MAIZE 54 DEVELOPMENT

SUMMARY AND ANALYSIS OF PROPOSED TIF DISTRICT

Prepared by Finance Division

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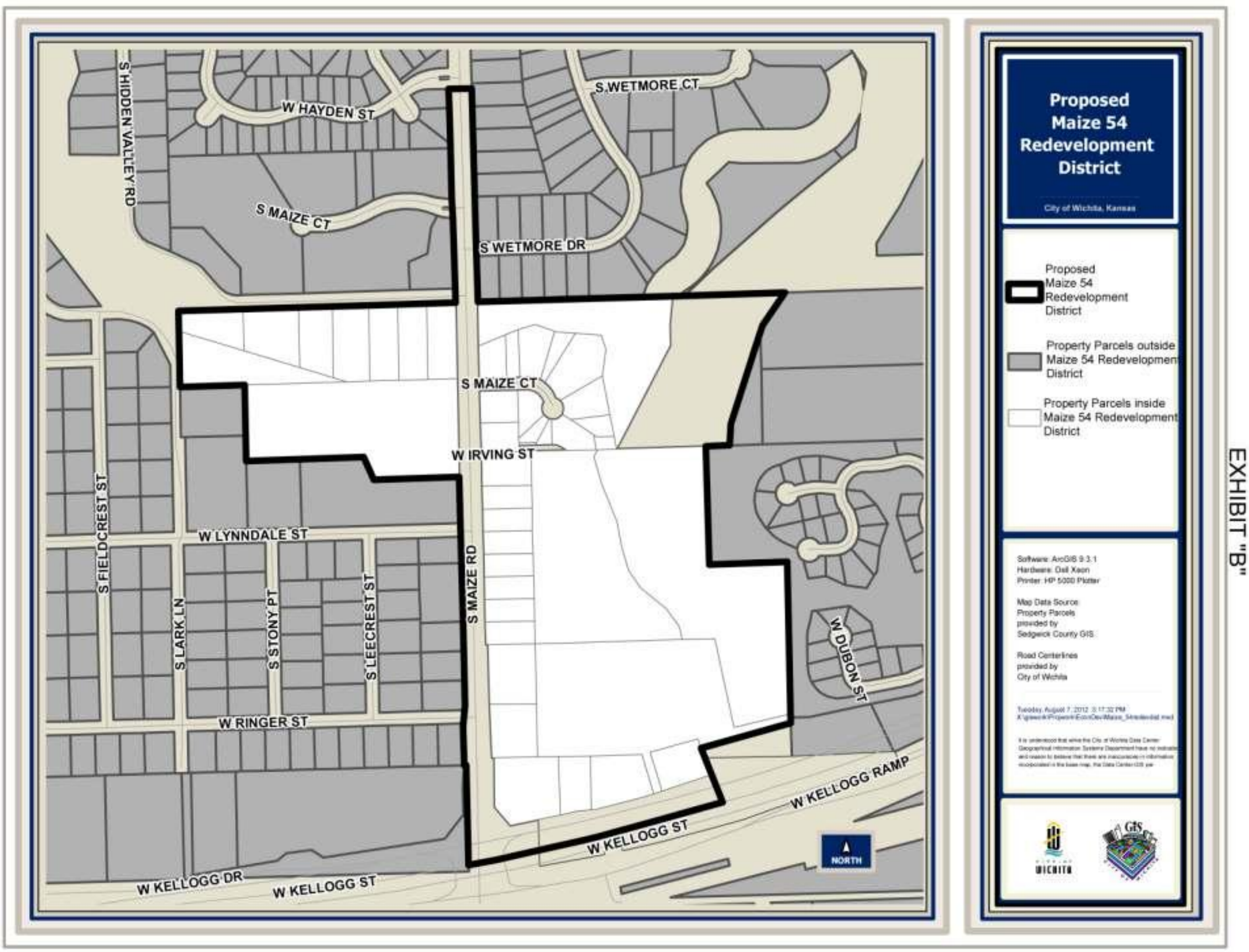
SUMMARY

On November 20, 2012, the Wichita City Council voted 4 – 3 to approve a proposed redevelopment district known as the Maize 54 Redevelopment District. The proposed district lies generally north of the intersection of Maize Road and Highway 54. It is predominantly located on the east side of Maize Road with a smaller area (approximately 9 parcels) lying east of Maize Road. The total area is approximately 86 ½ acres. A map of the area is shown below:



The redevelopment plans call for the entire area to be a mixed use development anchored by Bowllagio, a family entertainment center with bowling as the primary attraction. It is also anticipated that the development will include restaurants, hotels, retail shops and office space.

In order to partially finance the redevelopment district, the City and the developer are proposing tax increment financing.

