



## Inter-Departmental Communication

### Office of the City Auditor

**Date:** January 26, 2009

**To:** Deb Hermann, Chair, and Members of the Finance and Audit Committee

**From:** Gary L. White, City Auditor

**Subject:** Mapping Economic Development Incentives and Blight

In December 2007, we initiated an audit that would have used geographic information systems mapping technology to identify the geographic distribution of the city's economic development incentives, investment levels, and the conditions existing in the areas where economic development incentives were used.

When we presented the scope statement to the Finance and Audit Committee on April 30, 2008, committee members raised several concerns about the audit, including that:

- The audit might convey the impression that blight remediation is the only measurable goal for economic development incentives;
- The audit would not show benefits of incentives like revenue returned to the general fund or public infrastructure built as a result of incentives used in non-blighted areas; and
- Mapping economic development incentives and blight might not be useful.

Based on those concerns and other factors, we have terminated the audit and directed our audit resources toward other projects. Should the council decide it would like maps of where the city has used incentives, it could request them from City Planning and Development.

During the scope statement presentation, Councilman Russ Johnson asked for a definition of blight and expressed the desire for a clear measure of it. We found definitions of blight in state statutes and city code. Audit planning work completed prior to the scope statement presentation also produced some information on blight that may be helpful. This memorandum shares this information.

## **SUMMARY**

Blight is defined in state statutes and the municipal code. It is associated with a broad range of adverse social, economic, and physical conditions. The statutory elements of blight in state law vary, depending on the incentive. An attachment identifies the elements of blight and determinations for each incentive.

The City Council decides on the existence of blight on a case-by-case basis, based on a “blight study.” Each study describes the conditions that constitute blight or potential blight in a given area, but does not measure its nature or severity or provide a comprehensive picture of blight city-wide. Adopting a quantitative measure of blight could help prioritize needs, strategically target incentives, and better evaluate results.

The city’s new economic development incentive policy says that the city should identify specific areas to target for economic development, but does not provide explicit criteria to identify them. A measure of blight called a “distress index” provides a data-driven measure of several quantitatively measurable conditions identified with blight in state statutes and city code. Timely data collection will be needed if decision makers prefer a data driven approach for strategic targeting of future incentives.

## **WORK PERFORMED**

We reviewed the various economic development incentives Kansas City uses in which the city directly commits resources by either not collecting tax revenue the city would otherwise expect (tax abatement); by collecting tax revenue but then giving a portion of it back to the incentive recipient (tax increment financing); or by assuming direct financial risk by guaranteeing some portion of the debt used to finance the incented project (city credit enhancement). These incentives are: Chapter 100 bonds, Chapter 353, Enhanced Enterprise Zones, LCRA, and PIEA tax abatements, and Tax Increment Financing (TIF). Our work included:

- Interviewing elected officials, and management and staff from City Planning and Development, Finance, Budget, the Jackson County Assessor’s Office, the Economic Development Corporation, and the Center for Economic Information at UMKC.
- Reviewing relevant laws, regulations, and court decisions.
- Reviewing the city’s economic development incentives that directly commit city resources.
- Reviewing relevant city and statutory agency policies.
- Attending statutory agency public meetings.

## ANALYSIS

### **Many of the City’s Economic Incentives Are Meant to Address Blight**

Of Kansas City’s six economic development tools that directly commit city resources, four (Chapter 353, LCRA, Enhanced Enterprise Zones, and PIEA) can only be used in areas the City Council finds to be blighted.<sup>1</sup> One, TIF, can be used in areas the City Council finds blighted (“blight”) or in danger of becoming blighted (“conservation”), or in areas that are not blighted (“economic development”), as long as the project will either: keep a business from moving to another state, create new jobs within the city, or preserve or enhance the city’s tax base. The remaining incentive, Chapter 100 bonds, can be used anywhere in the city<sup>2</sup> to finance certain kinds of business development. Thus, only “economic development” TIF projects and Chapter 100 bonds do not require adverse conditions in the area where they are to be used.

### **Criteria for Finding Blight Are Broad and Vary Depending upon the Incentive Being Sought**

The conditions associated with blight are very broad. Blight is defined in state statutes and municipal code, and it includes adverse social, economic, and physical conditions. The statutory elements of blight in state law vary depending on which incentive requires the finding. Kansas City’s municipal code includes many of the elements of blight identified in state statutes. The attachment identifies each incentive and the corresponding statutory elements of blight.

### **City Council Decides When Blight Exists**

“Blight” is a legal status that the City Council conveys upon a given property or area in order to make it eligible for a variety of economic development incentive programs. To meet statutory requirements for finding a property or area blighted, the council must decide, based on substantial evidence, that some of a wide variety of adverse conditions exist. The existence of blight is decided on a case-by-case basis by the City Council based on a “blight study”— a report that describes the conditions that constitute blight or potential blight in a given area. The blight study does not measure the nature or severity of blight; there is no quantitative, objective standard that determines whether blight exists.

