

**DERBY NORTH GATEWAY  
SUMMARY AND ANALYSIS OF PROPOSED TIF DISTRICT**

**Prepared by Finance Division**

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*working for you*

The City of Derby held a public hearing May 28, 2013 to consider the creation of a Tax Increment Financing District, known as the Derby North Gateway TIF District. No one from the public spoke either in favor of, or in opposition to, the TIF District. The council voted unanimously to approve the district. The purpose of the TIF District is to fund a public investment of approximately \$2,215,000 for road, drainage and landscaping improvements to improve traffic safety, enhance access to the area and improve the appearance of a major point of entry to the community.

The city's adoption of this ordinance begins a 30 day period within which the Sedgwick County Commission may consider the county's participation in tax increment financing. The Board of County Commissioners has three options it may pursue prior to the end of this 30 day period.

1. BOCC may vote to approve the TIF District
2. BOCC may veto the TIF District
3. BOCC may take no action; which equates to approving the TIF District.

Tax Increment Financing (TIF) is a financing tool that allows cities to fund infrastructure improvements, land acquisition and some other public investments. The creation of TIF districts is governed by KSA 12-1770 et seq. The use of tax increment financing is presumed to be necessary to the development project.

When employing tax increment financing, a city government outlines a contiguous geographic area within which the public funds will be spent. This is the TIF district. The public funds are generated by "freezing" the tax base within the area in a given year. This is known as the base year and all taxes that are generated on the base year assessed values continue to be distributed to the tax districts within which the TIF district sits. Once the district experiences development, and subsequent growth in assessed value, the property taxes generated from this incremental value are distributed into a fund to cover the public investment.

The Sedgwick County Commission adopted resolution 90-08, in June of 2008, establishing a policy and a set of guidelines to facilitate the analysis of proposed tax increment financing districts.

The policy adopted to direct the analysis of proposed TIF districts provides the Board of County Commissioners with the following guidelines for determining the appropriateness of the county's participation in a proposed TIF district. According to Sedgwick County's policy statement: *It is the policy of Sedgwick County to support city efforts to eliminate blight and promote redevelopment of substandard areas by allowing the diversion of county tax revenues to TIF districts when such actions are shown to create no adverse impacts.*

If it is determined that a TIF district would cause adverse effect to the county, that shall be cause for disapproval of a TIF district. Adverse effect is evaluated by the following criteria:

1. Potential loss of tax revenue would hinder effective future delivery of public services.
2. Proposed project is economically feasible without county funding support
3. Proposed private equity funding is insufficient to effect default risk.
4. Costs to county government are greater than benefits to county government.
5. Sufficient data or notification was not provided for county staff to adequately review the proposal for a TIF district.

### MAP OF PROPOSED TIF DISTRICT



**Project Description**

The proposed TIF District is located at the southeast corner of K-15 and East Patriot Avenue in Derby, Kansas. It is anticipated that the project plan will consist of a single project area with the same boundaries. If a TIF District is established, the incremental revenues are to be used specifically to address traffic safety concerns and improve access by realigning Nelson Drive. The current alignment of the intersection has approaches to the north and south that are offset. This has resulted in a crash frequency at this intersection that is higher than the rest of the Nelson Drive corridor. The projected line item breakdown for project and financing costs is below:

<b>PUBLIC IMPROVEMENT COSTS</b>	
Nelson Drive Realignment Construction	\$1,100,000
Nelson Drive Realignment Land Acquisition	\$500,000
Drainage Improvements	\$350,000
Landscaping	\$100,000
<b>Total</b>	<b>\$2,050,000</b>
<b>FINANCING</b>	
Public Improvement Costs	\$2,050,000
Transaction Costs & Capitalized Interest	\$165,000
Interest Costs	\$438,220
<b>Total Debt Service</b>	<b>\$2,653,220</b>

In addition to improving traffic safety, realigning the street is anticipated to improve access which is essential to the development of the area. The proposed anchor development within the project area is Menard’s. Menard’s has purchased land within the area on which they plan to construct a home improvement store. There will also be 6 pad-ready commercial development sites.

**ANALYSIS**

The city engaged an independent fee appraiser to identify the extent which the project area meets the definitions of a “blighted” area pursuant to the Tax Increment District Financing Act. K.S.A. 12-1770 et seq. The appraiser’s conclusion was that: *“Our findings indicate this area to be blighted primarily due to age and condition of building and site improvements, improper platting and economic obsolescence.”* Based on this determination, the area qualifies for Tax Increment Financing.

