

**SOUTHFORK DEVELOPMENT
SUMMARY AND ANALYSIS OF PROPOSED TIF DISTRICT**

Prepared by Finance Division

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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.

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 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 of notification was not provided for county staff to adequately review the proposal for a TIF district.

SUMMARY

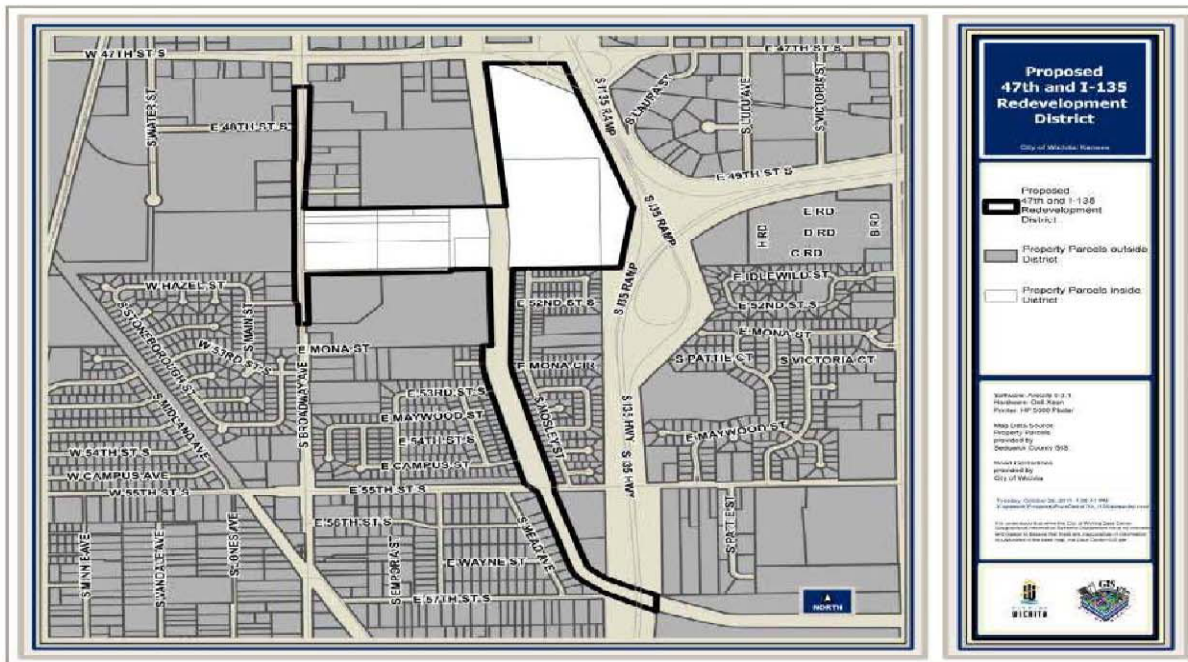
On December 6, 2011 the Wichita City Council voted 6 - 1 to establish the boundaries of a proposed Tax Increment Financing (TIF) district in the vicinity of 47th Street South and the I-135 interchange in south Wichita. This action by city council initiated a 30 day period during which

Sedgwick County and / or USD 259 may consider whether the district will have an adverse effect. On January 4, 2012, the Board of County Commissioners received information about the proposal and declared that it *would* have an adverse effect; in accordance with state law the City Council then took action to terminate the district.

In the following weeks the developer and city staff worked to revise the proposal in ways intended to address the concerns voiced by the commissioners, and on April 10, the City Council again conducted a public hearing concerning the revised Southfork District Plan.

Once again, if within 30 days following the hearing either the county or school district concludes that the district will have an adverse effect, it may veto the creation of the TIF District. The purpose of this document is to provide analysis of the proposed TIF district pursuant to county policy adopted by BOCC Resolution 90-08 which provides a framework for BOCC consideration of proposed TIF Districts. The May 2, 2012 BOCC meeting will be the 22nd day of the 30 day period in which the county and school district have the right to veto the project.

The proposed development for which tax increment financing is being pursued is known as the Southfork Development. It is a mixed use commercial development covering approximately 72 acres. Of this area, 50.4 acres is bounded by 47th street on the north, I-135 on the east, residential housing on the south and the Riverside Drainage Ditch or “big slough” on the west. An additional 21.6 acres lies generally south of 50th Street south, east of Broadway, north of



two parcels that are currently undeveloped. Almost all of this land is in the 100 year flood plain. The area west of the ditch is comprised of 11 parcels. Five of these parcels have improvements ranging in market value from \$35,700 to \$223,000.

The city determined that the area is eligible for inclusion in a TIF district because it is a “blighted area” due to over 50% of the area being in the 100 year flood plain as certified by FEMA. This is consistent with KSA 12-1770a wherein the types of eligible properties are defined.

