anticipated.** In Leavenworth, tax increment financing was used to move a business from one enterprise zone to another. Some tax increment projects occur in what appear to be economically healthy areas, such as the Homestead Village project adjacent to I-35 in Merriam. And Roeland Park used tax increment financing to develop a City park, which is different from typical site-improvement projects that generally lead to increased tax revenues. .... page 12

**Kansas tax increment law is "stricter" than tax increment laws in other states.** In comparing Kansas to two other states—Minnesota and Missouri—we found that Kansas law is stricter because it allows counties and local school districts to veto the creation of redevelopment districts, doesn't allow counties and local authorities to create districts on their own, and has more stringent requirements for declaring an area "blighted." ..... page 14

**Question 1 Conclusion:** Tax increment financing originally was passed to give cities a tool to help them revitalize economically depressed areas. By and large, cities have followed State laws regarding the use of tax increment financing. However, this report points out some uses of tax increment financing that the Legislature might not have anticipated. These are the kinds of uses the Legislature may want to examine more carefully. .... page 16

**Question 1 Recommendations:** *A brief summary of the report's recommendations, together with a summary of applicable comments from the audited cities, is presented below.* ..... page 16

*To ensure that Kansas City complies with State law, we recommended City officials establish separate funds to account for tax increments for each tax increment project. We also recommended City officials conduct a review of the two completed projects to identify total project costs, and consider whether they have adequate procedures to account for all such costs.*

*In response, the City stated that, because it has established "appropriate accounting" that enables it to know when the revenue requirements of the tax increment district have been met, it isn't necessary to establish a separate fund for depositing the tax increments. In addition, City officials stated they had acted on our second recommendation and had identified all the costs associated with completed projects, and were committed to identifying those costs for future tax increment projects.*

*Finally, we recommended that the House Economic Development Committee and the Senate Commerce Committee review ways in which cities are using tax increment financing and consider legislation needed if legislators perceive that tax increment financing isn't being used in the way they intended.*

*City officials from Leavenworth and Merriam also responded to the audit.*

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**Question 2: What Impact Has the Use of Tax Increment Financing Had on School District Finance and State Aid?**

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**With the exception of environmental tax increment districts,** ..... page 17  
**the use of tax increment financing should have little impact on school district revenues and State aid payments.** *For the most part, whether there's been an impact depends on whether new development would have occurred within the redevelopment districts without tax increment financing. For the districts we reviewed, all were created in economically declining areas where development may not have occurred without the assistance of tax increment financing. However, in Wichita and Hutchinson, tax increment districts created to remedy environmental contamination have cost school districts—over the short term—about \$1 million in lost taxes, which the State had to make up. Over the long term, property values and taxes should increase because environmental clean up will occur.*

**APPENDIX A:** *Information Provided by City Officials* ..... page 21  
*Regarding All 32 Redevelopment Districts in Kansas*

**APPENDIX B:** *City Response Letters* ..... page 30

<p>This audit was conducted by Sharon Patnode and John McIntyre. If you need any additional information about the audit's findings, please contact Ms. Patnode at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: <b>LPA@mail.ksleg.state.ks.us</b>.</p>
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