The city determined that the proposed redevelopment district is eligible for tax increment financing since a majority of the property has been verified by an engineer as lying within the 100 year floodplain. This is consistent with K.S.A. 12-1770 (c) (3).

There are at least two development phases anticipated within the proposed district. To assure proper expenditure of TIF revenues, the City's Redevelopment District Plan, dated October 16, 2012 stipulates City Council involvement prior to commencement of the development phases "*…each phase will be designated as a separate "project area" under a separate project plan, which must be adopted by the City Council by a 2/3 majority vote for each phase before the expenditure of any tax increment financing funds."* This process involves defining the project and performing a financial feasibility study which must be approved by MAPC and submitted for a public hearing prior to adoption by the City Council. This is consistent with TIF statutes and current practices for multi phased TIF areas, except that a simple majority vote is required to approve additional projects within a TIF district. The other contributing tax authorities (County and School District) are not party to this approval process.

It is proposed that this particular TIF district's incremental revenues will be allocated to eligible TIF expenditures in an amount of 65%. The remaining 35% of incremental tax revenues will be distributed to the tax authorities in the same manner as other ad valorem taxes.

K.S.A. 12-1771 (d) provides the County or School District affected by the proposed redevelopment district the authority to veto the establishment of such district if the County or School District determine by resolution that the proposed district will have an adverse effect on the County or School District. This determination and resolution must be made, and delivered to the city, within 30 days of the date the city passed the ordinance establishing the redevelopment district.

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

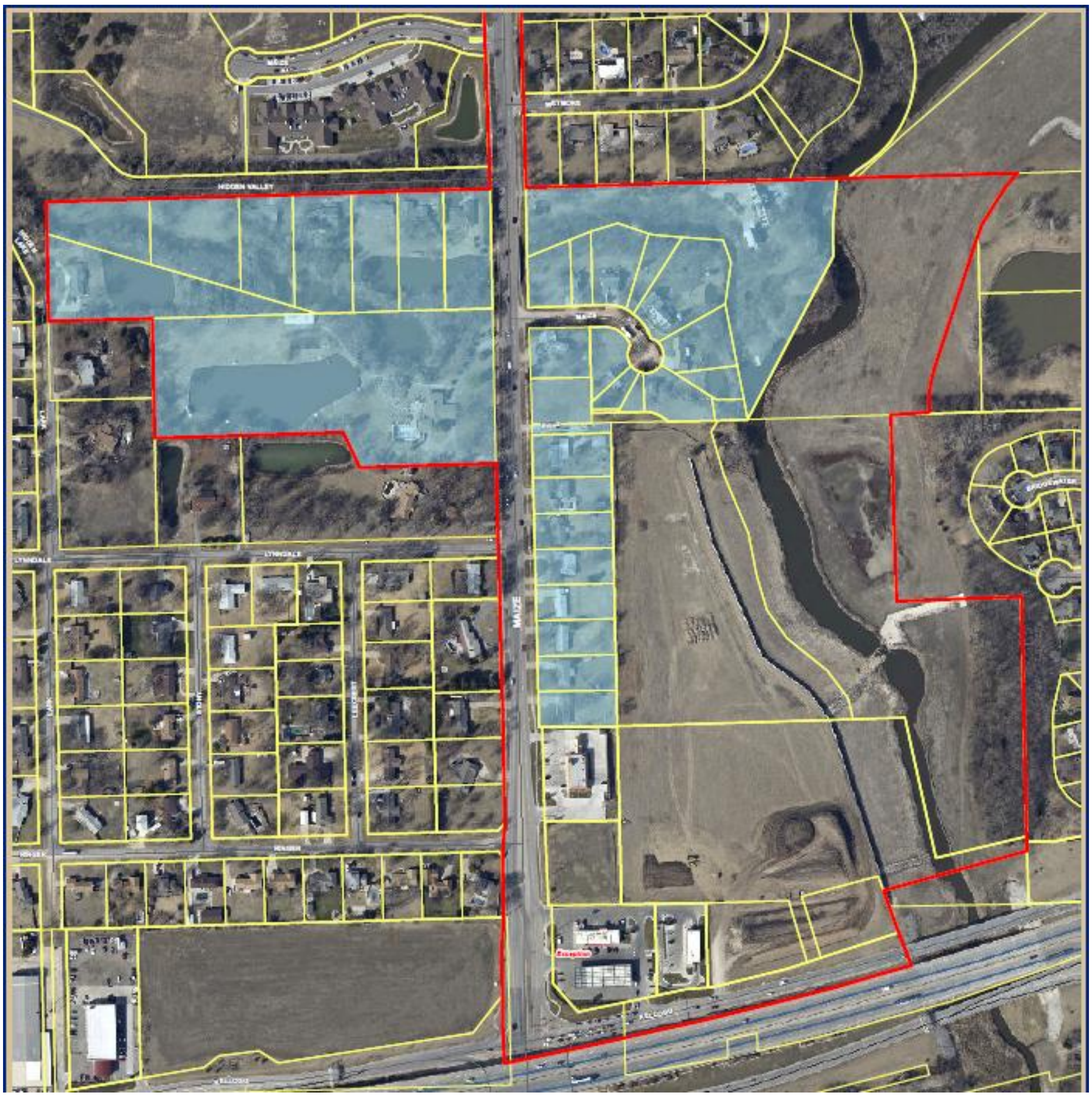
When employing tax increment financing, a city government outlines a contiguous geographic area within which the public funds will be spent. This is the TIF district. The public funds are generated by "freezing" the tax base within the area in a given year. This is known as the base year and all taxes 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.

