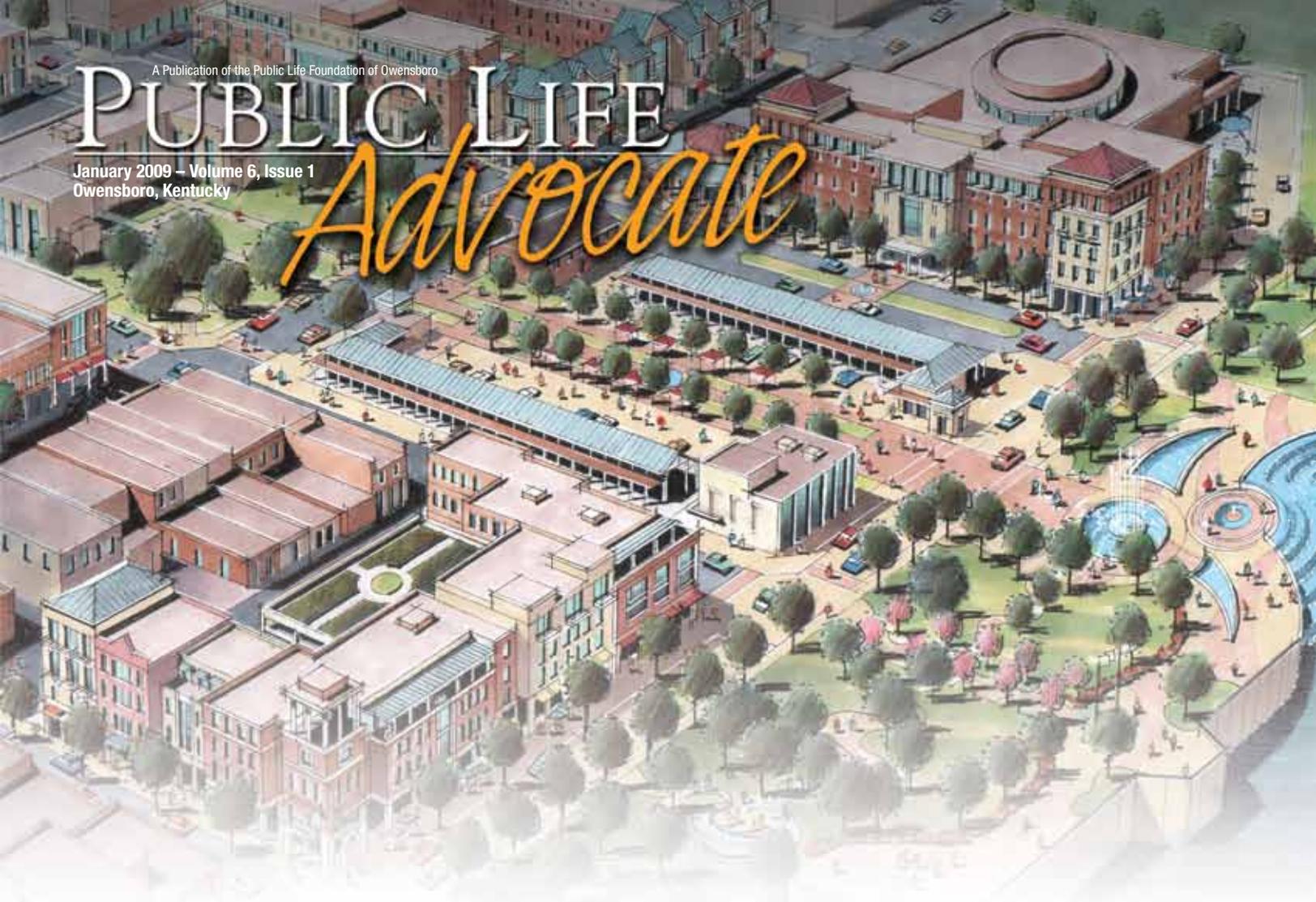


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Financing the downtown master plan:

Analyzing the options

ISSUE BRIEF/DISCUSSION GUIDE





The people want a transformation

During the 2007 “We the People” AmericaSpeaks 21st Century Town Meeting®, 650 people from all walks of life and all areas of Owensboro-Daviess County participated in an unprecedented exercise in public deliberation. Through that experience, “the people” set the agenda and made many recommendations to bring about their vision for a 21st century community.

