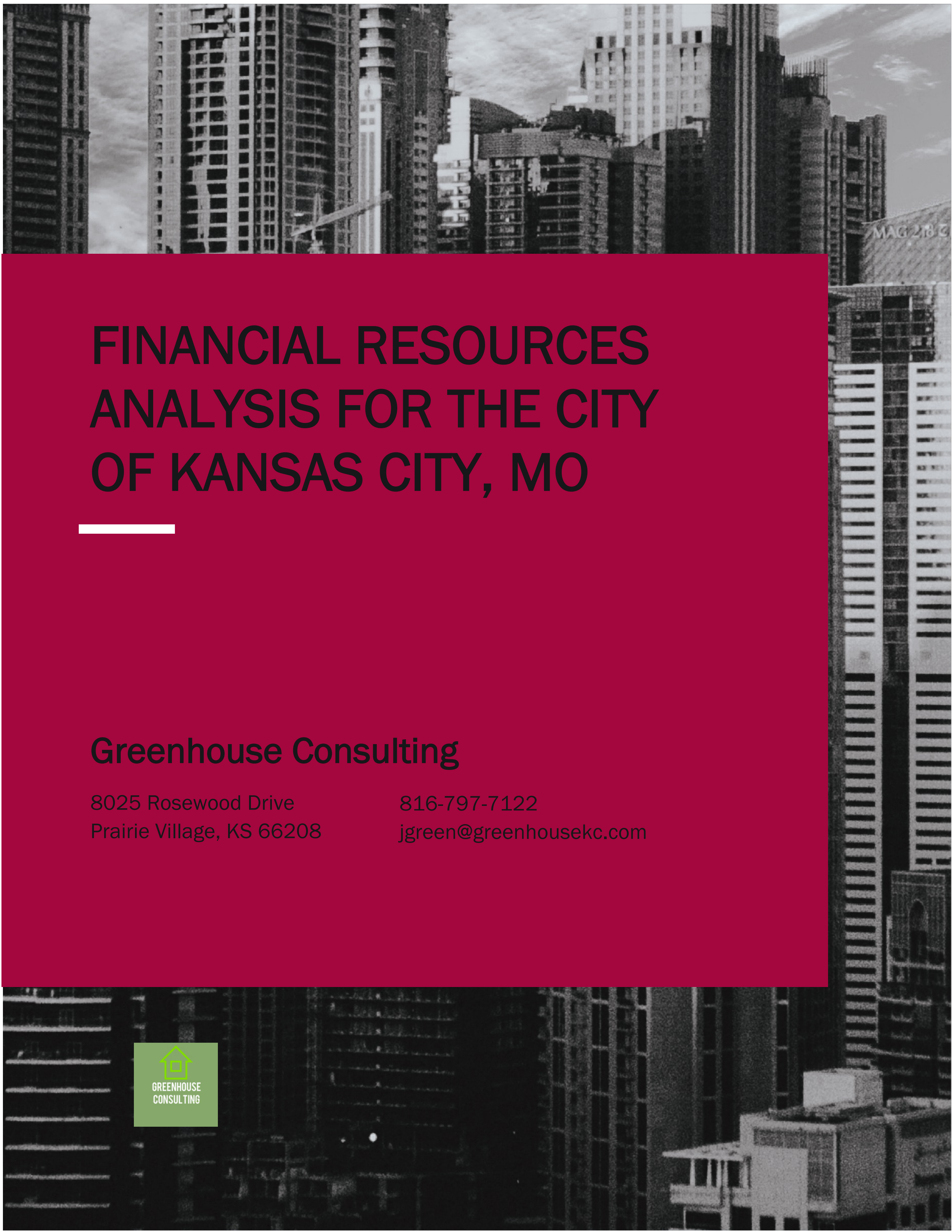

FINANCIAL RESOURCES ANALYSIS FOR THE CITY OF KANSAS CITY, MO

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EXECUTIVE SUMMARY

The City of Kansas City, Missouri, serves more than half a million residents with an annual $1.7 billion budget. The city's fiscal year 2020/2021 budget was adopted in February 2020, right before the COVID-19 pandemic hit. With the pandemic, the city revenue sources were hit hard, especially the earnings tax, convention & hotel tax, and sales tax collection.

With the large decrease in revenues, city officials were forced to begin cuts in the adopted fiscal year 2020/2021 budget, with plans to cut the upcoming fiscal year 2021/2022 budget already underway. City officials used hiring freezes, furloughs and other reductions in order to balance the budget, which is required by state statute. These cuts will have a direct impact on the ability to deliver basic city services.

The city uses a vast array of economic development tools to incentivize private development within its borders. These incentives include economic development financing programs such as tax increment financing (TIF), super tax increment financing (Super TIF), Land Clearance Redevelopment Authority (LCRA), the Planned Industrial Expansion Authority (PIEA), Chapter 353, Chapter 100 and other bonding programs. Some of these incentive programs have not met projections, leading to an annual shortfall of $24 million, a sum that comes out of the city's general fund.

The city also uses special taxing districts, such as Community Improvement Districts (CIDs), Transportation Development Districts (TDD) and Neighborhood Improvement Districts (NIDs) to engender new economic development projects. In essence, these are self-taxing jurisdictions, where property owners gather enough signatures to create a district to be voted upon. If approved, these districts are utilized for infrastructure-type improvements to help incentivize investment by the private sector.

Sales taxes, if approved by voters, can also be levied to pay for economic development projects. In 2017, Kansas City voters approved a one-fourth cent sales tax to fund projects within the Central City Economic District (CCED). This district within the urban core has not had much private development or the use of incentive programs such as TIF in the past, so advocates for the district placed the ballot initiative in front of voters to acquire funding. The tax raises $10 million to $11 million annually.

Opportunity Zones were created within the federal tax code to incent economic development within areas of the country that had not seen much private investment. Federal lawmakers used Census tract data to create the zones in poor areas throughout the nation. In Kansas City, these zones are found mostly in the urban core. The program encourages investment by giving a large capital gains tax cut to those who invest and maintain their investments within these zones. Success of Opportunity Zones is purely anecdotal, since there are no reporting requirements written within the legislation.

COVID-19 has systemically changed how people work and live in America and elsewhere. In the context of this report, this has a direct impact on how the city is able to collect and raise revenues. These are revenues needed to fund community building and economic development initiatives. These are structural imbalances that will not easily be fixed, and certainly will not be fixed in the near-term. This will have an impact not only on the city's ability to incentivize community wealth building and economic development programs, it also means the city will struggle to provide basic city services its residents have become accustomed to.

While this does not mean there are no opportunities to tap into possible community wealth building and economic development initiatives, it does mean they are rather limited in scale and scope. For Kansas City to remedy this situation, it will have to make whole-scale changes to the way it collects revenues, allocates scarce resources and prioritizes projects in both the short and long term.