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

There are 23 residences situated within the district boundaries. Thirteen of these homes are within the 100 year floodplain. Eight homeowners have filed FEMA claims and seven homes are on FEMA's "repetitive loss list" meaning they have filed more than one flood related claim. According to testimony from one homeowner in the area, he has filed two claims with FEMA and believes he is limited to three.

According to testimony from homeowners and city public works, the floodplain maps have changed since all but one of these homes were built.

It is proposed that TIF revenues will be used only to pay for land acquisition and drainage improvements to remove land from the floodplain and improve drainage both up and down stream from the district. A map of the district showing the properties (shaded) to be acquired is below:



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

The drainage projects proposed are currently not included in the City's Capital Improvement Plan. City public works contends that these improvements are not likely to occur until at least the year 2020 without the infusion of TIF revenues to pay for them sooner.

What is the total cost of the project?

The total project is estimated to be $79.8 million. The sources and uses of funds, both public and private is estimated below:

Sources of Funds			
Equity	Owner Equity	$14,212,521	17.8%
			0.0%
Debt	First Mortgage	$2,000,000	2.5%
	Second Mortgage	$708,320	0.9%
	Construction Financing	$44,613,762	55.9%
	Garage Financing	$9,528,000	11.9%
Private Sources		**$71,062,603**	89.0%
	TIF	$8,740,000	11.0%
Public Sources		**$8,740,000**	11.0%
Total Sources		**$79,802,603**	100.0%
Use of Funds			
Land	First Mortgage acquisition	$2,500,000	3.1%
	Second Mortgage acquisition	$885,400	1.1%
	Building Construction	$55,767,203	69.9%
	Garage Construction	$11,910,000	14.9%
Private Uses		**$71,062,603**	89.0%
	Flood Improvements	$6,000,000	7.5%
	Property Acquisition	$2,739,000	3.4%
Public Uses		**$8,739,000**	11.0%
			0.0%
Total Uses		**$79,801,603**	100.0%
Surplus/Deficit		$1,000	

Expenditures of TIF revenues are limited to approximately $8.7 million as detailed below:

- Calfskin Bridge Replacement $2,000,000
- Cowskin Drainage Improvements $2,500,000
- Calfskin Drainage Improvements $1,500,000
- Land acquisition $2,739,000
    - Maize Court Residences
    - Dopps Property

What are the risks associated with the project?

Since the project is phased, there is some risk that it will not proceed beyond the first phase. Failure to move forward could preclude some of the property owners from receiving the benefits of specific drainage improvements, or having their property acquired.

Also, the county and school district cede their input into subsequent project plans or phases. The participating tax districts, other than the city, only have input if the boundaries of the TIF district are affected. Project plan approval is entirely with the city. The city has implemented additional requirements to mitigate this risk, by requiring 2/3 vote of the city council to approve project plans.

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

This TIF differs from previously approved TIF districts because not all of the incremental revenues will go to the TIF fund. 65% of TIF revenues go to the TIF fund and 35% are distributed to the participating tax districts with the ad valorem tax generated from the base value of the district.

In addition, the governing documents establishing the TIF limit eligible TIF expenditures specifically to drainage improvements and removal of property from the floodplain. None of the TIF revenues can be spent outside the TIF district.

In addition to potential TIF revenues, the City and the developer have agreed to designate the development site as a Community Improvement District (CID). The CID agreement provides that sales tax collected within the district be used to reimburse the developer for certain costs on a pay as you go basis up to $75 million. Developer's costs which may be reimbursed include $2 million for drainage improvements.

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

If, as City public works stated to the City Council, this project would not occur for seven or eight years without TIF funding, then to speed up the improvements would involve revising the city's Capital Improvement Program to reprioritize this with other public investment.

ANALYSIS

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

The three tax districts that would divert a portion of their incremental tax revenues to the TIF district levy about $182 thousand for the 2012 tax year. Sedgwick County's portion of this is about $47,000 or 26%. The chart below shows additional revenues the county will receive from our portion of the 35% of the incremental taxes. (Net Property Tax to County). Also shown are the revenues that the county would forego to the TIF if we assume that the development will occur without TIF funding. (County Contribution to TIF)

Without any limitations of TIF expenditures to the $8.7 million that the city has agreed to; if it is assumed that the project will go forward without TIF funding the county may forego approximately $15 million in property tax over the twenty year life of the TIF.

