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# ESSAY

NOVEMBER 2014



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## URBAN NEGLECT: KANSAS CITY'S MISUSE OF TAX INCREMENT FINANCING

*By Patrick Tuohey and Michael Rathbone*

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Usually when a private company considers undertaking a project, it weighs the current cost of that project against its future possible earnings, such as rent or sale prices. Sometimes, due to economic downturn or widespread poverty, entire regions are overlooked by private developers. As a result, governments have adopted a type of tax subsidy known as Tax Increment Financing (TIF), and it has become a common economic

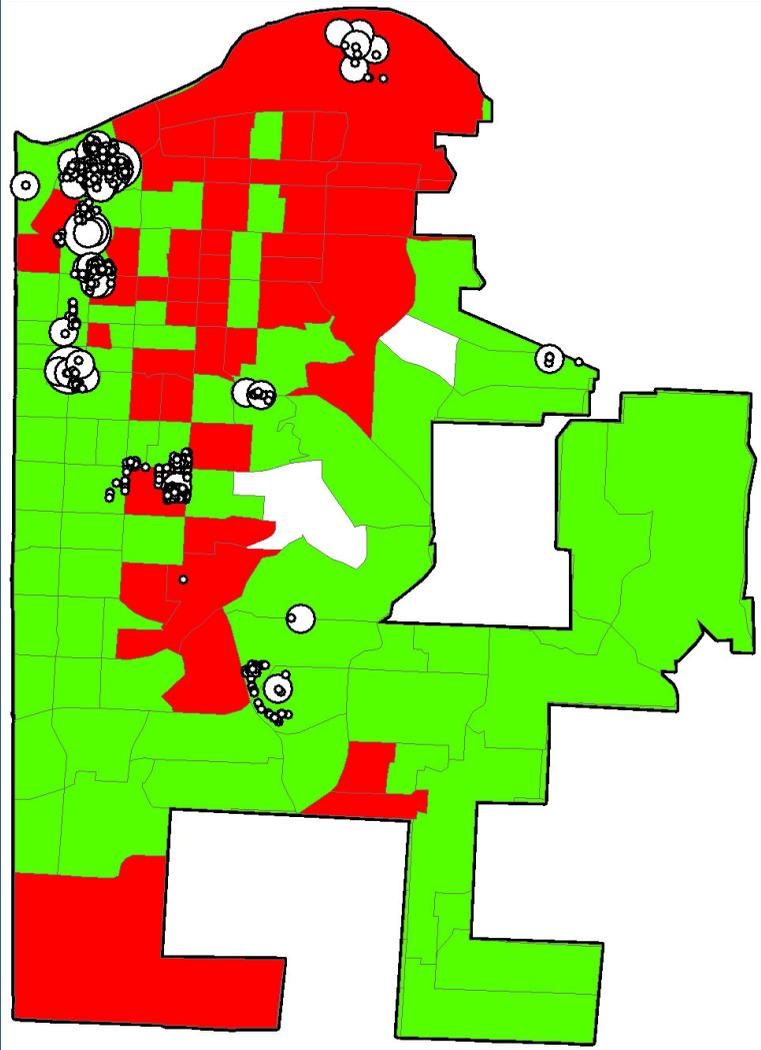
development tool throughout the United States. Kansas City is no exception.

TIF was designed to encourage development to combat blight, to promote conservation efforts, and to foster economic development that would not have otherwise occurred.<sup>1</sup>

TIF allows the property developer to keep some of the taxes that would

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This map depicts the portion of Kansas City that is in Jackson County. The white circles denote location of TIF projects, most within the green, unimpoorished areas.

*According to the map, TIF occurred in impoverished areas only a handful of times, and then in a place where no one lived.*

have been paid to the city and use them to offset development costs, often for up to 23 years. In this way, governments make investments into depressed areas more attractive. The taxpayers, in theory, forgo that tax income in the hope that the development will be a net benefit to the needy community.

In Kansas City, however, TIF is not being used to address legitimate blight

or pervasive economic need. In fact, it appears to be used predominantly to subsidize private development in areas where there is little need for taxpayer subsidy, often rewarding politically connected developers instead.

Let's lay aside the arguments for and against each individual use of TIF in Kansas City and instead look at the aggregate use of TIF. The map to the left is the portion of Kansas City that falls within Jackson County. The sections in red show the 2009 Census tracts where more than 30 percent of the population live in poverty.<sup>2</sup>

The portions in green are Census tracts where 30 percent or less of the population is in poverty.