The proposed development is planned in three phases. The Metropolitan Area Planning Commission (MAPC) will be involved in the approval of each phase. A 2/3rd majority of the City Council is also required for approval of each phase and the subsequent use of TIF revenue as determined. The three anticipated phases are:

- Mixed use retail, hotel and entertainment on the north portion of the 50 acre parcel
- A big box retail development on the south portion of the 50 acre parcel
- A medical office facility on the 21 acre parcel

What is the public purpose of the financial assistance to the project?

The public purpose of the proposed TIF district is to provide infrastructure improvements to “influence and guide the redevelopment of the area that is expected as a result of the infrastructure improvements to the I-135/47th street interchange.” The proposed redevelopment area meets the statutory criteria as a blighted area due to fact that the majority of the property lies within a 100 year floodplain designated by the Federal Emergency Management Agency.

Why is there a financial need for public investment and/or subsidy?

A case can be made that the development may economically feasible without a TIF district, but the return on equity would be below levels normally considered desirable by investors. Financial projections provided by the city, which have been approved by the developer, show that the project will be profitable without the infusion of property taxes from a TIF district, and that it will be more profitable if the tax increment funding is provided. However, if the assumed creation of a community improvement district does not occur, the projections show that the development will suffer a loss unless it receives the TIF funding.

The developer indicates that the presence of a 100 year flood plain covering a majority of the development area adds additional complexity and challenge for project completion. This may explain why land all around the subject area (but outside the flood plain) has experienced

development and this site is primarily undeveloped. The revised proposal includes a requirement that substantially all land in the project area be raised above the level of the 100-year flood plain. The developer’s project pro forma estimates the cost of this requirement to be \$1,000,000, and it will not be eligible for public funding support.

The improvements to the drainage ditch have been coordinated with the Kansas Turnpike Authority and are being completed by Wichita using a mix of general revenues and special assessments. Even if the project does not go forward, these drainage improvements will be completed.

What is the total cost of the project?

The entire project is projected to cost \$154.9-million.

Sources of Funds

<u>Private Funding</u>	<u>Amount</u>	<u>Percentage</u>
Owner's Equity	\$29,269,137	18.9%
Mortgage Debt & Construction Financing	\$115,776,548	74.7%
Total Private Funding	\$145,045,685	93.6%
<u>Public Funding</u>		
CID (Sales tax)	\$0	0.0%
TIF (Property tax)	\$9,894,000	6.4%
Total Public Funding	\$9,894,000	6.4%
Total Funding	\$154,939,685	100.00%

Uses of Funds

Land Acquisition	\$2,250,000	1.4%
Flood plain elevation	\$1,000,000	0.6%
Holding Expenses	\$500,000	0.3%
Private Improvements - Building Construction	\$141,295,685	91.2%
Public Improvements - Infrastructure / Special Assessments	\$9,894,000	6.4%
Total Expenses	\$154,939,685	100.00%

What are the risks associated with the project?

The area currently generates \$12,970 in property tax. Of this \$3,193 is the county's portion. Downside financial risk to the county is minimal if project fails and properties are delinquent.

How does the proposed project finance plan compare with previously approved comparable projects?

In the sense that this proposed district consists largely of undeveloped property, there are no previously approved comparable projects. The county previously has declined to participate in tax increment financing for development of greenfield projects.

The proposed TIF district financing plan differs from previous TIFs in that it provides for less financial risk on the part of the city and provides for early termination of the district once \$16.5-million of incremental property tax revenue has been distributed to the district.

The city's risk in any TIF-supported project – and it's only a risk to the city, not to the county -- is that the actual property tax increment may be less than expected, requiring the city to divert budgeted operating revenues to pay for the TIF projects. For the Southfork project, the city has taken steps to mitigate this risk by requiring the developer to assent to the imposition of special assessment levies sufficient to pay the planned public improvements, and further requiring the developer to post a letter of credit to guarantee payment of the special assessments. The developer proposes to have the city reimburse him for the special assessment payments from the property tax increment the TIF district would capture.

The proposal also differs from previously approved projects in that it is expected to produce a much larger tax increment than is included in the project finance plan. At current tax rates and using the property values estimated by the city and developer, the proposed project would produce nearly \$65-million of property tax revenue over the 20-year statutory life of the TIF district, but only \$16.5-million of TIF funding is included in the finance plan (\$9.9-million for the cost of public improvements and \$6.6-million for a small contingency account and the cost of interest on the bonds that will be sold by the city to finance those improvements). The revised proposal requires the city to terminate the district once \$16.5-million of tax increment has been provided, so the largest share of the \$65-million of new property tax revenue estimated to be generated by the project over 20 years will be distributed to the city, county and school district for general operations.

What is the project's impact on other publicly financed projects?