In the session that focused on community and economic development, the priority was clear: *We must transform downtown Owensboro.*

Broad public participation in the plan

Since the town meeting, community leaders, stakeholder groups and interested citizens came together to create a downtown master plan and implementation strategy. They retained Gateway Consulting, a leading planning and urban design firm, and invited the public to help craft the plan. Dozens of groups and hundreds of citizens participated in numerous public meetings and workshops.

Importance of public sector stimulus

Notable downtown redevelopments consist of public sector projects (e.g., parks and plazas, convention and public assembly facilities, infrastructure, parking, etc.) and private sector projects (e.g., hotel, office, residential, retail, restaurants, etc.). One option is to sidestep public sector investments in hopes that private sector investments will occur on their own. But based on their experience in other cities, the Gateway consultants advised that private sector investments will not likely occur without an infusion of public sector projects.

Highlights of the master plan

To stimulate private investment in the form of hotel, office, residential, retail, restaurants and entertainment, the master plan recommended a package of public sector investments:

- construction of an Events Center (for conventions, sports, etc.)
- construction of a Market Square plaza that links the courthouse lawn with the riverfront; could accommodate a farmer’s market, local arts and crafts, festivals, etc.

- completion of the Smother’s Park improvements that were included (but not funded) in the EDSA Riverfront Master Plan
- conversion of Veteran’s Boulevard to a pedestrian-friendly limited access street
- slowing down traffic on Second Street by converting it to two-way and diverting truck traffic
- enhancing Frederica Street as our primary boulevard entry to downtown
- addition of strategically located parking facilities
- creation of an Arts Academy

The plan incorporates lessons learned from other cities in downtown revitalization, the latest and best practices in urban design — concepts such as mixed-use, form-based codes, new urbanism, urban village, leveraged anchors, infill development to reconstruct the “street wall,” street-level vitality and other “placemaking” principles.

Estimated cost for these public sector catalytic projects	Estimated private sector investment that will be stimulated
\$79 million	\$200 million+

Related conclusions and recommendations

The Gateway firm concluded that:

- the package is within the capacity of Owensboro-Daviess County to manage and finance
- tax increases required to finance the projects would not place the community at a disadvantage when compared to competitor communities
- the \$79 million package should be financed in its entirety
- the package be financed locally to ensure that Owensboro-Daviess County control its own future. While local leaders should seek the support of state and federal governments and the private sector, the plan should not hinge on success in attracting outside support.

Potential future phases

The \$79 million plan does not include:

- the Executive Inn property (18 acres)
- extension of Smother's Park and Veteran's Boulevard across the Executive Inn property to connect with First Street west of the property
- an outdoor events center (concerts, festivals, exhibits, minor league baseball)
- a Frederica Street streetcar
- a walkway linking downtown with English Park
- an English Park marina

Cost-Benefit Summary

The costs are significant:

- \$79 million or more, an unprecedented community investment
- Based on current municipal bond rates (4.25 percent over 20 years), an annual revenue stream of \$5,940,000 would be needed to finance \$79 million in capital projects.

The benefits:

- Owensboro-Daviess County will be back in the convention business. (We lost an industry when the Executive Inn closed.)
- The investment is expected to stimulate hundreds of millions of dollars in private sector investment: hotel, office, residential, retail, restaurants and entertainment projects.
- This additional private investment will significantly increase the tax base for city and county government, city school system, library,

health department, and other important community services.

- Unlike sprawling suburban development, these investments will occur in areas where public facilities and services already exist and will not have to be extended.
- The projects will create hundreds of construction and permanent jobs.
- The completed plan will give distinction to our community, enhance community image and eliminate eyesores.
- The downtown and riverfront will become a popular gathering place for families.
- A new urban village and residential dimension to downtown and the riverfront will be created.
- It will be a boost to the arts and tourism.
- The plan will serve as Owensboro-Daviess County's own economic stimulus plan – an infusion of investments that will create jobs and expand opportunities to counter a sluggish marketplace.

Financing the plan

But how do we pay for the downtown master plan? What are the options for financing this unprecedented community investment?