The assumptions used in the analysis are:

- No changes were made to the city's bond projections
- TIF incremental values and TIF revenues are based on the development of the Menard's site only. No other development prospects are announced, so none were considered.
- Current mill levies for all tax districts are projected at the current rate going forward.
- No increase in valuations, or tax base are considered after the initial increase due to the construction of the Menard's retail operation.

In order for Sedgwick County to participate in a TIF District, our policy requires that five criteria be met.

- **Potential loss of tax revenue would hinder effective future delivery of public services.**  
There is very minimal risk of significant revenue loss to Sedgwick County.
  - The land on which the Menard's store is planned, generates almost \$1,300 in tax revenue to the county. Of this only \$350 comes from the improvements.
  - The entire area produces about \$25,750 in tax revenues to the County. The total tax base is almost evenly divided between land and improvements. The underlying land therefore would continue to provide almost \$12,500 in tax revenue should the project totally collapse after all current improvements are razed.
  - In the event of such a worst case scenario, the public investments are financed by general obligation bonds issued by the City of Derby. Repayment of the bonds would be the responsibility of the city.
- **Proposed project is economically feasible without county funding support.**
  - Menard's already owns the property on which they plan to construct a store. However, the ingress and egress to the site isn't considered to be sufficient to support this type of development. In addition, the City has indicated that Menard's building projects are currently on hold.
  - TIF revenues sufficiently cover the debt requirements for the infrastructure investment.
  - Without a TIF, the additional taxes that would be paid to the City of Derby alone from the additional tax base are not sufficient to cover the debt payments.

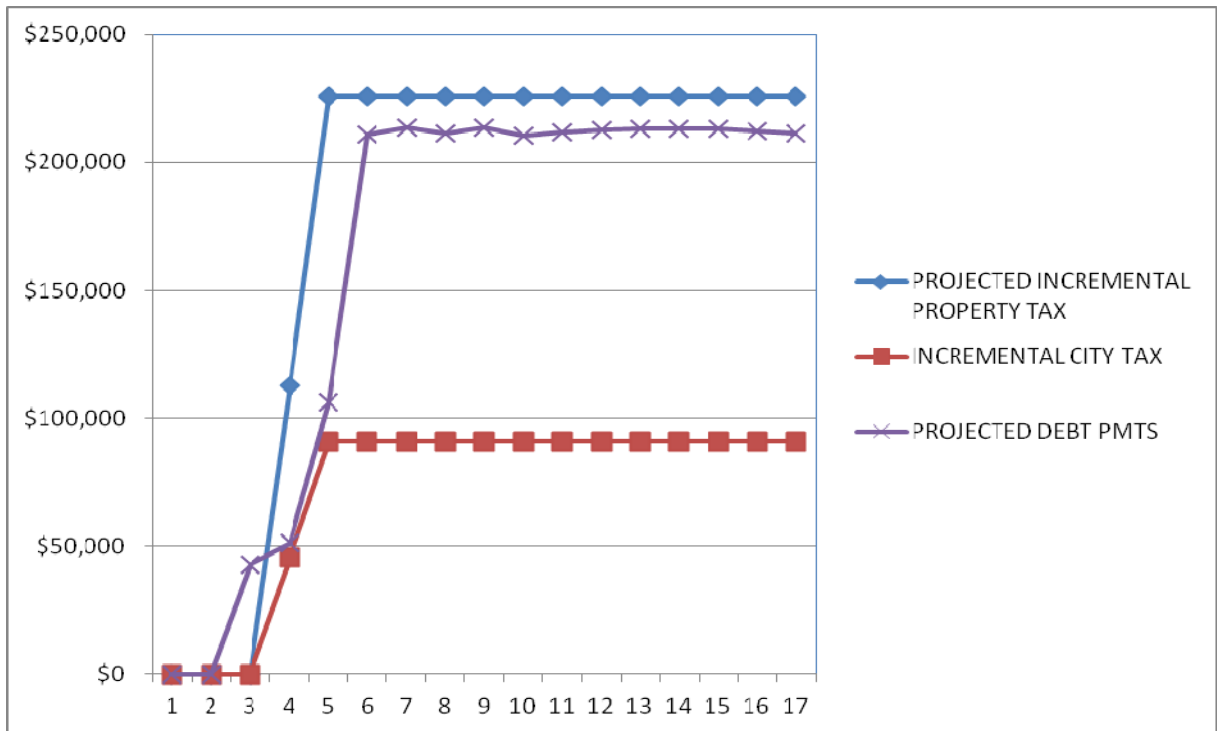
This is the critical “but for” question that is a requirement for county participation in a TIF district. To the extent the improvements are required for the development and the additional taxes paid to the City of Derby from the Menard’s development are insufficient to cover the debt service payments, the project would be dependent on Tax Increment Financing to go forward.