Special assessment financing is proposed for the infrastructure improvements necessary for the development. The special assessments are guaranteed by the developer, and backed with a letter of credit. To the extent the project is developed, the TIF revenues would be used to

reimburse the developer for the special assessment payments. No adverse impact is anticipated for other projects.

ANALYSIS

There are three significant components to this proposed TIF District that distinguish it from others established by the City of Wichita.

First, the TIF revenues will not be used to pay for public improvements, but instead will be used to reimburse the developer for special assessment payments that fund the infrastructure improvements. In essence, the tax increment funding is layered over the special assessments. Levying special assessments serves to create a lien against the property which provides the city a foreclosure option in the event the special assessments are unpaid. Use of tax increment financing does not place a lien on real estate. The city and developer have also agreed that the developer will personally guarantee the payment of the special assessments and will post a letter of credit in favor of the city pursuant to city policy.

Second, in the event the incremental tax revenues generated by the increased valuation from development exceed \$16.5-million needed to support the special assessment payments, the city staff proposes that the district be automatically terminated even though years of statutory life may remain.

Third, most of the land in the proposed district is undeveloped and in a flood plain. All previous Wichita TIF districts have been for the purpose of redeveloping substandard developments, and none have included land in a flood plain. The city's revised District Plan requires the developer to raise substantially all of the land above the level of the flood plain.

As mentioned before, in analyzing proposed TIF districts, the county has established five criteria to determine if the creation of the TIF district will create adverse impacts on Sedgwick County. These criteria and analysis of each are provided below:

1) Potential loss of tax revenue would hinder effective future delivery of public services.

Sedgwick County's 2011 tax levy for the parcels in the proposed development area is \$3,193.28. If the TIF district is approved, this revenue will continue. There are four residential properties within the boundaries of the district. If these are razed and nothing is rebuilt, there is a potential loss of approximately \$1,853 in county revenue.

If the development will occur regardless of tax increment financing, the county, as well as other participating tax governments, City of Wichita and Wichita School District, will forego future

property tax revenue. The following spreadsheet shows the potential foregone revenue in this scenario. The assumptions with the following spreadsheet are:

- i. The project builds out as rapidly as projected by the developer.
- ii. The TIF district operates for the full twenty year legal life span but receives no tax revenue once the \$15.5-million ceiling has been reached.
- iii. The mill levies are held constant at the 2011 rate.
- iv. Property assessments are based on appraised values provided by the city and developer, and they increase 2% annually after improvements are made.

	Foregone Property Taxes			
	County		All Participating Govts	
	Annual	Cumulative	Annual	Cumulative
Year 1	\$71,436	\$71,436	\$239,788	\$239,788
Year 2	\$432,186	\$503,532	\$1,451,076	\$1,690,864
Year 3	\$460,073	\$963,605	\$1,544,707	\$3,235,571
Year 4	\$886,697	\$1,850,301	\$2,977,109	\$6,212,679
Year 5	\$904,431	\$2,754,732	\$3,036,651	\$9,249,330
Year 6	\$922,519	\$3,677,252	\$3,097,384	\$12,346,714
Year 7	\$940,970	\$4,618,221	\$3,159,332	\$15,506,046
Year 8	\$295,204	\$4,913,425	\$993,954	\$16,500,000
Year 9	\$0	\$4,913,425	\$0	\$16,500,000
Year 10	\$0	\$4,913,425	\$0	\$16,500,000
Year 11	\$0	\$4,913,425	\$0	\$16,500,000
Year 12	\$0	\$4,913,425	\$0	\$16,500,000
Year 13	\$0	\$4,913,425	\$0	\$16,500,000
Year 14	\$0	\$4,913,425	\$0	\$16,500,000
Year 15	\$0	\$4,913,425	\$0	\$16,500,000
Year 16	\$0	\$4,913,425	\$0	\$16,500,000
Year 17	\$0	\$4,913,425	\$0	\$16,500,000
Year 18	\$0	\$4,913,425	\$0	\$16,500,000
Year 19	\$0	\$4,913,425	\$0	\$16,500,000
Year 20	\$0	\$4,913,425	\$0	\$16,500,000

2) Proposed project is economically feasible without county funding support.

The city has provided 15-year proforma financial statements that compare the earnings before interest, tax, depreciation & amortization (EBITDA) under two scenarios: one with tax increment financing, and one without. The revised financing plan does not contemplate

creation of a Community Improvement or the provision of CID sales tax; this is a change from the original proposal. The project produces positive EBITDA under the TIF scenario, but not under the scenario that does not have TIF funding support.

Without TIF funding support the pro forma shows a cumulative loss of \$2.1-million over 15 years and yearly losses in years 2 through 11. If TIF funding is provided the 15-year total earnings are projected to be \$7.8-million, with a yearly loss only in year 4 of the 15 year term.