This issue brief examines three options:

1. **Occupational/Net Profits Tax**
2. **Insurance Tax**
3. **Property Tax**



Option 1: Occupational/Net Profits Tax

If you work in the city of Owensboro, you pay an occupational tax of 1.33 percent of your wages. Businesses in the city also pay 1.33 percent of their net profits.

If you work in Daviess County outside the city limits, you pay an occupational tax of .35 percent of your wages. Businesses in the county also pay .35 percent of their net profits.

For example:

If you earn \$25,000 per year and are subject to the city oc-

cupational/net profits tax, you pay \$332.50 per year. If you get paid twice a month, then \$13.85 is deducted from your paycheck.

If you earn \$25,000 per year and are subject to the county occupational/net profits tax, you pay \$87.50 per year. If you get paid twice a month, then \$3.65 is deducted from your paycheck.

Several pay levels are illustrated below:

Occupational/Net Profits Tax Comparison

Amount deducted from your paycheck if paid twice per month

Gross Wages/Profits	If you work in Owensboro	If you work in Daviess County (outside the city limits)
\$25,000	\$13.85	\$3.65
\$50,000	\$27.70	\$7.30
\$75,000	\$41.55	\$10.95
\$100,000	\$55.40	\$14.30

A countywide occupational/net profits tax increase of .37 percent would generate revenue to retire the debt on the proposed public projects included in the downtown master plan: \$79 million of projects financed over a 20-year period. The additional tax obligation for several pay levels would be as follows:

Additional amount that would be deducted from your paycheck* to finance the \$79 million Downtown Master Plan if an increase in the Occupational/Net Profits Tax is used

Gross Wages/Profits	If you work in Owensboro or Daviess County
\$25,000	\$3.85
\$50,000	\$7.30
\$75,000	\$11.15
\$100,000	\$15.00

* if paid twice per month

Occupational/Net Profits Tax Comparisons Benchmark Communities

December 2008

Owensboro	1.33 percent
Daviess County	.35 percent
Bowling Green	1.85 percent 3.35 percent*
Covington	2.50 percent
Elizabethtown	1.35 percent
Ft. Thomas	1.25 percent
Henderson	1.00 percent
Hopkinsville	2.00 percent
Lexington	2.25 percent
Louisville Metro	2.20 percent
Madisonville	1.50 percent
Newport	2.50 percent
Paducah	2.00 percent
Pikeville	2.00 percent
Richmond	2.00 percent

* for employees in Bowling Green's new industrial park

THOSE WHO SUPPORT THIS OPTION MAY SAY...

- This is an easy and relatively painless way to raise revenue.
- Even with this increase, Owensboro-Daviess County would still have an occupational/net profits tax that is less than benchmark communities.
- The administrative structure is already in place.

THOSE WHO OPPOSE THIS OPTION MAY SAY...

- This is not the fairest way to tax because retired senior citizens do not contribute to this tax...
- ...and people who live here but work outside Daviess County are also exempt.
- The occupational tax rate is not adjusted to a higher percentage as incomes increase; consequently, it is more of a burden on low-income workers.

Option 2: Insurance Tax

If you reside in the city of Owensboro, you pay a local tax on property and casualty insurance premiums of four percent. (Health policies purchased by individuals and life insurance policies after the first year are not taxed by local governments.)

If you reside in Daviess County outside the city limits, you pay a local tax on property and casualty insurance premiums of 4.9 percent.

For example:

A typical homeowner policy for a three-bedroom, two bath house in our community might require an annual insurance premium payment of \$1,000. If paid quarterly, residents in the city would pay \$11.50 for the insurance tax on top of the \$250 premium. County residents would pay an insurance tax of \$14.25 in addition to their \$250 quarterly premium.

On a relatively new automobile valued at \$20,000, an owner may carry an insurance policy that costs approximately \$1,200 per year. If paid twice a year, residents in the city would pay an insurance tax of \$27.60 in addition to the \$600 semi-annual premium payments. The insurance tax would be \$34.20 on top of the twice-yearly premium for those who live in the county outside the city limits.