CITY OF KANSAS CITY FY 2020/21 BUDGET

The City of Kansas City, Missouri's total budget for the fiscal year 2020/2021 was $1.73 billion. The city's fiscal year runs from May 1 to April 30 each year. All municipalities in Missouri are required to pass a balanced budget. Expenditures cannot exceed the sum of revenues and any unencumbered balance in any given year.

The city adopted the budget before the COVID-19 pandemic in March 2020. At the time, projections for revenue growth were strong: 3.7 percent for non-enterprise funds and 1.5 percent for enterprise funds. Enterprise funds are city activities that are paid entirely by fees for services. The water department is one such fund; the Aviation Department is the other.

This report will first analyze the initial adopted budget, then will look at the various proposed cuts that city leaders are grappling with. With the COVID-19 outbreak, city revenue took a massive hit. As stated earlier, the city cannot have a budget deficit, due to state statute.

The adopted FY 20/21 budget included mandatory wage and benefit increases for collective bargaining agreements. The Kansas City Police Department (KCPD) also received a wage increase. In addition, the budget fully funded all city pensions for the seventh straight year. The city also increased the general fund reserve by $67 million over the past six years — which made a reserve of 18 percent of the city's operation.

The city is in Year 4 of its nine-year General Obligation (GO) Bond program. Kansas City voters approved the program in April 2017. The program will spend a total of $800 million on capital improvements.

The Capital Improvement Plan (CIP) allocated $198.9 million for traditional capital spending in FY 20/21. Of that total, $17 million is for the Street Preservation Fund.

Revenue

City revenues that do not include enterprise funds are known as governmental activities. The adopted budget called for a 4.3 percent increase in governmental activities to $1.18 billion.

Before the COVID-19 pandemic, city officials noted strong revenue growth with the earnings tax (e-tax) revenues up 7.8 percent, property tax collections up $11.4 million, and sales tax revenue up by 1.4 percent. In addition, the restaurant tax collections were up $2.2 million from the previous fiscal year.

The only large revenue source that saw a decline was the hotel/motel tax, which was down $1.1 million. That revenue source funds the Visit KC Neighborhood development fund, so city officials made necessary cuts to that fund.

Expenditures

With the robust projections in early 2020, city officials planned to spend more. Government activity expenditures were due to go up by $49 million, which was a 4.3 percent increase from the previous fiscal year.

Public safety (police and fire) made up a large portion of that increase — to the tune of $16.8 million. The rest of city operations made up the other increases of $32 million.

Increased pension and health insurance outlays were budgeted for an additional $9.5 million. City officials planned increase the pension contributions by $24 million over the next five years.

As stated earlier, public safety is the largest government activities budget expenditure. For the FY 20/21 budget, it accounted for $486 million. Public safety accounts for 72.8 percent of the city's operating budget. This large outlay will become a point of contention when city leaders have to cut the budget due to the large revenue losses due to the COVID-19 pandemic.

At the time of the budget adoption, the Kansas City Police Department (KCPD) budget was scheduled to increase by $10.7 million – an increase of 4.1 percent from the previous year. Wages and benefits made up a large portion of that increase: $7.3 million. Five new police officers were hired at the beginning of the fiscal year, with five more scheduled to be hired mid-year. Other expenditures included $130,000 in mandatory physicals, $108,000 for examination and evaluation costs, and $277,000 for crime lab equipment and repair.

The Kansas City Fire Department (KCFD) also saw an increase of 3.4 percent from the previous year, a total of $6.4 million. The vast majority of that increase — $6.1 million — was for wages and benefits. Of the total, $2.6 million was for pension costs, while $2.9 million was for budgeted overtime costs. The budget also allocated funds for 15 new KCFD positions to match a federal grant. KCFD placed an additional one-fourth cent sales tax on the June 2020 ballot, which Kansas City voters passed. That will raise an additional $21 million annually for the next 15 years.

Transportation and infrastructure are always key components of the city's budget, and in FY 20/21 that was no different. These costs include the Public Works Department, the city's bus system and the downtown streetcar.

The Public Works Department's total budget was $144.2 million in FY 20/21, an increase of $8 million. Those expenditures include street repair, repainting the garage maintenance facility and street resurfacing. The most dramatic increase was for street resurfacing at $17 million. The city has increased the street resurfacing budget by 70 percent in just two years. In addition, the budget calls for the creation of a "pothole czar" to react more quickly to citizens' complaints regarding the city's road conditions.

As for the city's transportation efforts, Mayor Quinton Lucas's and the City Council's commitment to implement zero-fare transit shows up with a $4.8 million allocation to help offset the loss of $8 million in annual fares. The budget is rather non-committal about where the other funding will come from. It simply states it will come from Ride KC and "other private partners" that the budget document does not identify.

The Kansas City Streetcar budget is $12 million in FY 20/21. Funding for that service primarily comes through Transportation Development District (TDD) taxing authority. In August 2020, the Federal Transit Administration (FTA) announced a $50.8 million capital investment grant to help extend the streetcar from Union Station to the University of Missouri – Kansas City (UMKC).

NEIGHBORHOODS, HOUSING AND HEALTHY COMMUNITIES

The Neighborhoods and Housing Services Department saw an increase of $16.8 million in the FY 20/21 budget. That increase saw the total budget increase to $210.7 million.

The department funds programs such as trash, recycling, the city's animal shelter, animal control, leaf and brush collection and nuisance abatement.

The budget also transferred $10.9 million for administration of the Central City Economic Development (CCED) Sales Tax Program from the City Planning and Development Department to the Neighborhood Department.

PARKS AND RECREATION

The parks department's total budget was $70.4 million — $2.4 million less due to Public Improvements Advisory Committee (PIAC) transfer to neighborhood projects.

PLANNING AND ZONING/ECONOMIC DEVELOPMENT

The Planning and Zoning/Economic Development (known within City Hall as "PZ&E") budget saw a decrease of $10.7 million, as monies dedicated to the Central City Economic Development (CCED) Sales Tax Program was moved out of PZ&E into the Neighborhood and Housing Services Department. A new dedicated outlay to the PZ&E is the new Downtown Convention Hotel which recently opened. Budget items for the hotel include catering costs, developer and management contract payments, and debt service.

Interestingly enough, hotel/motel tax revenue was already down by $600,000 in the previous year, far before COVID-19 emerged. Those funds are used for Visit KC and the Downtown Community Improvement District (CID). Visit KC had to sustain a $600,000 decrease to its budget, while the Downtown CID was reduced by $144,000.

FINANCE AND GOVERNANCE

The total budget for the Finance and Government Department is $117.3 million. Of that total, $850,000 funds the American Jazz Museum operations. In addition, the public art program's budget decreased by $400,000 decrease to fund the operating budget of Government Operations (GO) Bonds.