Southfork Earnings Projections				
Earnings Before Interest, Taxes, Depreciation & Amortization				
	With TIF		Without TIF	
	Yearly	Accumulated EBITDA	Yearly	Accumulated EBITDA
Year 1	\$47,844	\$47,844	\$47,844	\$47,844
Year 2	\$123,831	\$171,675	(\$206,959)	(\$159,115)
Year 3	\$113,821	\$285,496	(\$388,799)	(\$547,914)
Year 4	(\$12,807)	\$272,689	(\$515,426)	(\$1,063,340)
Year 5	\$83,451	\$356,140	(\$419,169)	(\$1,482,509)
Year 6	\$148,580	\$504,720	(\$543,455)	(\$2,025,964)
Year 7	\$93,177	\$597,897	(\$598,858)	(\$2,624,822)
Year 8	\$273,010	\$870,907	(\$419,025)	(\$3,043,847)
Year 9	\$332,633	\$1,203,540	(\$516,133)	(\$3,559,980)
Year 10	\$513,653	\$1,717,193	(\$335,113)	(\$3,895,093)
Year 11	\$815,077	\$2,532,270	(\$32,689)	(\$3,927,782)
Year 12	\$998,307	\$3,530,577	\$149,541	(\$3,778,241)
Year 13	\$1,301,953	\$4,832,530	\$453,187	(\$3,325,054)
Year 14	\$1,418,813	\$6,251,343	\$570,047	(\$2,755,007)
Year 15	\$1,536,841	\$7,788,184	\$688,076	(\$2,066,931)

3) Proposed private equity funding is insufficient to effect default risk.

The developer plans to invest approximately \$29.3-million million in equity toward the \$154.9-million project. The documentation provided does not provide the sources of the developer's equity or the ability of the developer to secure the debt financing as outlined.

The proposed sources of private and public funding are shown below:

<u>Private Funding</u>	<u>Amount</u>	<u>Percentage</u>
Owner's Equity	\$29,269,137	18.9%
Mortgage Debt & Construction Financing	\$115,776,548	74.7%
Total Private Funding	\$145,045,685	93.6%
<u>Public Funding</u>		
CID	\$0.0	0.0%
TIF	\$9,894,000	6.4%
Total Public Funding	\$9,894,000	6.4%
Total Project	\$154,939,685	100.0%

4) Costs to county government are greater than benefits to county government.

If the project is financially feasible without TIF funding, then a substantial cost to county government is the property tax revenue diverted unnecessarily to the project. The project pro forma provides a clear indication that this will not be the case.

The total projected property tax levied by the county on these improvements over the 20 year statutory life of the district is estimated to be \$18.7-million. However, the amount of county tax increment programmed in the funding plan is much less: \$4.9-million. Because the city resolution creating the district caps the portion of tax increment to be diverted to the district, the county appears to be well protected from the risk of unanticipated costs.

The county government would benefit from increased local option sales tax revenue collected at the retail businesses locating in the district. The county receives about 29% of the proceeds of this tax; the balance is distributed among 20 cities pursuant to a statutorily-defined formula. If one assumes that 100% of the taxable retail sales occurring in this district are new – that is, none of the retail activity taking place in the district is diverted from other retailers located elsewhere in Sedgwick County – then, based on estimates provided by the city and developer, the county might be expected to receive \$1.7-million of sales tax revenue from the district over the 20-year life of the district. To whatever degree one assumes that retail activity occurring in the district would not be new, but rather merely relocated from other establishments located elsewhere in the county, the amount of sales tax benefit to the county would be diminished.

Even if the full tax increment is removed from the county budget and provided to the district, after the district is dissolved the county would receive property tax revenue from the development. While the district could be dissolved earlier, its statutory life is 20 years and so the county might not receive added property tax revenue until year 21. In that year, the amount of property tax estimated to be collected by Sedgwick County from the Southfork proposal is \$1.2-million.

Finally, if the Southfork development causes the market value of surrounding residential or commercial properties to increase, the county would benefit from increased property taxes levied on the owners of those parcels. No reliable estimate of the amount of this revenue can be made.

5) Sufficient data or notification was not provided for county staff to adequately review the proposal for a TIF district.

The city and developer have provided sufficient information.

One issue that isn't addressed in the documentation provided by the city concerns the legal requirements of the drainage improvements and construction of the bridge over the drainage ditch. The drainage ditch that runs through the project area from north to south is governed by the Riverside Drainage District. The drainage district is governed by a three member board that has legal responsibility for maintenance of the drainage ditch. Drainage district powers are set forth in KSA 24-407 et seq. and provide them the exclusive control of natural watercourses within their district. This includes the ability to prescribe the height of any structures that span the watercourse. They are also provided the ability to cooperate with a municipality to effect improvements to the water ways under their jurisdiction. While it is assumed that proper agreements between the city and the drainage district are in place concerning the planned bridge over the drainage ditch, it isn't addressed in the documentation.