A countywide insurance tax increase of four percent would generate revenue to retire the debt on the proposed public projects included in the downtown master plan: \$79 million of projects financed over a 20-year period.

Additional amount added to your homeowner's premium* to finance the \$79 million Downtown Master Plan if an increase in the insurance tax is used

	If you reside in Owensboro	If you reside in Daviess County (outside the city limits)
Home Value/Est. Annual Premium	Current Tax/ Increase of 4%	Current Tax/ Increase of 4%
\$100,000/\$800	\$9.20/\$9.20	\$11.40/\$9.20
\$150,000/\$1,000	\$11.50/\$11.50	\$14.25/\$11.50
\$200,000/\$1,200	\$13.80/\$13.80	\$17.10/\$13.80

* based on quarterly payments

Additional amount added to your vehicle premium* to finance the \$79 million Downtown Master Plan if an increase in the insurance tax is used

	If you reside in Owensboro	If you reside in Daviess County (outside the city limits)
Vehicle Value/Est. Annual Premium	Current Tax/ Increase of 4%	Current Tax/ Increase of 4%
\$15,000/\$700	\$16.10/\$16.10	\$19.95/\$16.10
\$25,000/\$1,200	\$27.60/\$27.60	\$34.20/\$27.60
\$40,000/\$1,900	\$43.70/\$43.70	\$54.15/\$43.70

* based on semi-annual payments

Insurance Tax Comparisons Benchmark Communities

December 2008

Owensboro	4.0 percent
Daviess County	4.9 percent
Bowling Green	7.0 percent
Covington	10.0 percent
Elizabethtown	8.0 percent
Ft. Thomas	10.0 percent
Lexington	5.0 percent
Louisville Metro	5.0 percent
Madisonville	8.5 percent
Newport	13.0 percent
Oldham County	10.0 percent
Paducah	6.0 percent
Richmond	8.0 percent

THOSE WHO SUPPORT THIS OPTION MAY SAY...

- Insurance coverage and premiums for homes and vehicles generally increase with income, so an added burden is not weighted toward low-income.
- Our local insurance taxes are lower than benchmark communities.
- Owners of rental property, many of whom are out of town owners, will contribute to the financing of these community projects.
- Administering the insurance tax is not a burden placed on city and county governments; insurance companies have that responsibility.

THOSE WHO OPPOSE THIS OPTION MAY SAY...

- Insurance policy owners should not be singled out to finance these projects.
- An increase in the insurance tax could reduce sales of policies, resulting in more legal risk and exposure to the uninsured and underinsured.
- Thousands of people who reside in rental property do not have homeowners policies and would not be taxed.
- Because hundreds of insurance companies do business in our community, it is difficult to know what premiums are charged and if companies are turning in the tax properly.

Option 3: Property Tax

If you own real estate in the city of Owensboro, you pay 25.93 cents per \$100 of assessed value in property taxes and 30.3 cents per \$100 in personal property taxes (e.g., automobiles).

If you own real estate in Daviess County outside Owensboro, you pay 13.6 cents per \$100 of assessed value in property taxes and 17 cents per \$100 in personal property taxes.

For example:

If you own a \$100,000 house and a \$20,000 car, your annual property tax obligation is as follows:

	If you own property in Owensboro	If you own property in Daviess County (outside the city limits)
Real estate	\$259.30	\$136.00
Personal	60.60	34.00
TOTAL	319.90	170.00

Those who own property in the city also pay county taxes on that property.

Kentucky law limits annual property tax increases to four percent. That is, a net increase of four percent through higher assessments or increases in the tax rate.

A four percent increase in the real estate and personal property tax in both the city and county would produce approximately \$522,000.

Local officials generally rely on property tax increases to cover the incremental and inflationary cost increases connected with basic governmental services: public safety (police and fire), sanitation, road maintenance, etc.

To finance the \$79 million downtown master plan through property taxes, it would require a 78.25 percent increase in the property tax – much more than is allowed by law.

THOSE WHO SUPPORT THIS OPTION MAY SAY...

- The public has come to expect four percent increases in the property tax rate – either through reassessments or rate increases. These are essentially inflationary adjustments within the means of most to pay as salaries and wages increase.
- A property tax increase cannot be used to finance the entire downtown master plan, but a portion of the plan could be.