Finance and Governance budgeted $4.8 million to upgrade technology efforts for the Kansas City Police Department (KCPD). The budget also included $50,000 for the Negro Leagues Centennial celebration.

Cuts to the budget included a $175,000 reduction for the Film Commission, a $50,000 decrease for LaunchKC, a $75,000 reduction for KCSourceLink and a $60,000 reduction for the city's international program.

On a brighter note, the budget retained $250,000 for entrepreneurship support through the Urban Growth Business Initiative at UMKC.

Lastly, the budget allocated funds for annual festivals, such as the Downtown Dazzle holiday event ($50,000), Celebration at the Station ($50,000), KC RiverFest ($125,000), the NAIA basketball tournament ($100,000) and the Big 12 basketball tournament ($175,000).

ENTERPRISE FUNDS

As stated earlier, the City has two enterprise funds: the aviation and water departments, which are solely funded by the fees they collect. They do not affect the city's general fund.

The city's Aviation Department is focused on building a new airport terminal, slated to open in March 2023. Their total budget for FY 20/21 is $136 million. That figure includes $200,000 for upgrades for their management building, $500,000 in fleet upgrades, and $19.2 million in capital improvements — which was down from $31.5 million due to the completion of several runway and taxiway projects.

The Aviation Department maintains not only Kansas City International Airport (KCI), but all city airports. Therefore, the budget included $4 million for upgrades to the

Buck O'Neil Bridge to improve access to the Charles B. Wheeler Downtown Airport. Other improvements included $3 million for improvements to the roadway to the rental car facilities and general maintenance improvements throughout the properties.

The water department's rates continue to increase annually, due to the consent decree with the Environmental Protection Agency to improve to the city's overflow control program and eliminate combined sewer systems. For FY 20/21, the increases amounted to a 2 percent increase in water rates, with a 6.5 percent increase for sewer bills.

The water department allocated $419.3 million to maintain and replace infrastructure. Of that total, $31.8 million went specifically to address the overflow control plan, $30.1 million went to wastewater improvements, and $28.2 million to wastewater treatment and line projects.

The Effect of COVID-19 on Budget

The effect of COVID-19 on the city's budget began even before the new fiscal year started. The city relies on a bevy of different taxes and fees to fund its operations; many of those were decimated by the shutdown and quarantine.

City budget officials presented to the City Council the dire news in June. The key findings were sobering:

- The forecasted budget shortfall to the Fiscal Year 20/21 budget was $50 million.
- The estimated five-year effect was a shortfall of $292 million.
- Certain funds faced structural issues — meaning revenues would not fully cover expenses.

The acting city manager sent a memo to department directors on June 5 requesting permanent expenditure reductions of 4.5 percent. The manager requested $37.8 million in cuts and received $38.5 million in proposed cuts from department directors.

Requested Reductions by Department

Department	FY 2020-21 Adopted	Target	Reduction	%
City Planning and Development	15,678,925	14,973,373	(705,552)	-4.5%
Convention and Entertainment Facilities	19,639,321	18,755,552	(883,769)	-4.5%
Convention and Tourism	1,545,617	1,476,064	(69,553)	-4.5%
Economic Development	4,963,733	4,740,365	(223,368)	-4.5%
Finance	17,013,720	16,248,103	(765,617)	-4.5%
Fire	188,833,593	180,336,081	(8,497,512)	-4.5%
General Services	70,144,768	66,988,253	(3,156,515)	-4.5%
Health	16,233,954	15,503,426	(730,528)	-4.5%
Health and Medical Care	896,099	855,775	(40,324)	-4.5%
Human Relations	2,672,815	2,552,538	(120,277)	-4.5%
Human Resources	4,725,251	4,512,615	(212,636)	-4.5%
Law	5,646,626	5,392,528	(254,098)	-4.5%
Municipal Court	16,124,768	15,399,153	(725,615)	-4.5%
Neighborhoods and Housing Services	62,412,920	59,604,339	(2,808,581)	-4.5%
Office of the City Auditor	1,316,357	1,257,121	(59,236)	-4.5%
Office of the City Clerk	716,001	683,781	(32,220)	-4.5%
Office of the City Manager	14,974,955	14,301,082	(673,873)	-4.5%
Offices of Mayor and Council	5,146,857	4,915,248	(231,609)	-4.5%
Parks and Recreation	65,141,980	62,210,591	(2,931,389)	-4.5%
Police	242,052,964	231,160,581	(10,892,383)	-4.5%
Public Works	80,239,658	76,628,873	(3,610,785)	-4.5%
Water Services	4,680,000	4,469,400	(210,600)	-4.5%
Total	**840,900,382**	**803,059,865**	**(37,840,517)**	**-4.5%**

Source: City of Kansas City, Missouri 1

Reduction Response

Summary of Proposed Reductions				
Permanent/Temporary	**Not Viable**	**Technically Viable**	**Viable**	**Grand Total**
Permanent	$ 149,000	$ 20,080,199	$ 11,812,704	$ 32,041,903
Temporary	$ 1,077,598	$ 2,955,753	$ 2,432,732	$ 6,466,083
Grand Total	**$ 1,226,598**	**$ 23,035,952**	**$ 14,245,436**	**$ 38,507,986**

Viability:

- **Viable - $14.3 million =** Actionable by the department at an administrative level. May still have a service level impact.
- **Technically Viable – $23.0 million =** Actionable through a combination of mandate from the City Manager, City Council action, and senior level policy change due to a significant impact on services and/or considerations through a collective bargaining or other agreement.
- **Not Viable – $1.2 million =** Proposals that are not grounded within the constraints of the exercise.

- **Permanent – $32.0 million =** Savings resulting from the elimination of ongoing operational costs – present and future.
- **Temporary – $6.5 million =** Savings realized only in the current fiscal year or immediate future.

Source: City of Kansas City, Missouri 2

The city came up with several expenditure reduction strategies to balance the budget. They are:

1. A one-week furlough, potentially saving $1.8 million per week for non-represented employees and $2.3 million per week for employees under a collective bargaining agreement.
2. An expansion of the hiring freeze. Keeping open positions unfilled could save an additional $8,299,018 (this would exclude police, water and aviation departments).
3. Freezing wages, which would be virtually impossible due to the collective bargaining agreements with Local 100, Local 42 and Local 3808.

The City Council began cutting the existing FY 20/21 budget in June, with the passage of Ordinance #200399. That ordinance directed the city manager to implement certain cost containment measures, including a hiring freeze and suspension of other discretionary expenditures including travel. The ordinance also instructed the city manager not to execute or extend any limited term contracts, professional services contracts, non-municipal contracts and sole source contract waivers, without City Council approval.

In July, the City Council passed Ordinance #200572. That ordinance allowed the city to dip into its general fund's emergency reserve if necessary to prevent the fiscal year from ending with a negative fund balance.