The white circles, according to Jackson County,<sup>3</sup> show the placement of TIF projects, and the size of the circle is relative to the amount of the various tax subsidies attached to that project (e.g., TIF plus other subsidies). According to the map, TIF occurred in impoverished areas only a handful of times. TIF does not appear to be used as a tool for redevelopment, combating blight, or encouraging economic development in needy areas.

TIF is being used the most in Kansas City in the downtown region extending south along Main Street. These are projects such as Power & Light District, Sprint Center, Crown Center, and Union Station. Other clusters that appear on the map are around the Bruce R. Watkins highway and 63<sup>rd</sup> Street interchange—the site of the catastrophic Citadel Plaza project<sup>4</sup>—and further south in the area of the former Bannister Mall. In the urban core, the area with

the greatest legitimate need for development, there is no TIF aside from those along the Riverfront, which is separated from the residential areas by railroads and highways. No one lives there.

The total value of TIF and other public subsidies in the more impoverished red zones is \$34,451,441. For the less needy green zones, the amount of subsidies is eight times as much: \$275,909,706.

The misapplication of TIF is due largely to local government failing to properly vet applications. Each proposal for a TIF public subsidy must undergo two tests: a blight analysis and a but-for analysis to show that the space would remain undeveloped without public investment. These findings almost always come back supporting the TIF, to the point that they are meaningless. In fact, researchers at the Show-Me

Institute have been unable to find any case in the entire state of Missouri where a consultant hired by a developer has not found either blight or a but-for need for TIF.

A recent example is the TIF proposal at Bannister and Wornall streets, a former location of the Beth Shalom synagogue and school. Burns & McDonnell, a national engineering firm headquartered immediately next to the site, and VanTrust developers, a real estate company backed by the billion-dollar estate of late auto dealer Cecil Van Tuyl,<sup>5</sup> asked for a TIF package in order to build Burns & McDonnell's new world headquarters. According to *The Pitch* newspaper, "All said, the incentive would redirect \$41.9 million from the city's coffers to Burns & McDonnell to help pay for the company's \$231 million proposed expansion project at 9400 Wornall."<sup>6</sup> In short, wealthy and successful companies are claiming poverty and

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Burns & McDonnell recently received TIF to develop a plot of land adjacent to their existing world headquarters.



Country Club Plaza, a wealthy and well-known shopping destination, is a top recipient of subsidies meant to address blight.

*“TIF often becomes the bane of school district and county officials, who decry municipalities for subsidizing municipal services at the expense of school district and county services.”*

asking taxpayers to help build them a new headquarters.

The TIF applicants hired Scott Belke to review the site for blight. He found it and testified that “it’s the most vandalized building in my 29 years in Kansas City.”<sup>7</sup> But Burns & McDonnell was not going to rehab the synagogue, they were going to tear it down—so findings of vandalism were unimportant. Yet it was enough to meet the broad standard for blight. The land was also found to pass the but-for analysis largely based on an affidavit from the developer himself.<sup>8</sup>

To no one’s surprise, the TIF Commission endorsed the project, and the City Council passed it. Months before Burns & McDonnell even submitted its TIF request, Mayor Sly James endorsed the project and the public subsidy.<sup>9</sup>

A second problem with TIF financing is that for the period of the TIF,

sometimes as long as 23 years, the property grows in value due to the new development. Yet the other taxing jurisdictions, such as schools and libraries, never see the additional taxes because the developer is refunded that amount to finance the project. This is an additional burden for county governments, schools, and libraries that may have additional costs associated with new buildings. According to a Show-Me Institute study by Paul F. Byrne,<sup>10</sup>

*TIF often becomes the bane of school district and county officials, who decry municipalities for subsidizing municipal services at the expense of school district and county services.*

While various school districts, library systems, and counties have seats on TIF commissions, in Kansas City, those five votes are outnumbered by the six members appointed by the mayor.<sup>11</sup> Despite the impact on these other jurisdictions, voters are not given an opportunity to vote on how large portions of their tax dollars are to be spent.