If however, it is assumed that the project will only go forward if TIF funding is provided, then sharing incremental revenue with the participating tax districts will provide approximately $8,000,000 in additional taxes during the twenty year TIF lifespan.

Since the City and the developer have agreed to limit TIF eligible expenditures to $8.7 million, the county would forego approximately $2,250,000 in future tax revenues. Over the same time period, it is projected that the county would receive an additional $1.3 million due to receiving 35% of the incremental tax revenues levied by the County.

Year	Current Tax from County Mill Levy	Total Tax from County Mill Levy	County Contribution to TIF	Net Property Tax to County
2013	$47,860	$47,860	-	$47,680
2014	$47,680	$404,745	$231,976	$124,910
2015	$47,680	$815,641	$499,058	$268,724
2016	$47,680	$892,904	$549,279	$295,765
2017	$47,680	$1,006,735	$623,269	$335,606
2018	$47,680	$1,070,811	$664,918	$358,033
2019	$47,680	$1,076,165	$668,398	$359,907
2020	$47,680	$1,093,489	$679,659	$365,970
2021	$47,680	$1,179,951	$735,859	$396,232
2022	$47,680	$1,209,529	$755,085	$406,584
2023	$47,680	$1,385,080	$869,193	$468,027
2024	$47,680	$1,392,005	$873,695	$470,451
2025	$47,680	$1,398,965	$878,219	$472,887
2026	$47,680	$1,405,960	$882,765	$475,335
2027	$47,680	$1,412,990	$887,335	$477,796
2028	$47,680	$1,420,055	$891,927	$480,268
2029	$47,680	$1,427,155	$896,542	$482,753
2030	$47,680	$1,434,291	$901,180	$485,251
2031	$47,680	$1,441,462	$905,842	$487,761
2032	$47,680	$1,448,670	$910,527	$490,284
2033	$47,680	$1,455,913	$915,235	$492,819
Total	$1,001,460	$24,420,375	$15,219,962	$8,243,044

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

The chart below shows the anticipated earnings with and without TIF. Based on the pro forma provided by the city, The return on owner's equity increases from about 4% to 11.6% over twenty years with the infusion of TIF revenue.

Maize 54 Earnings Projections Earnings Before Interest, Taxes, Depreciation & Amortization				
	With TIF		Without TIF	
	Annual EBITDA	Accumulated EBITDA	Annual EBITDA	Accumulated EBITDA
Year 1	($669,129)	($669,129)	($802,880)	($802,880)
Year 2	$933,695	$264,566	$243,413	($559,467)
Year 3	$841,620	$1,106,186	$74,141	($485,326)
Year 4	$1,198,435	$2,304,621	$318,490	($166,836)
Year 5	$1,558,107	$3,862,728	$615,171	$448,335
Year 6	$1,677,260	$5,539,988	$729,395	$1,177,730
Year 7	$1,683,491	$7,223,479	$714,212	$1,891,942
Year 8	$1,516,997	$8,740,476	$452,531	$2,344,473
Year 9	$1,926,937	$10,667,413	$782,986	$3,127,459
Year 10	$1,933,045	$12,600,458	$661,826	$3,789,285
Year 11	$2,719,554	$15,320,012	$1,319,824	$5,109,109
Year 12	$2,747,504	$18,067,516	$1,340,561	$6,449,670
Year 13	$2,797,782	$20,865,298	$1,383,591	$7,833,261
Year 14	$2,992,000	$23,857,298	$1,570,524	$9,403,785
Year 15	$3,041,035	$26,898,333	$1,612,238	$11,016,023
Year 16	$3,780,499	$30,678,832	$2,344,343	$13,360,366
Year 17	$4,478,311	$35,157,143	$3,034,760	$16,395,126
Year 18	$4,530,310	$39,687,453	$3,079,328	$19,474,454
Year 19	$4,565,124	$44,252,577	$3,106,673	$22,581,127
Year 20	$4,615,848	$48,868,425	$3,149,890	$25,731,017

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

The developer is investing over $71 million dollars in the project; $14.2 million in equity and $56.8 million in mortgage debt and construction financing. This represents 89% of the project's sources of funds. The remaining sources of funds are the $8.7 million in TIF revenues.

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

As previously shows, if the additional drainage improvements can be made and the project proceeds without TIF then the county is foregoing significant tax revenues. Since a portion of TIF would refinance the special assessments, the TIF will be subsidizing improvements that are already done.

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

The County received notice of City Council action and City staff provided requested information in a timely manner.