THOSE WHO OPPOSE THIS OPTION MAY SAY...

- Because of restrictions in the law, this option does not produce the revenue needed to finance the downtown master plan.
- People who do not own property would not be taxed, yet they would benefit as much as property owners.
- City property owners are charged twice for property taxes: by city government and by county government.

Other Potential Sources

Other public projects could be added to the downtown master plan – or there could be less of a need to increase local taxes to implement the plan – if any of the following occur:

State or federal government earmarks

U.S. Senator Mitch McConnell secured more than \$30 million in federal funds to stabilize and enhance Owensboro's downtown riverfront. In response to the national financial crisis, significant funds may be allocated to states and communities as part of the economic stimulus initiatives under consideration.

There may be elements of the master plan that already qualify for grants. The proposed Market Square Plaza, for example, may be eligible for support through the state extension office.

State and federal earmarks can be promoted by local officials, but they are beyond the control of the city and county.

Private fundraising

Foundations, individuals, corporations, and community organizations

have the capacity to make significant contributions to the downtown plan. Some have suggested that this be tied to specific sponsorship opportunities, such as the fountain proposed for the riverfront.

A major campaign could bring forth significant private sector support, but it could delay the implementation of the downtown plan and dilute philanthropic funds needed by other community institutions and organizations.

Restaurant tax

A restaurant tax is currently not allowed in cities of our size (designated second-class), but the Kentucky League of Cities and other groups continue to challenge that restriction. Cities larger and smaller have the option to add a restaurant tax following a voter referendum, but in second-class cities, a proposal cannot even be placed on the ballot until authorized by state legislation.

Such a tax could generate a substantial source for community projects, and much of the tax would be paid by out of town visitors who are here for sports tournaments, conventions and shopping.

Local option sales tax

In many states, communities receive a portion of the state sales tax or local governments can add a local tax on the state sales tax. Such a tax is not authorized in Kentucky, but there is growing interest in it. Action of the state legislature would be required to establish a local option sales tax.

Hotel tax increase

State law allows county governments to establish a hotel bed tax up to six percent. Our current tax is five percent – three percent goes to the Owensboro-Daviess County Convention and Visitors Bureau, one percent to RiverPark Center, and one percent to the Owensboro Museum of Fine Arts. The use of the funds generated through a bed tax is restricted to tourism purposes. Consequently, an increase in the hotel tax could be used to help finance or operate a new events/convention center, although bed tax revenues have been significantly affected by the closing of the Executive Inn.

Tax Increment Financing (TIF) District

State law allows cities and counties to designate redevelopment districts, establish a benchmark tax base, and apply future increases in tax revenue within the district to finance public projects within the district.

The Gateway firm supports the establishment of a downtown TIF dis-

trict, but they acknowledge that the district will not produce revenue in the short-term to substantially contribute to the master plan implementation.

Tax reform

Some have suggested that the downtown master plan should be the impetus for a comprehensive restructuring of local taxes to eliminate double-taxation (i.e., city-county property taxes), adjust tax disparities (i.e., city-county school taxes), and re-evaluate tax districts (health, library, extension office) and more.

Some tax reform can occur through the action of local governments and school boards, but a comprehensive tax restructuring would be subject to certain restrictions in state law.

Sell assets

Our community has unique assets that, if sold, could generate significant resources that could be placed into endowment or used directly to finance projects, serve the disadvantaged and more: Owensboro Municipal Utilities, Owensboro Riverport, and Owensboro Medical Health System are the most substantial.

Opponents of such action stress that buyers of these community assets would recover their investment in higher rates and fees.

DISCUSSION QUESTIONS

- Which of the three financing options do you support in order to implement the public projects included in the downtown master plan?
- Are there other sources of revenue that you support as well?
- The downtown master planning consultants recommended that the entire \$79 million plan be financed as a package. Others have suggested reducing or phasing in the projects. Some feel that we may only have this one opportunity to transform our downtown and that we should implement not only the projects identified in the plan, but several additional projects as well. What is your preference?
- Should the plan not only enable us to finance public sector projects, but include funds to stimulate private investment: hotel, residential, office, retail, etc.?

SHARE YOUR VIEWS

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