The following spreadsheet and graph compares the additional tax revenues that the development would generate vs. the debt service payments for the street realignment; and shows the surplus revenues with TIF and the deficit the City of Derby would experience without TIF.

**PROJECTED REVENUES AND DEBT SERVICE PAYMENTS: DERBY NORTH GATEWAY TIF DISTRICT**

TIF YEAR	TAX LEVY YEAR	TOTAL ASSESSED VALUE	TIF BASE VALUE	INCREASED ASSESSED VALUE	PROJECTED INCREMENTAL PROPERTY TAX	INCREMENTAL CITY TAX	INCREMENTAL COUNTY TAX	PROJECTED DEBT PMTS	SURPLUS (DEFICIT) WITH TIF	SURPLUS (DEFICIT) WITHOUT TIF - DERBY
	2012	888,210	888,210	0	\$0	\$0	\$0	\$0	\$0	\$0
	2013	888,210	888,210	0	\$0	\$0	\$0	\$0	\$0	\$0
1	2014	888,210	888,210	0	\$0	\$0	\$0	\$42,751	(\$42,751)	(\$42,751)
2	2015	1,852,850	888,210	964,640	\$112,810	\$45,486	\$28,406	\$51,305	\$61,505	(\$5,819)
3	2016	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$106,305	\$119,315	(\$15,334)
4	2017	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$210,667	\$14,953	(\$119,696)
5	2018	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$213,570	\$12,050	(\$122,599)
6	2019	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$211,162	\$14,458	(\$120,191)
7	2020	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$213,423	\$12,197	(\$122,452)
8	2021	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$210,227	\$15,393	(\$119,256)
9	2022	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$211,691	\$13,929	(\$120,720)
10	2023	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$212,701	\$12,919	(\$121,730)
11	2024	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$213,237	\$12,383	(\$122,266)
12	2025	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$213,353	\$12,267	(\$122,382)
13	2026	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$213,071	\$12,549	(\$122,100)
14	2027	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$212,416	\$13,204	(\$121,445)
15	2028	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$211,396	\$14,224	(\$120,425)
16	2029	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$0	\$225,620	\$90,971
17	2030	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$0	\$225,620	\$90,971
18	2031	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$0	\$225,620	\$90,971
19	2032	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$0	\$225,620	\$90,971
20	2033	2,817,491	888,210	1,929,281	\$225,620	\$90,971	\$56,812	\$0	\$225,620	\$90,971
<b>TOTAL</b>					<b>\$4,173,966</b>	<b>\$1,682,971</b>	<b>\$1,051,013</b>	<b>\$2,747,275</b>	<b>\$1,426,691</b>	<b>(\$1,064,304)</b>

## GRAPHICAL DEPICTION OF TIF REVENUES -VS- DEBT PAYMENTS



- **Proposed private equity funding is insufficient to effect default risk.**

- Although financial information for Menard's isn't available in the analysis, Menard's has already purchased the land on which their home improvement store would be located. Menard's is privately held and is considered to be the nation's third largest home improvement retailer. Sales for 2012 are estimated at over \$7 billion. The company operates 270 stores in over 12 states. Private equity funding would not appear to be a problem with Menards as an anchor developer.
- No public incentives are being sought by the private developers.

- **Costs to county government are greater than benefits to county government.**
  - Again, the project analysis, conservatively only considers the development of the Menards site. This alone, is projected to produce an additional \$1.9 million in assessed value. At 29 mills, the county would receive an additional \$56,000 in annual tax revenue when the TIF District has been dissolved after servicing the debt payments. If the project could go forward without county participation in tax increment financing; the county would forego approximately \$767,000 in property tax revenues during the projected life of the TIF District.
- **Sufficient data or notification was not provided for county staff to adequately review the proposal for a TIF district.** A thorough analysis was provided by the City of Derby prior to the City Council's adoption of the ordinance to create the North Derby Gateway Tax Increment Financing District.