

AUDIT PROPOSAL

Reviewing the Effectiveness of Tax Increment Financing Districts in Kansas

SOURCE

This audit proposal was suggested by Representative Susan Estes.

BACKGROUND

The Legislature enacted the Tax Increment Finance (TIF) Act in 1979. The TIF Act created a local financing tool which allows a city to pledge up to 20 years of future property tax revenues to finance the city's share of redevelopment projects. Those costs can include buying land, relocating residents, and relocating or installing utilities. Developers generally pay construction and other related costs through their own financing arrangements.

TIF-funded projects are designed to promote, stimulate, and develop economic improvements in areas where development may not otherwise occur (e.g., blighted areas). Redevelopment projects may be financed by issuing full faith and credit tax increment bonds or special obligation bonds in one or more series. The TIF Act presumes the assessed property value in the redevelopment district will increase because of the redevelopment project financed by the bonds. In turn, the positive tax increment is captured to repay the bonds. For purposes of calculating property tax funding for cities, counties, school districts, and other local tax jurisdictions, the TIF Act freezes the real property value within the redevelopment district ("base year assessed valuation") for up to 20 years. For this reason, the law gives counties and school districts the power to veto the establishment of a redevelopment district.

Legislators have expressed concerns about the effectiveness of the TIF Act. Specifically, legislators are interested in better understanding the advantages, disadvantages, economic benefits, or additional costs that cities have experienced in using this financing tool. Additionally, legislators want to know what financial effects the creation of TIF redevelopment projects (TIF projects) have on school districts and whether TIF projects pay off their costs.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below is the question we would answer through our audit work. The steps listed for the objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: How do the estimated economic benefits TIF projects create compare to their estimated costs? Our tentative methodology would include the following:

- Work with Revisors staff and review state law and other documents to understand the requirements and processes for Tax Increment Finance projects.
- Contact large Kansas cities to gather information about any TIF districts or TIF projects they have authorized, when those projects were planned to be completed, and when they were completed or terminated if applicable.

- Select a judgmental sample of a handful of TIF projects across the state, and interview city, county, school, and business stakeholders to get their input about the economic advantages and disadvantages they think resulted from the projects.
- For the sampled TIF projects, estimate their costs and economic benefits based on available financial or other data. This could include economic modeling of the estimated direct and indirect effects, or statistical comparisons of TIF projects and non-TIF projects depending on data availability.

Objective 2: What are the estimated financial effects of TIF projects on school districts?

Our tentative methodology would include the following:

- Interview Department of Education, Revisors, and city and school officials to get their input on the financial effects they think school districts experience due to TIF projects. Financial effects could include forfeiting increased property tax revenues for the life of the project, additional student counts and associated state funding, and the need for more staff or additional buildings.
- Survey school officials to get their opinions about the advantages and disadvantages of TIF projects in general, as well as reasons they have for supporting or opposing them.
- Using a completed TIF project, create a simulation to demonstrate the financial effects the project had on the school districts' funding in terms of base state aid, assessed valuation per pupil, and local property tax funding streams. Also consider student growth and associated increases in school district revenues and expenditures, to the extent changes can be attributed to the TIF project.

Objective 3: Do TIF projects recover their costs timely? Our tentative methodology would include the following:

- Using the handful of TIF projects we selected, review all associated project documents to understand and summarize the planned costs and revenues, as well as the estimated lifespan of the project and the duration and timing of financing.
- For the selected projects, review the project-associated tax and any other revenues actually collected, and compare them to the estimated revenues and costs of the projects to determine if the sample projects recuperated their costs within the planned timeframe.
- Interview city officials and other officials as necessary about potential causes for any identified issues.

ESTIMATED RESOURCES

We estimate this audit would require a team of **4 auditors** for a total of **4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).