Neither the laws, nor city code, nor the statutory agencies’ policy manuals define a quantitative measurement of blight or an objective threshold to determine when it exists.

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<sup>1</sup> State statute identifies two other types of areas with adverse conditions besides blight that qualify for PIEA (insanitary and undeveloped industrial) and one additional type of area for LCRA (insanitary). Insanitary and undeveloped industrial area descriptions in state statute include substantially the same adverse conditions and subsequent consequences that statute uses to describe blight, therefore, we are not making a distinction between blighted and insanitary and undeveloped industrial areas.

<sup>2</sup> KCMO Resolution 000250 states that Chapter 100 projects should be geographically targeted based on FOCUS development priorities, but imposes no specific conditions on where they are to be used.

## **New Economic Development Incentive Policy Calls for Targeting Incentives in Areas with Adverse Conditions**

The new economic development incentive (EDI) policy states that the city should identify specific areas in the city that will be the target of economic development. The policy does not provide explicit criteria for determining where these areas are located, and the policy states that incentives can be used in any part of the city. However, “reduce or remove blight”, and “jobs and/or development targeted to economically distressed areas”<sup>3</sup> are ranked as the two most important factors in determining whether to grant incentives.

## **Quantitative Measure of Blight Could Help Prioritize Needs and Evaluate Efforts**

Adopting a data-driven, city-wide measure of blight in addition to the blight study could help decision makers prioritize areas’ needs and more strategically target economic development incentives and other city services. A quantitative measure of blight could also help stakeholders better evaluate the results of these efforts.

Decision makers currently look at blighted areas one at a time when deciding whether to grant incentives because the blight study is only concerned with the particular project under consideration. The blight study does not show a comprehensive picture of blight city-wide, does not provide a way to measure how severe blight is, and does not provide a way to meaningfully compare conditions in one area to another.

Many of the conditions associated with blight can be quantitatively measured. Using a quantitative index that measures all areas of the city would provide a comprehensive view of the city and allow comparisons and targeting based on levels.

## **Methods for Quantitatively Measuring Blight Have Been Developed**

One quantitative measure of the conditions associated with blight, called the distress index, has been developed at the Center for Economic Information at the University of Missouri-Kansas City. The index is a collection of four variables: income, crime rate, residential structure condition, and vacant residential land area. It provides a data-driven measure of several quantitatively measurable conditions identified in state statutes and city code that must exist in an area for the City Council to find it blighted. These conditions are measured and displayed on maps using geographic information systems (GIS) technology.

Similar tools have been developed in other cities to measure the prevalence and degree of blight.

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<sup>3</sup> “Economically distressed areas” are defined as “...Census block groups where the median household income (MHI) is no more than 70% of MHI for Kansas City as of the last decennial census or in more recent official data, if available. Special consideration is given to those areas where MHI is no more than 50% of MHI for Kansas City.”

## **“Economic Distress” Measures One Condition Associated with Blight; the Distress Index Measures Several**

The EDI policy emphasizes the priority of targeting economic development incentives in “economically distressed” areas. The policy defines these areas as ones in which the median household income (MHI) is 70 percent of the MHI of Kansas City as a whole, as measured by the most recent official data. While low income can be a potential indicator or component of blight, blight is a more comprehensive concept, encompassing characteristics of the built environment as well as demographic characteristics. The distress index, by measuring demographic as well as physical conditions, may provide decision makers with a tool that more closely reflects the conditions associated with blight in state statutes to identify areas of the city in need of EDIs and other services.

## **Quantitative Measure of Blight Requires Timely Data Collection and Analysis**

One challenge in developing and using a data-driven measure of adverse conditions to plan efforts and evaluate results is maintaining timely data. Management from both the Center for Economic Information and City Planning and Development identified the difficulty in obtaining recent data about city-wide conditions. The data required to construct the distress index comes from numerous sources, and each source is updated at different times. If decision makers want to use a quantitative measure of adverse conditions to strategically plan efforts and evaluate results, they will need to make collecting and maintaining timely data a priority.

If you have any questions, please contact me at 513-3320.

cc: Mayor Mark Funkhouser  
Members of the City Council  
Wayne Cauthen, City Manager  
Tom Coyle, Director of City Planning and Development

Attachment

**Attachment**

**Statutory Elements of Blight by Incentive Type**

<b>Incentive</b>	<b>Statute</b>	<b>If the area ...</b>	<b>Because of...</b>	<b>Then the area is a(n)...</b>
<b>Chapter 353 Tax Abatement</b>	RSMo 353	Is an economic liability; <b>AND</b> A social liability.	Age, Obsolescence, Inadequate or outmoded design, or Physical deterioration.	Blighted Area
<b>Enhanced Enterprise Zone</b>	RSMo 135.950-973	Retards the provision of housing accommodations; <b>OR</b> Is an economic liability; <b>OR</b> Is a social liability; <b>OR</b> Is a menace to the public health, safety, morals, or welfare in its present condition and use.	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.	Blighted Area
<b>LCRA Tax Abatement (Blighted)</b>	RSMo 99.300-715	Retards the provision of housing accommodations; <b>OR</b> Is an economic liability; <b>OR</b> Is a social liability; <b>OR</b> Is a menace to public health, safety, morals, or welfare in its present condition or use.	Defective or inadequate street layout, Insanitary 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.	Blighted Area

