

# City of Joplin Staff Analysis of Boomtown Central Shopping Tax Increment Financing Plan

## **Introduction**

The City of Joplin has received an application for approval of the Boomtown Central Shopping Tax Increment Financing Redevelopment Plan (the “TIF Plan”) submitted by Denali Summit, LLC (the “Applicant”). The TIF Plan proposes the redevelopment of approximately 64.46 acres of land in an area south of East 32nd Street, east of South Range Line Road and west of the Kansas City Southern rail line (the “Redevelopment Area”). Under the TIF Plan, the Redevelopment Area will be redeveloped as two separate Redevelopment Projects with retail and commercial facilities. The TIF Plan proposes the construction of a new retail shopping center anchored by a 206,209 square foot Menards home improvement store along with a 50,300 square foot movie theater complex, a 4,400 square foot fuel station, a 55,980 square foot grocery store, and approximately 124,480 square feet of additional retail and commercial space. To-date, Menards is the only retailer that the Developer has confirmed will be located in the shopping center. Improvements necessary to redevelop the Redevelopment Area include construction of streets, utility improvements, sidewalks, storm water improvements, and other site improvements.

The TIF Plan identifies the need for public assistance through the adoption of tax increment financing to help eliminate blighted conditions through the funding of the improvements described above and other Redevelopment Project Costs which will ultimately enhance the tax base of the taxing districts within the Redevelopment Area. It is not reasonably anticipated that the Redevelopment Area will be developed through private investment without the use of tax increment financing.

State law in Sections 99.800 through 99.865 RSMo (the “TIF Act”) provides for the allocation of 100% of the incremental increase in real property taxes generated by the property in the form of payments in lieu of taxes (PILOTS) and 50% of the incremental increase in economic activity taxes (EATS) generated by the property to help fund a portion of the Redevelopment Project Costs. However, the TIF Plan provides for twenty-five percent (25%) of the PILOTS generated in the Redevelopment Area to be declared surplus and returned to the taxing jurisdictions each year. The TIF Plan provides for use of TIF revenues to reimburse the Applicant for eligible Redevelopment Project Costs associated with the Redevelopment Projects until the costs for each Redevelopment Project have been paid or for 23 years from the date of activation of each Redevelopment Project, whichever occurs first. The TIF Plan also provides for an additional source of revenue in the form of an additional one (1) cent sales tax imposed within portions of the boundaries of the Redevelopment Area (not including the Menards store site) through the creation of a Community Improvement District (“CID”). The TIF will capture 50% of this sales tax and the remaining 50% of the sales tax will also be used to pay for reimbursable project costs in the Redevelopment Area related to the proposed projects. Upon completion of this TIF Plan, and the payment of all eligible reimbursable Redevelopment Project Costs as provided in the TIF Plan, all tax revenue from the Redevelopment Area will be paid to all taxing entities within the area as prescribed by law.

## **Review Process of the TIF Application**

The TIF Commission has adopted procedures for the submission of applications in accordance with the TIF Act that sets forth a process whereby a draft application was submitted to and reviewed by the City staff. The Applicant then submitted a TIF Plan which the City staff reviewed and determined to be complete. In addition, the Applicant entered into a funding agreement with the City to pay for costs incurred by the City to complete the review process. Once the City staff received and reviewed the TIF Plan and determined it was in conformance with applicable City policies and requirements, on behalf of the TIF Commission, the statutorily required 45 day notice of the TIF Commission public hearing was sent to the affected taxing jurisdictions and statutorily required notices were published in the newspaper and mailed to affected property owners. Between the date on which the notice of public hearing was mailed and the public hearing date, proposals were solicited for alternative proposals from other developers to develop the property at issue, as required by the TIF Act. No alternative proposals were received.

As part of City staff's due diligence in reviewing the proposed TIF Plan, the City retained Baker Tilly (formerly Springsted, Inc.), a consulting firm that specializes in assisting governmental entities on real estate and economic development projects, to conduct an independent analysis of the financial feasibility of the TIF Plan. The City also retained the services of special counsel Chris Williams of Williams & Campo, P.C., to assist in the legal review of the application and process.