On August 13, the City Council passed Ordinance #200646, which stated that the hiring freeze would not apply to hourly wage rates under $15 an hour, or for any position that needs to be filled to address COVID-19 issues. Ordinance #200655 passed the following week gave even more detail, allowing the director of health to "fill and hire all Health Department positions that are necessary to respond to the influx of disease investigation, contract tracing, emergency planning associated with COVID-19 pandemic and is exempt from all prohibitions set forth."

On August 20, the City Council passed Resolution #200647, which directs the city manager to develop a plan for a minimum one-week furlough for some city staff. The resolution exempted employees of the health, water services, and aviation departments.

ANALYSIS OF COMMUNITY WEALTH BUILDING RESOURCES WITH CITY GOVERNMENT RESOURCES

The COVID-19 pandemic was unprecedented in its effect on the worldwide economy. With nations shutting down and ordering their residents to quarantine, the revenue streams governments count on to fund their services went down to a small trickle. In the case of the City of Kansas City, Missouri, the effects were dramatic and almost immediate:

CITY REVENUE SOURCE FY 20/21	Change from Estimate
Convention and Tourism Tax	-14.0%
Earnings Tax	-5.2 %
Property Tax	unchanged
Sales Tax	-10.0%

With such a huge loss in incoming revenue, the city began assessing and making cuts almost immediately. Furloughs, hiring freezes and use of its “rainy day” fund were authorized by the mayor and City Council. City officials also stated these types of cuts would be long-term. The City budget office is anticipating cutting an additional $56 million to $60 million for FY 21/22.

These types of dramatic cuts mean the city will not being doing much, if anything, in the way of new programs and initiatives. Instead, metro area leaders will have to be creative going forward to create wealth and community building initiatives. Below are a few possible solutions.

CARES Funding

One small piece of good news is that Kansas City did receive $14 million in Coronavirus Aid, Relief and Economic Security (CARES) Act funding. Currently only a small portion of the CARES funds has been allocated, according to Assistant City Manager John Wood, who administers the funds. The CARES funds also need to be spent by December 31, 2020, or the funds will go back to the federal government.

This would be the one source of funding that could potentially be used for economic and community wealth building in the near term.

As an example, the Economic Development Corporation (EDC) received $1.5 million from the Clay County CARES ACT grant program. This funding source had some criteria before funding can be awarded:

1. The business owner must reside in Clay County and within the boundaries of Kansas City, Missouri;
2. The business must have been in operation for two or more years;
3. The business must make $750,000 or less revenue annually;
4. The business must have fewer than 75 employees.

If they meet all that criteria, they are eligible for a grant in any amount between $5,000 and $10,000.

The Kauffman Foundation should reach out to city and county leaders throughout the metropolitan area to determine whether any further CARES funding could be allocated for community wealth building before the funding returns to the federal government.

Community Development Block Grants

Community Development Block Grants (CDGB) is a federal program administered by the Housing and Urban Development (HUD) department. These funds are awarded on a formulaic basis to cities, states and counties. Here in Kansas City, the city’s Neighborhoods and Housing Services Department administers the program. City officials state the number of applicants who apply for the CDGB dollars always greatly outweighs the amount of funds available. Therefore, the program is highly competitive. Entities with merit should certainly apply, but with the understanding that they are unlikely to receive funding.

Community Land Trusts

City officials also indicated they are interested in partnering with various nonprofits to create a Community Land Trust (CLT). Based on the City of Houston's Community Land Trust, this would be a 501(c)3 nonprofit that would create and maintain affordable housing with urban areas in Kansas City. CLTs are governed by a board of directors made up of community representatives, housing residents and the general public.

Providing affordable home ownership would also foster community wealth building. This initiative warrants further study to determine whether Kansas City would be a good fit for such a program.

ANALYSIS OF ECONOMIC DEVELOPMENT INCENTIVE PROGRAMS ON CITY FINANCES

The City of Kansas City, Missouri, uses a bevy of economic incentive programs to promote private investment within its boundaries. Some of these programs are state incentive administered, while others are city administered. These include Tax Increment Financing (TIF), Super Tax Increment Financing (Super-TIF), Chapter 100 bonds, Chapter 353 Tax Abatement, Land Clearance for Redevelopment Authority (LCRA) and Planned Industrial Expansion Authority (PIEA).

These incentive programs can be controversial at times. The main measurement for incentive programs is the “but for” analysis, which to put simply is the evaluation of whether or not the project seeking economic assistance would still happen without the economic incentive programs. Critics of economic incentive programs insist development would happen regardless of any incentive programs, while proponents are equally adamant that these investments would not be economically feasible without assistance.

A second point of contention is the definition of “blight.” Defining whether or not an area is blighted is usually done by a third-party consultant hired by the potential developer. When most individuals think of blight, they have a specific image in mind of dilapidated homes and buildings and neglected infrastructure. For developers seeking economic incentives, blight is a technical term that is met by certain state statutory requirements. For example, in order to secure Chapter 353 tax abatement, the state statute defines blight as the following:

> *That portion of the city within which the legislative authority of such city determines that by reason of age, obsolescence, inadequate or outmoded design or physical deterioration, have become economic and social liabilities, and such conditions are conducive to ill health, transmission of disease, crime or inability to pay reasonable taxes.*

Therefore, certain areas of the city that have received economic development incentives for projects may be deemed as “blighted” to secure an economic development incentive might not be perceived as blighted at all by the general public. A good example of this would be the Country Club Plaza area of Kansas City.

That area has received several economic incentive projects over the years, but in the general public's eye, the area is hardly blighted.

A third point of contention is the amount of property taxes that are held by the developer, instead of being paid into school districts, libraries and other entities that rely upon property taxes for funding. This is yet another "chicken or the egg" scenario. A dilapidated or vacant property generates very little property tax, due to its lack of value. Developers will argue that with the improvement, eventually those taxes *will* be collected — whenever the tax abatement ends — and that amount of property tax revenue would never been generated without improvements to the property that are only feasible through a tax incentive.

School officials, library advocates and others argue that the development *could* have happened without incentives, and as such, the amount of property taxes being abated (sometimes for up to 25 years) is being essentially stolen from them to enrich developers at the expense of their constituents.

These points of contention have made tax incentives highly controversial over the years. A good example of this is the 2018 Kansas City Incentives Study. That study, commissioned by the mayor and City Council, found that incentive programs had very positive effect on the Kansas City economy. The key findings were as follows:

- Each incentive dollar invested generated $3.83 in additional tax revenue;
- There was an average increase in business sales of $4.75 billion;
- There was an average increase in economic activity of approximately $2.66 billion;
- The average number of jobs created across all industries was 23,430;
- Per capita income increased by an average of $3,906 and
- Personal income in Kansas City, Missouri, increased by an average of $2.29 billion.