Burns & McDonnell is not alone: The same questionable process has been applied to other applications. According to Jackson County,<sup>12</sup> the top private recipients of public subsidies are Pershing Road Development Co. (Crown Center), Highwoods Realty (Country Club Plaza), Copaken Brooks (River Market), H&R Block, and Hospital Corporation of Tennessee (Research Medical Center). This is completely legal; there is nothing wrong with private companies seeking any type of tax subsidy or partnership that

allows them to realize their goals. The problem is that government is too eager to divert tax dollars that would have been used for schools, libraries, infrastructure, and the like. Kansas City needs to do a better job of screening applications, determining if the need is legitimate, and if the goals of the program—revitalizing poor urban areas—are being served.

The combined problems with TIF, as currently practiced, make it too great a temptation for city leaders to use it as a way to reward their friends in the private sector. The two tests to make sure TIF is used properly, the blight test and the but-for test, have become hollow as demonstrated by the case with Burns & McDonnell, discussed previously. Mayoral appointments run TIF commissions and almost always approve the applications set before them. The result has been TIF applied to areas where development investments are already attractive—even without the TIF subsidy. The impoverished and blighted areas that TIF was meant to address are left underserved.

If municipalities such as Kansas City are serious about using TIF as it was intended, there are three things they could do immediately to improve the process. First, TIF commissions need to raise the standard they use to evaluate applications. In the past, for example, commissions have voted to recognize as blighted successful business districts and undeveloped green fields. But-for analyses have relied on the very people who seek to develop the property as sources of information.

Second, the calculations of tax valuation need to be revised so other tax jurisdictions are not left with a net loss of revenue, even when the development is successful.

Third, TIF commissions need to be independent of the political process, so they are not seen as rubber stamps for political paybacks to well-connected cronies. At the very least, TIF commissions should be run primarily by county appointees, not city appointees. County officials and their appointees are at least answerable to the voters in the entire community.

To the degree that TIF is meant to help alleviate poverty and underdevelopment, Kansas City has failed at even trying. Rather than address the pervasive problems in the East Side, TIF has been used around the edges, and often in already economically attractive areas. Until there is a popular call for reform, it is unlikely that City Hall will do it on its own.

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## Notes

<sup>1</sup> Paul F. Byrne, "Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions" (Policy Study, Show-Me Institute, April 13, 2012).

<sup>2</sup> Data provided by U.S. Census Bureau.

<sup>3</sup> Show-Me Institute calculation based on 2013 assessment data provided by the Jackson County Assessor's Office.

<sup>4</sup> Steve Vockrodt, "Reminder: The Citadel Project Is Still Costing Kansas City Money," *The Pitch*, May 19, 2014, <http://www.pitch.com/FastPitch/archives/2014/03/19/reminder-the-citadel-project-is-still-costing-kansas-citians-money>.

<sup>5</sup> Max Jedeur-Palmgren, "The Van Tuyl Family Joins the Billionaire Ranks in Deal With Buffett's Berkshire," *Forbes Magazine*, October 4, 2014, <http://www.forbes.com/sites/maxjedeurpalmgren/2014/10/06/the-van-tuyl-family-joins-the-billionaire-ranks-in-deal-with-buffetts-berkshire/>.

<sup>6</sup> Steve Vockrodt, "Can Anyone Say No to Burns & McDonnell?" *The Pitch*, April 29, 2014, <http://www.pitch.com/kansascity/burns-and-mcdonnell-tif-beth-shalom-greg-graves/Content?oid=4189517>.

<sup>7</sup> Kevin Collison, "Incentives Endorsed for Burns & McDonnell Expansion Plan," *Kansas City Star*, April 22, 2014, <http://www.kansascity.com/news/business/development/article346311/Incentives-endorsed-for-Burns--McDonnell-expansion-plan.html>.

<sup>8</sup> TIF Report, Exhibit JC2c, page 13, "Based upon the Blight Study, Developer affidavit, and upon our analysis, we conclude that the proposed project would not occur on this site at this time without a public subsidy."

<sup>9</sup> Kevin Collison, "Burns & McDonnell Proposes \$130 Million Office Project on Ward Parkway," *Kansas City Star*, February 24, 2014, <http://www.kansascity.com/news/business/development/article340038/Burns--McDonnell-proposes-130-million-office-project-on-Ward-Parkway.html>.

<sup>10</sup> Byrne, "Tax Increment Financing and Missouri."

<sup>11</sup> TIF Bylaws: Section 3(a) Membership of the Commission, <https://s3.amazonaws.com/TIFC-Policies/TIFC%20Policy%20-%20Bylaws.PDF>.

<sup>12</sup> Show-Me Institute calculation based on 2013 assessment data provided by the Jackson County Assessor's Office.





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