In order for the TIF Plan to be adopted, the TIF Act requires that the City Council make the following six findings:

1. The development area on the whole is a blighted area, a conservation area, or an economic development area and has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing. Such a finding shall include, but not be limited to, a detailed description of the factors that qualify the development area or project pursuant to this subdivision and an affidavit, signed by the developer or developers and submitted with the development plan, attesting that the provisions of this subdivision have been met;
2. The development plan conforms to the comprehensive plan for the development of the municipality as a whole;
3. The estimated dates, which shall not exceed more than twenty-three years from the adoption of the ordinance approving a development project within a development project area, of completion of any development project and retirement of obligations incurred to finance development project costs have been stated, provided that no ordinance approving a development project shall be adopted later than ten years from the adoption of the ordinance approving the development plan under which such project is authorized and provided that no property for a development project shall be acquired by eminent domain later than five years from the adoption of the ordinance approving such development project;
4. A plan has been developed for relocation assistance for businesses and residences;

5. A cost-benefit analysis showing the economic impact of the TIF Plan on each taxing district which is at least partially within the boundaries of the development area. The analysis shall show the impact on the economy if the project is not built, and is built pursuant to the development plan under consideration. The cost-benefit analysis shall include a fiscal impact study on every affected political subdivision, and sufficient information from the developer for the commission established in Section 99.820, RSMo to evaluate whether the project as proposed is financially feasible; and
6. A finding that the TIF Plan does not include the initial development or development of any gambling establishment.

**FINDING # 1** - The City Council must find that the Redevelopment Area is a blighted area, a conservation area, or an economic development area and *as a whole* has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing.

**Analysis:**

*Nature of Area*

The Applicant is requesting that the Redevelopment Area be designated as a “Blighted Area.” The TIF Act defines a “Blighted Area” as:

An area which, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use.

Exhibit 7 of the TIF Plan is a Blight Study that documents the conditions found to be present in the Redevelopment Area and analyzes how those conditions qualify it to be a “Blighted Area” as defined in the TIF Act. This analysis concludes that the Redevelopment Area meets the requirements for designation as a “Blighted Area” constituting an economic liability and a menace to the public health, safety, morals, or welfare based upon a predominance of the following factors:

- Unsanitary and unsafe conditions
- Defective or inadequate street layout
- Improper subdivision or obsolete platting
- Deterioration of site improvements
- The existence of conditions which endanger life or property by fire and other causes

*“But For” Test*

Exhibit 8 of the TIF Plan includes an affidavit from the Applicant stating that the Redevelopment Area would not reasonably be anticipated to be developed without the adoption of tax increment financing. In addition, Baker Tilly has completed an independent, detailed analysis of various

financial aspects of the TIF Plan including the reasonableness of the development assumptions and the accuracy of calculations used in the TIF Plan. The results of this analysis were provided to the City in a But-For Determination Report dated July 31, 2019 that concludes that the proposed project, without assistance, would not likely be undertaken at this time without the requested assistance.

#### Percentages of Reimbursable Costs

The City's adopted Policy for the Consideration and Evaluation of Tax Increment Financing Applications (the "Policy") establishes general goals and policies to be used by the City in considering applications for TIF assistance. The Policy establishes as a general goal that TIF assistance for a redevelopment project should typically not exceed 15% of the total project costs. This TIF Plan contemplates local tax increment financing assistance totaling \$17,426,709 which represents approximately 20% of the anticipated total costs of the Redevelopment Project of \$87,285,361. The Policy further states "This limitation may be modified for projects that involve the redevelopment of existing structures or the assembly and clearance of land upon which existing structures are located." This TIF Plan involves the assembly and clearance of land with existing structures but is 5% above the 15% general goal.

#### Conclusions of Analysis

Exhibit 7 of the TIF Plan concludes that the Redevelopment Area meets the requirements for designation as a "Blighted Area." Based on a review of this information and independent knowledge and observations of the Redevelopment Area, it is the opinion of City staff that the Redevelopment Area qualifies as a "Blighted Area" per the TIF Act.

With regard to the "But For" test, the Applicant has submitted an affidavit stating under oath that without the use of TIF assistance, the proposed project is not economically feasible. Further, in the TIF Plan, the Applicant has articulated a number of factors supporting the conclusion that the Redevelopment Area will not likely be developed as proposed without TIF assistance. In addition, as noted above, Baker Tilly has provided an independent But-For Determination Report that concludes that the project, as proposed, meets the "But For" test. Based on the affidavit submitted by the Applicant, a review of the information included in the TIF Plan, and information provided by Baker Tilly in its But-For Determination Report, City staff believes that the Redevelopment Area on the whole would not be likely to develop and the Redevelopment Projects would not occur as proposed "But For" TIF assistance.

**FINDING # 2** - The City Council must find that the TIF Plan conforms to the Comprehensive Land Use Plan for the development of the municipality as a whole.

#### **Analysis:**

City staff has provided a letter confirming that the TIF Plan is in compliance with the *Joplin Moving Forward: Comprehensive Plan 2012* of the City of Joplin. Therefore, City staff has determined that a finding should be made that this requirement has been met.