Proponents of economic incentives were delighted with the results, while opponents immediately had problems with it. The Kansas City Star's article about the findings pointed out a potential conflict of interest. in the final analysis, it seemed the report changed no one's mind. Those in favor of incentives embraced the report. Those who oppose incentives instantly rejected it.

From a hard data perspective, the only clear and noncontroversial data set that would show the effect on the city's finances would be projects that have underperformed financially, where the City of Kansas City has to make up the difference.

For fiscal year 20/21, the city paid $19.2 million in subsidies for the following incentive projects:

- Third & Wyandotte
- Blue Parkway Town Center
- East Village
- KC Live
- Linwood Shopping Center
- Prospect North

In addition, the new luxury condominium towers One Light and Two Light have city debt that came to $2.2 million. Lastly, the new convention hotel has a city obligation of $2.6 million, but city officials state that figure should grow as the recession increases and the facility does not make projections.

The total figure is $24 million of annual obligation out of the general fund to close the gap on underperforming economic incentive projects. At any time, $24 million would be helpful to the city, but especially during the current budget shortfall.

SPECIAL TAXING DISTRICT ANALYSIS

The City of Kansas City, Missouri, uses special taxing districts within its borders for some public projects. These are known as Community Improvement Districts (CID), Neighborhood Improvement Districts (NID) and Transportation Development Districts (TDD). All of these districts were made possible by Missouri statute.

Community Improvement Districts (CID)

The Community Improvement District Act was passed in 1998 by the Missouri Legislature. CIDs are their own separate legal entity, generally administered by a not-for-profit corporation or a political subdivision. They are created to pay for public improvements and, in some instances, private projects. Payments for those projects come through taxes, whether that be sales tax, a use tax, a special assessment or property tax.

Section 67.146.1(16) RSMo, establishes powers of the district and allows the district to construct, reconstruct, install, repair, maintain and equip various public facilities and improvement.

To start the process of creating a CID, a petition must be filed with the governing body where the district is located. As an example, when the Downtown Council created their CID, they filed their petition with the City of Kansas City, Missouri. The petition must be signed by property owners who collectively own more than 50 percent of the assessed value of real property within the boundaries of the proposed district and also more than 50 percent per capita of all real property owners within the proposed district boundaries.

CIDs can be used for the building, reconstruction, installation, repair, maintenance or equipping of the following public projects:

- Parks, lawns, trees and any other landscaping;
- Parking lots, garages or other facilities;
- Paintings, murals, display cases, sculptures and fountains;
- Convention centers, arenas, aquariums, aviaries and meeting facilities;

- Pedestrian or shopping malls and plazas and
- Any other "useful, necessary or desired improvement."

The districts also must have a governing apparatus in the form of a board of directors. If the district is governed by a political subdivision, the board can include five to 30 directors. Those members must be property owners or registered voters within the district.

If the proposed district is governed by a not-for-profit corporation, the district must adhere to Missouri's Nonprofit Corporation Act.

The City of Kansas City, Missouri, currently has 74 CIDs within its boundaries.

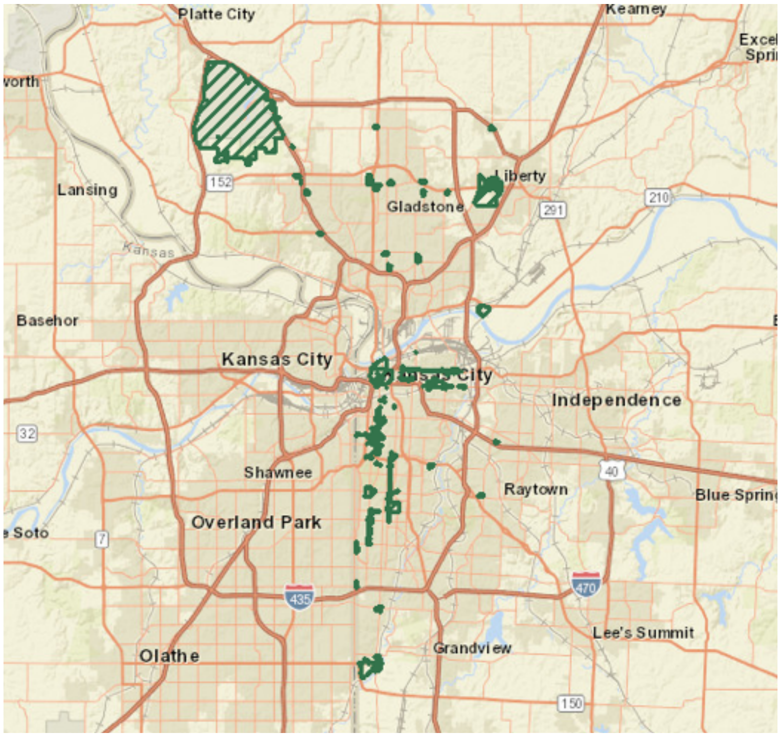


Figure 1 – Location of CIDs in Kansas City

Transportation Development Districts (TDD)

The City of Kansas City, Missouri, has 13 Transportation Development Districts (TDDs) – one of which is for the Kansas City Streetcar.

TDDs operate similarly to CIDs in that they are self-taxing mechanisms that pay for public improvements. However; there are some key differences:

1. TDDs can only impose a sales tax between one-eighth percent and one percent to pay for transportation improvements.
2. TDDs must be used only for bridges, streets, roads, highways, access roads, interchanges, intersections, signing, signalization, parking lots, bus stops, stations, garages, terminals, hangers, shelters, rest areas, dock, wharfs, lack or river ports, airports, railroads, light rail or other mass transit.

Neighborhood Improvement Districts (NID)

NIDs are a special taxing district that collects revenue within its designated boundaries to help pay for public infrastructure, facilities or other improvements that confer a benefit on property within the district. The district is located within a residential area.

Analysis of Community Wealth Building Resources with Special Taxing Jurisdictions

Special taxing jurisdictions, especially CIDs, have been used a great deal in Kansas City. These jurisdictions are an effective way to raise revenue for community and infrastructure improvements. Any district must be voted on by the property owners within the district, to ensure buy-in for the new taxing district. One important caveat, however, is Kansas City has a relatively high tax rate -— especially with sales tax rates. Sales taxes are regressive in nature, hurting the individuals who least can afford less take-home income to pay for basic necessities. So, there needs to be a thorough analysis of any new tax and what kind of burden that will put on residents. But in some instances, special taxing jurisdictions can be a quick and effective way to generate revenue to fix and create important infrastructure that does lead to community wealth building. An excellent example of this is the Kansas City Streetcar. The investment in the streetcar, paid for with a Transportation Development District (TDD) has led to over $2 billion in private development.