Incentive	Statute	If the area ...	Because of...	Then the area is a(n)...
<b>LCRA Tax Abatement (Insanitary)</b>	RSMo 99.300-715	<p>Is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency and crime;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is an economic liability;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is a social liability;</p> <p style="text-align: center;"><b>AND</b></p> <p>Is detrimental to public health, safety, morals, or welfare.</p>	<p>Dilapidation, Deterioration, Age or obsolescence, Inadequate provision for ventilation, light, air, sanitation or open spaces, High density of population and overcrowding of buildings, Overcrowding of land, or The existence of conditions which endanger life or property by fire and other causes.</p>	Insanitary Area
<b>PIEA Tax Abatement (Blighted)</b>	RSMo 100.300-620	<p>Retards the provision of housing accommodations;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is an economic liability;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is a social liability;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is a menace to public health, safety, morals, or welfare in its present condition or use.</p>	<p>Defective or inadequate street layout, Insanitary 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.</p>	Blighted Area

Incentive	Statute	If the area ...	Because of...	Then the area is a(n)...
<b>PIEA Tax Abatement (Insanitary)</b>	RSMo 100.300-620	<p>Is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency and crime;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is an economic liability;</p> <p style="text-align: center;"><b>OR</b></p> <p>Is a social liability;</p> <p style="text-align: center;"><b>AND</b></p> <p>Is detrimental to the public health, safety, morals, or welfare.</p>	<p>Dilapidation,</p> <p>Deterioration,</p> <p>Age or obsolescence,</p> <p>Inadequate provision for ventilation, light, air, sanitation or open spaces,</p> <p>High density of population and overcrowding of buildings,</p> <p>Overcrowding land, or the existence of conditions, which endanger the life or property by fire and other causes.</p>	Insanitary Area
<b>PIEA Tax Abatement (Undeveloped Industrial Area)</b>	RSMo 100.300-620	<p>Retards economic or social growth;</p> <p style="text-align: center;"><b>AND</b></p> <p>Are economic waste and social liabilities;</p> <p style="text-align: center;"><b>AND</b></p> <p>Represent an inability to pay reasonable taxes to the detriment and injury of the public health, safety, morals, and welfare.</p>	<p>Defective and inadequate street layout or location of physical improvements,</p> <p>Obsolescence and inadequate subdivision,</p> <p>Platting contains vacant parcels of land not used economically,</p> <p>Contains old, decaying, obsolete buildings, plants, stores, shops, shopping centers, office buildings, hotels and motels and parking garages, multi-family housing facilities, warehouses, distribution centers and structures whose operation is not economically feasible,</p> <p>Contains intermittent commercial and industrial structures in a primarily industrial or commercial area, and</p> <p>Contains insufficient space for the expansion and efficient use of land for industrial plans and commercial uses.</p>	Undeveloped Industrial Area



Incentive	Statute	If the area ...	Because of...	Then the area is a(n)...
<b>Tax Increment Financing (Blight)</b>	RSMo 99.800-865	Retards the provision of housing accommodations; <b>OR</b> Is an economic liability; <b>OR</b> Is a social liability; <b>OR</b> Is a menace to public health, safety, morals, or welfare in its present condition or use.	Defective or inadequate street layout,  Insanitary 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.	Blighted Area
<b>Tax Increment Financing (Conservation)</b>	RSMo 99.800-865	Located in a city where at least 50% of the structures are over 35 years old; <b>AND</b> Not yet blighted; <b>BUT</b> Is detrimental to public health, safety, morals, or welfare; <b>AND</b> May become blighted.	Three of the following conditions:  Dilapidation,  Obsolescence,  Deterioration,  Illegal use of individual structures,  Presence of structures below minimum code standards,  Abandonment,  Excessive vacancies,  Overcrowding of structures and community facilities,  Inadequate utilities,  Excessive land coverage,  Deleterious land use or layout,  Depreciation of physical maintenance,  Lack of community planning, or  Lack of ventilation, light or sanitary facilities.	Conservation Area

Incentive	Statute	If the area ...	Because of...	Then the area is a(n)...
<b>Tax Increment Financing (Economic Development)</b>	RSMo 99.800-865	Does not meet the requirements to be a blighted or a conservation area; <b>AND</b> Redevelopment will not be used only for the development of businesses that unfairly compete in the local economy; <b>AND</b> Is in the public interest because it will:  retain businesses;  create jobs; or  enhance the tax base.		Economic Development Area