**FINDING # 3** - The City Council must find that the estimated dates for the completion of projects and retirement of obligations incurred to finance the development do not exceed twenty-

three (23) years from the time a redevelopment project is authorized, that no redevelopment project is scheduled to begin more than ten (10) years after the adoption of the TIF Plan, and that no property will be secured by eminent domain later than five (5) years from the adoption of any ordinance approving a redevelopment project.

**Analysis:**

A review of the TIF Plan indicates that the estimated date for completion of the Redevelopment Projects and retirement of any obligations will not exceed 23 years from the anticipated date of the adoption of the ordinance approving a Redevelopment Project and that this ordinance will be adopted within 10 years. The TIF Plan further states that the applicant is not requesting that the City issue obligations for the Redevelopment Projects. The TIF Plan does not contemplate the acquisition of property by eminent domain. Therefore, City staff concludes that sufficient information exists for the City Council to make this finding.

**FINDING # 4** - The City Council must find that a plan has been developed for relocation assistance for businesses and residences.

**Analysis:**

Exhibit 10 of the TIF Plan includes a relocation assistance plan which meets the requirements of the TIF Act.

**FINDING # 5** - The City Council must find that the cost-benefit analysis shows the economic impact of the TIF Plan on each taxing district which is at least partially within the boundaries of the development area, that the analysis shows the impact on the economy if the project is not built, as well as if it is built pursuant to the development plan under consideration, that the cost-benefit analysis includes a fiscal impact study on every affected political subdivision, and that there is sufficient information from the developer for the commission to evaluate whether the project as proposed is financially feasible.

**Analysis:**

A cost-benefit analysis has been included as Exhibit 11 to the TIF Plan showing the economic impact of the TIF Plan on each taxing jurisdiction and political subdivision that is at least partially within the boundaries of the proposed development area. As required by the TIF Act, the analysis includes the impact on the economy if the project is not built or is built in accordance with the TIF Plan.

As noted previously, the City retained Baker Tilly to review the financial aspects of the TIF Plan including its financial feasibility. Baker Tilly has provided the City with an independent Cost-Benefit Analysis dated August 1, 2019. This analysis finds that the City will see positive economic impacts in excess of the incentives being requested if the Applicant's assumptions about buildout, market absorption and sales receipts are accurate. The analysis also considers various scenarios where changes to these assumptions would have an impact on the projected positive economic impact from the project.

One of the factors identified in the analysis relates to the issue of the potential shifting of sales within the City. Baker Tilly describes this as the “substitution effect” which is the movement of existing sales currently occurring within the City into sales occurring within the proposed Redevelopment Area where 50% of the sales tax revenues will be captured by the TIF. Baker Tilly’s analysis notes that more than 50% of the sales in the Redevelopment Area would need to be new to the City (and not sales shifted from existing businesses in the City) or otherwise the City would see a negative net benefit from the project.

At this point, the staff and Baker Tilly do not have sufficient information or an independent analysis to review or rely on regarding how much in new sales to the City can reasonably be expected to be generated in the proposed Redevelopment Area. While this does not necessarily preclude making a finding that with TIF assistance, this project is financially feasible, it does raise a significant policy issue which is addressed in the Conclusion and Recommendation below.

**FINDING # 6** - The City Council must find that the TIF Plan does not include the initial development or development of any gambling establishment.

**Analysis:**

A review of the TIF Plan indicates that it does **not** include the initial development or development of any gambling establishment, as required by the TIF statute.

**CONCLUSION AND RECOMMENDATION**

As outlined above, there is a sufficient basis to support making the required findings pursuant to the requirements of the TIF Act. However, as noted in the analysis of Finding #1, the TIF Plan requests TIF assistance above the general goal, which raises a policy issue. Also, as noted in the analysis of Finding #5, the impact of the substitution effect regarding the movement of existing sales occurring in the City into the Redevelopment Area raises a significant policy issue. Without further, independent study and analysis, staff is unable to reasonably conclude whether the proposed TIF Plan and Projects can be expected to result in a net positive or negative impact to the City. In light of this, staff strongly recommends that before the Commission closes the public hearing and votes on its recommendations to the City Council regarding the proposed TIF Plan, a market analysis study should be performed by an independent third party consultant. The information from this study will enable the staff and Baker Tilly to better assess and advise the TIF Commission and ultimately the City Council as to whether the proposed project would be expected to result in a net positive or negative benefit to the City. It is staff’s recommendation to continue this hearing to September 19, 2019 at 5:30 p.m. to allow for the completion of the market study.