CENTRAL CITY ECONOMIC DEVELOPMENT SALES TAX ANALYSIS

In 2017, Kansas City voters passed a one-eighth cent sales tax to help spawn economic development in some of the city's distressed neighborhoods. The Central City Economic District's (CCED) boundaries span Ninth Street to Gregory Boulevard and the Paseo to Indiana Avenue. The tax generates around $10 million to $11 million annually. A citizens board, appointed by the mayor and approved by the City Council oversees the district and decides which projects should be funded.

The CCED came under fire earlier in the year for not funding projects in a timely fashion. However, with a new board appointed by Mayor Quinton Lucas, and with consultants hired to help administer the program, the process seems to be improving as Year 3 funding for applicants is evaluated. The board is pushing to hire permanent staff to administer the program and expedite the process even further.

Table 1 Round 3 Applicants for CCED Funding

App #	App Fee	Applicant Name	Amount Requested	Total Project Cost	Activity Type	Project Name	Project Address	Applicant Rep	Applicant Address		E-mail
1	$ 2,500	Prince of Peace Missionary Baptist Church	$962,000	$1,116,200	Community Resource Center		4238 Prospect Avenue	Earnestine Kennedy	4301 Wabash	Kansas City, MO 64130	justschooling@sbcglobal.net
2	$ 2,500	Habitat for Humanity	$2,500,000	$4,700,000	Headquarters Renovation	Habitat for Humanity of Kansas City	1423 E. Linwood Blvd	Lindsay Hicks	1423 E. Linwood Blvd	Kansas City, MO 64109	lhicks@habitatkc.org
3	$ -	Strategic Workforce Development, Inc.	$344,750	$344,750	Build It KC Workforce Development Program	Build It KC		York Wilson	4747 Troost Ave	Kansas City, MO 64110	ywilson@stragegicwfd.com
4	$ 2,500	1900 Vine Street, LLC	$3,960,000	$18,133,565	Market/Affordable rate housing, neighborhood retail, structured parking and high density commercial	One Nine Vine	1900 Vine Street	Kelvin Simmons	8108 Forest Park Dr	Kansas City, MO 64108	abergman@hardwicklaw.com
5	$ 2,500	Linwood Shopping Center Initiatives, LLC	$450,000	$899,936	Renovation of Colonial Office Building	Colonial Office Building	2420 E. Linwood Blvd, Suite 109	Donald Maxwell	2420 E. Linwood	Kansas City, MO 64109	dmaxwell@donmaxwelllaw.com
6	$ 2,500	Legacy Asset Group	$927,830	$1,441,024	Redevelopment and remodeling of 3 properties: 2613 Benton Blvd, 3308 Prospect Ave, 3328 Prospect Ave	ScaleKC Project	2613 Benton, 3308 Prospect, 3328 Prospect	Terrell Jolly	1302 Brush Creek Blvd.	Kansas City, MO 64110	tjolly@lagkc.com
7	$ 2,500	F&C Development & 12th Street Heritage	$3,974,296		Acquisition and rehabilitation of Jazz Hill Apartments	Jazz Hill Apartments	11 buildings between 9th Street and 13th Street on Paseo	Austin Carmony	One Indiana Square, Suite 3000	Indianapolis, IN	acarmony@flco.com
8	$ 2,500	NACCC	$830,000		Purchase of homes, rehab, minor home repair, workforce development, buyers education	Just Build Phase II and III	TBD	Jerry McEvoy	2420 E. Linwood	Kansas City, MO	jerrymcevoy@hotmail.com
9	$ 2,500	The Greenline Initiative	$500,000	$500,000	Reclamation and renovation of blighted and distressed properties			Ajia Morris	3230 Benton Blvd.	Kansas City, MO 64130	ajia@greenlineinitiative.com
10	$ -	KCMO Public Works	$712,500		Neighborhood improvements including streetscape and sidewalks	Enhancing Sidewalks & Streetscape along Prospect Corridor	Prospect Corridor: 23rd - 24th Street and 55th - 56th Streets	Uday Manepalli	4721 Coal Mine Rd.	Kansas City, MO 64130	uday.manepalli@kcmo.org
11	$ 2,500	New Rising Star MBC	$3,200,000	$9,526,725	Construction of 42 units of affordable and market rate housing	Jamestown	43rd & Montgall	Adrian Howard	6505 Moats Drive	Kansas City, MO 64133	adrainhoward@gmail.com
12	$ 2,500	District Row LLC	$2,424,945	$9,528,334	Site Development of District Row project	District Row	2119 Tracy	Linden Bowie	1601 E 18th Street, # 120	Kansas City, MO 64108	bowielinden@yahoo.com
13	$ 2,500	Palestine Gardens/ Palestine Gardens North LLC	$1,161,839	$8,176,071	Rehabilitation of 118 units of supportive housing for elderly	Palestine Gardens & Palestine Gardens North	33rd & Prospect Avenue	Melvin Gross	3619 E 35th Street	Kansas City, MO 64128	melvin.gross@sbcglobal.net
14	$ 2,500	Corbella Development LLC	$7,500,000		Construction of mixed-use development including 308 residential units, retail and parking	Ple '42 on 18th & Paseo	18th & Paseo	Bryan Dennie	1706 NW Der Run Trail	Blue Springs, MO 64015	bryandennie@icloud.com
15	$ 2,000	Conrad Wright	$200,000	$600,000	Renovation of commercial building for office space	Conrad Wright Media Building	2301 E 34th Street	Conrad Wright	2301 E 34th Street	Kansas City, MO 64109	stayfocusedi@gmail.com
16	$ 2,500	Gateway KC LLC	$2,200,000	$9,200,000	Construction of 100 2-3 bedroom affordable single-family homes	Prospect Corridor Community Revitalization Project	Properties along Prospect Avenue	John Conforti	6125 Timberridge	Parkville, MO 64116	johnc@ccproduce.net
17	$ 2,500	CELT Real Estate Holdings LLC	$282,354	$641,714	Renovation of commercial building	3841 Agnes	3841 Agnes	Carletta Temple	4435 Prospect Ave	Kansas City, MO 64130	carletta@celtrealtygroup.com
18	$ 2,500	41st and Paseo, LP	$410,000	$422,000	Rehabilitation of Twin Elms Apartments	Twin Elms Apartments	4109 Paseo	Felicia Mann	4001 Blue Parkway, #301	Kansas City, MO 64130	
19	$ 2,500	Community Builders of Kansas City	$6,000,000	$21,000,000	Site infrastructure for 11 acre office, mixed-use and residential development	Overlook District	Swope Parkway between Chestnut Ave and College Ave	Elizabeth Schultz	4001 Blue Parkway, #301	Kansas City, MO 64130	eschultz@cb-kc.org
20	$ 2,500	EFCDC	$2,000,000	$5,624,179	Expansion, acquisition and construction of multipurpose center	Emmanuel Phase II	Swope Parkway & Prospect	Deborah Mann	4736 Prospect Ave	Kansas City, MO 64108	dmann@emmanuelshildcare.org
21	$ 2,500	Santa Fe Council	$1,395,000	$1,395,000	Funding for essential upgrades to homes in Santa Fe	Santa Fe Home Improvement Program	27th Street - Linwood & Prospect - Indiana	Marquita Taylor	PO Box 287971	Kansas City, MO 64128	mbrockman4@aol.com
22	$ 2,500	Allenwood Properties LLC	$1,250,000	$1,450,000	Rehabilitation of six-plex (2809/2811 Benton) and three-plex (2815 E. Linwood)	2815 E. Linwood & 2809 E. Linwood Blvd.	2815 E. Linwood & 2809 E. Linwood Blvd.	Adonica Worley	2809 E. Linwood Blvd	Kansas City, MO 64128	worley1wp@gmail.com
23	$ 2,500	Neighborhoods United	$2,750,000	$10,569,250	Constructing and rehabbing (10) four-family and (10) single-family homes	Train KC	TBD	Bill Kimble			acegwk@live.com
24	$ 2,500	Service Industries, LLC	$1,400,000		Economic development - entrepreneur hub with wraparound support services	The Corner at 18th & Vine	1601 E. 18th Street	Henry Service	1601 E. 18th Street	Kansas City, MO 64108	henry@servicelaw.net

