

Bobbie Walthall

To: Diane Stoddard
Subject: RE: item 4: Adopt the Catalyst Program

From: McClure, Kirk [<mailto:mcclure@ku.edu>]
Sent: Tuesday, April 04, 2017 11:20 AM
To: Leslie Soden; Stuart Boley; Mike Amyx; Matthew Herbert; Lisa Larsen
Cc: Britt Crum-Cano
Subject: item 4: Adopt the Catalyst Program

Mayor Leslie Soden	lsoden@lawrenceks.org
Vice Mayor Stuart Boley	sboley@lawrenceks.org
Commissioner Mike Amyx	mamyx@lawrenceks.org
Commissioner Matthew Herbert	matthewjherbert@gmail.com
Commissioner Lisa Larsen	llarsen@lawrenceks.org

City Hall
PO Box 708
Lawrence, KS 66044

RE: Economic Development

Mayor, Vice Mayor and Commissioners,

I will not be able to attend the City Commission meeting this evening, but I would like to send along three comments plus a pair of recommendations with regard to item 4: Adopt the Catalyst Program.

The Catalyst Program: The Market for Speculative Industrial Space.

The Catalyst Program is premised on the notion that the industrial real estate market is tight and that the City can leverage this tightness into an opportunity to attract business to the Venture Park through tax abatements. This notion is misleading. The vast majority of industrial space is owner-occupied, thus the market for leased industrial space is very small. Adding speculative space to this small market is very risky. A speculative building was added to the East Hills Industrial Park only to sit empty. It was eventually sold to KU for pennies on the dollar. If the City reenters into the speculative industrial market, it should ensure that there is little to no risk to the City. The Catalyst Program seems to have minimized the City's risk, but it can be minimized further.

The Catalyst Program: Tax Abatements.

The Catalyst Program offers IRB financing and 50 to 70 percent property tax abatements to industrial properties. The tax abatement component of the program is weak. The research in economic development is conclusive that property tax abatements do not influence the location decisions of industrial firms. The savings from a property tax abatement is simply too small a percentage of the total operating revenues of an industrial firm that savings cannot have a measurable impact. The property tax abatement is dwarfed by the costs of labor, materials, logistics and financing. The City is taking the correct steps to market itself for industrial space. It is providing land at little or no cost. It is providing IRB financing which will discount the cost of developing space. It is providing a well-trained and economically priced labor force. These factors influence industrial site selection; tax abatements do not. Given the research on this topic and the City's poor experience with tax abatements, it is unclear why the City would want to continue this approach.

The City and County is paying the Chamber of Commerce paying \$400,000 per year to implement a high quality economic development program. This money is not being well spent if the City continues to be led into programs that research and the City's own experience would argue against. The tax abatement component of the Catalyst Program should be dropped. Most especially, the component of the program that provides tax abatements to the expansion of an existing building by a little at 15,000 square feet should be dropped. The promise of the past, failed, tax abatements was that after a firm had located in the industrial park, the taxpayers would benefit from the taxes paid on any expansion. The taxpayers cannot benefit if the taxes are abated.

The Economic Development Report.

The Economic Development Report again indicates the performance of the three tax abatements that are in operation. Proponents of tax abatements are claiming this is evidence of the program's success; it is not. The report only lists the current remaining firms and omits the long list of failures. If the report examined the full list of firms given tax abatements, it would find that in terms of jobs produced, wages paid and investment made, tax abatements were successful only about 35 percent of the time. The firms were non-compliant about 40 percent of the time, and firms failed completely 25 percent of the time. In addition to this poor record of performance, it is doubtful that the tax abatements caused any of the firms to locate in Lawrence; the City gave tax abatements to firms to do what they would have done anyway without the property tax subsidy.

Recommendations.

Omit the tax abatement components of the Catalyst Program but retain the land giveaway, IRB financing and the two-year trial period.

Perform an audit of the economic development programs that City has participated in over the last 20 years and take stock of what the results tell us about how to proceed into the future.

All the best,

Kirk

Kirk McClure, Ph.D.

Professor

Department of Urban Planning

University of Kansas

1465 Jayhawk Boulevard, 317 Marvin Hall

Lawrence, Kansas 66045-7626

785.864.3888

mcclure@ku.edu