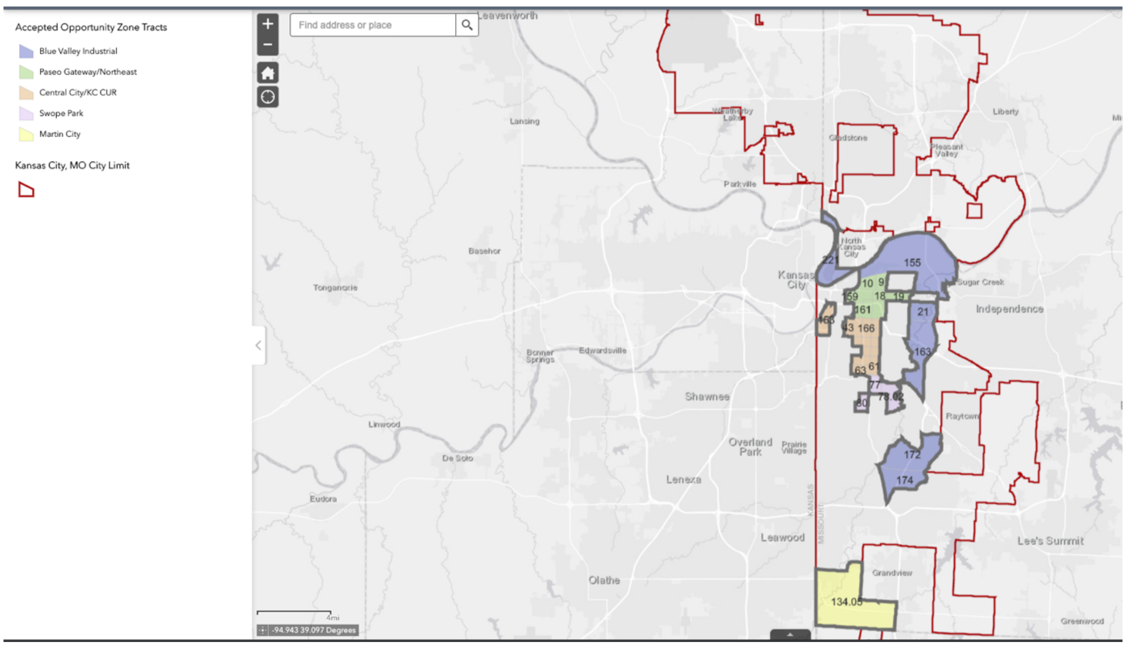
Analysis of Community Wealth Building Resources with Central City Economic Development Sales Tax

Voters have already approved the CCED, and its revenue is already being collected. Therefore, it represents an opportunity to create some wealth building initiatives without looking for a new funding source.

The city releases a request for proposals (RFP) for each round of funding for the CCED. Economic and community building programs that are within the boundaries of the district should seriously consider applying for funds in the future.

OPPORTUNITY ZONES

Opportunity Zones are a federal tax incentive that encourages investment in low income areas around the nation. The zones were created in 2017 and are determined by Census tract data. According to the IRS, Opportunity Zones are designed to spur economic development by providing tax incentives for investors who invest in new capital. Investors can defer, reduce and even eliminate their capital gain tax if they invest in these specific areas.



2 Opportunity Zones within Kansas City, Missouri

According to city officials, there is no way to completely track the investment being made within opportunity zones here in Kansas City. There was some talk of adding language within the federal law that would have required such reporting, but it was never agreed upon. As such, the information about what kind of investment is being made is purely anecdotal, since the investors are only required as part of the investors federal tax return.

Analysis of Community Wealth Building Resources with Opportunity Zones

Opportunity Zones garnered a great deal of attention when the federal law was first passed. The Greater Kansas City Chamber of Commerce hosted several well-attended meetings where key stakeholders discussed Opportunity Zones. The issue is how to capitalize on the program without solid data on the types and amounts of investments done. At the moment, there is no good answer. While anecdotal information may be of some help, it is hard to make strategic and concrete decisions on information that is often second hand, and possibly speculative.

CONCLUSIONS

The COVID-19 pandemic has affected the economy of the entire world, and Kansas City was no exception. Even with a rather diverse revenue sources, including earnings tax, sales tax, property and use tax and convention and hotel tax, Kansas City took a large financial hit to its budget. City officials acknowledge those hits will be long-term.

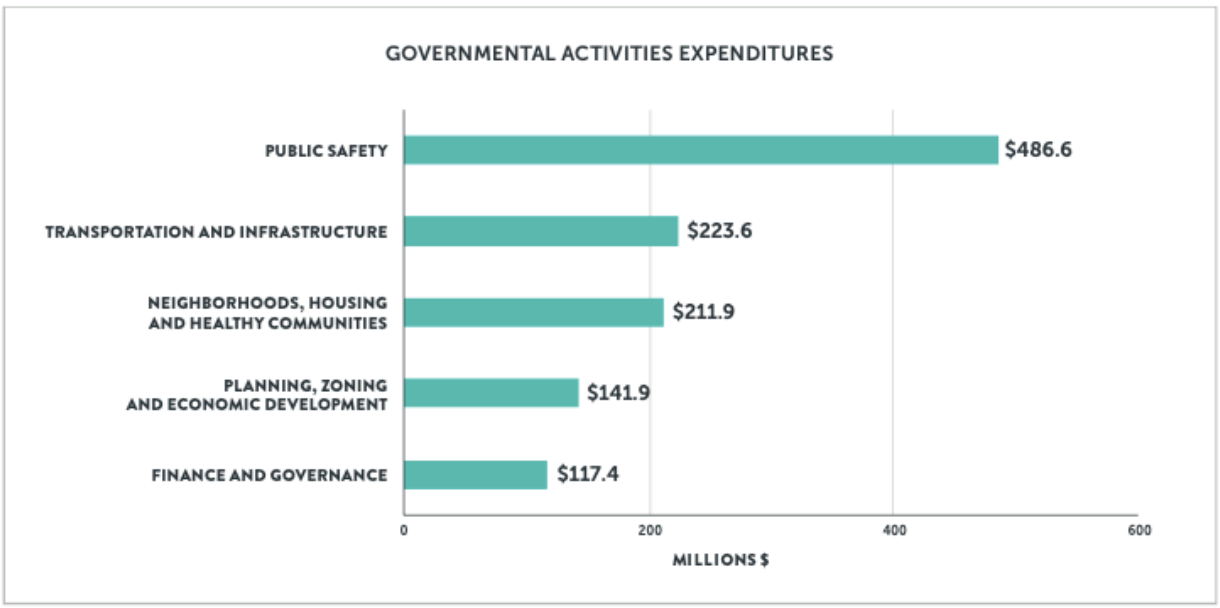
There should be real concern about how the city will fund key services going forward, even with the economy eventually bouncing back. This is due to the entire paradigm shift of the American way of life. Retail sales, already faltering before COVID-19, have completely bottomed out. Many retail storefronts have closed their doors forever. With Kansas Citians working and living and home 24/7, many switched over to doing online purchasing. This is problematic for the city, because it is not allowed to collect sales tax on Internet purchases unless “the seller has a nexus in Kansas City.”

The city received some good news with the Supreme Court’s 2018 ruling in *South Dakota v. Wayfair*, which allows for taxing internet transactions. However, Missouri has never enacted the enabling legislation to allow Kansas City, Missouri, to collect those taxes. For the time being, Kansas City is hurt by the large amount of online purchases.

Kansas City officials should also be concerned by the earnings tax ramifications. Many professional office workers are now working from home, and according to some experts, will do so for the foreseeable future. In the near term, this means Kansas City workers who live outside of Kansas City, Missouri, can now file for a partial refund of the earnings tax already being collected. As an example, an office worker who was sent home on March 15 and lives in Johnson County, Kansas, could file a refund for a full 80 percent of what the city has already collected. If that worker made $120,000, their earnings tax would $1,200. If they filed for a refund, (since they were no longer working in Kansas City), $960 of that money would go back into their pocket and out of the City’s coffers. This could have a dramatic effect on the City’s budget, not only next year, but for several years.

In addition, if employers in Kansas City, Missouri, no longer need the large office spaces they currently have, the effect on the e-tax could be even more dramatic. They could choose to greatly reduce their office footprint, leading to even more loss of employee earnings tax payment, or could choose to completely eliminate their office footprint entirely. If employers chose to do that, the employer portion of the earnings tax would go away as well. Earnings tax makes up a whopping 44.5 percent of the general fund, so a large reduction in that income would be extremely difficult for the City to swallow.

Figure 3 SOURCE: 2020 CITYWIDE BUSINESS PLAN



Overall budget cuts should be very worrisome as well. The city has sustained large cuts after the 9/11 attacks in 2001, and in response to the Great Recession of 2008 and 2009. Those cuts were never restored, leaving the city with a skeleton workforce of what it used to have.

On top of that, furloughs of current city staff are now underway, meaning an even further reduction of quality of service. The city's ability to render basic services will be impacted. They have simply run out of places to cut, unless they look at cost reductions with the Kansas City Police (KCPD) and Kansas City Fire (KCFD) departments. Those types of cuts are politically untenable, so it is highly unlikely they will be undertaken. There will be no easy decisions for the next city manager and their staff.

In tandem with this, the city has failed to properly invest in capital infrastructure and is spending less every single year since 2008. Back in 2008, capital expenditures made up 30 percent of general government expenditures. By 2017, that percentage was down to 10 percent. And it is projected to continue to fall, especially with the enormous hit to the city's tax base.

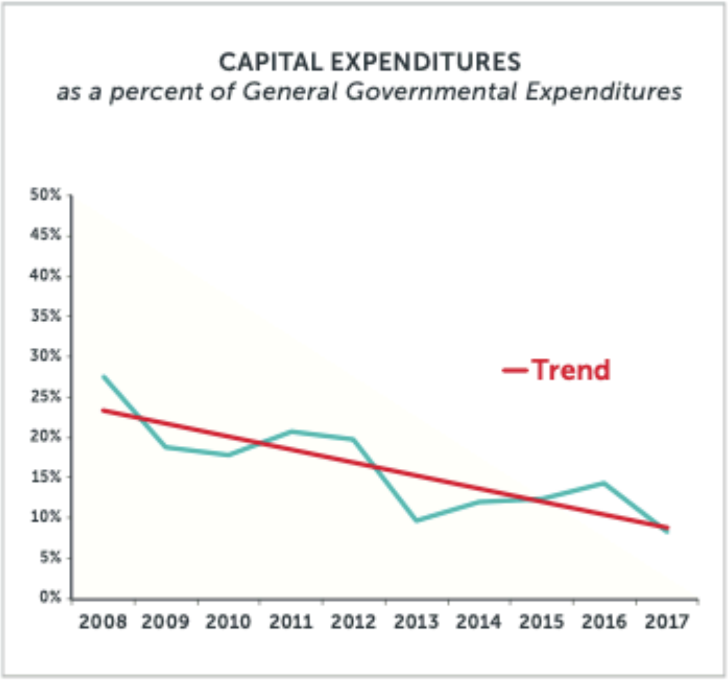


Figure 4: SOURCE, CITYWIDE 2020 BUSINESS PLAN

All of this will impact how — and even if — the city can invest in community wealth building initiatives. In order to recruit and maintain new Kansas City residents, the city needs to provide quality basic services. With huge cuts in services, that is virtually impossible. Trash collection, street maintenance and repair, and other key services residents depend upon will be affected. Those are key metrics in citizen satisfaction surveys. Citizens unhappy with City services tend to move out of cities or choose not to relocate to those cities.

In the short term, CARES funding; existing tax revenues such as the Central City Economic Development District (CCED); special taxing jurisdictions such as CIDs, TDDs and NIDs; and federal programs like CDGB funds and utilizing Opportunity Zones to incent capital investment should all be explored to help support economic development and community wealth building in the near-term.

For the long term, an in-depth analysis should be undertaken to answer these questions:

- What is the ideal tax revenue mixture the accurately reflects the American culture in a post COVID-19 world, to ensure city services are adequately funded?
- How is the city preparing for the new reality of less retail storefronts, less travel and less hotel visits, in tandem with more workers working from home, and more businesses shrinking their business office footprint?

Until those types of questions are answered, the ability to support community and economic development wealth building initiatives will be greatly diminished, if not entirely eliminated.