COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2927-16
Bill No.: SS for SCS for HCS for HB 1143 with SA1, SA2, SA3, SA7, SA8, SA10, SA11, SA12, SA13, SA16, SA17, SA21, SA22, SA23, SA24, SA25, SA26, SA27, SA28
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: May 16, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	($55,177 to Unknown)	($1,324,204 to Unknown)	($1,324,204 to Unknown)
Total Estimated Net Effect on All State Funds	**($55,177 to Unknown)**	**($1,324,204 to Unknown)**	**($1,324,204 to Unknown)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None*			
Total Estimated Net Effect on All Federal Funds*	**$0***	**$0***	**$0***

***Does not reflect potential loss of federal administrative grants due to possible noncompliance with federal law. (SA3)**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**(Unknown) to $2,500,000**	**(Unknown) to $2,500,000**	**(Unknown) to $2,500,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 23 pages.

FISCAL ANALYSIS

ASSUMPTION

SPRINGFIELD COMMUNITY IMPROVEMENT DISTRICT; (Section 67.1442)

Officials of the **Department of Economic Development** assumed no fiscal impact.

In response to similar legislation from last session (635-01, SB-125) officials of the **City of Springfield** stated that this proposal is discretionary and would have no fiscal impact to the Community Improvement Districts.

Oversight assumes this proposal is permissive and would have no fiscal impact. To remove property or relocate property from a Community Improvement District would require a hearing by the City, and approval of the District Board. Before any action to remove or relocate property the district would have to be able to meet any financial obligation excluding the revenues generated by the property being removed.

ANNEXATION IN JACKSON OR CASS COUNTIES (Sections 72.080 & 72.130);

Officials from Jackson County, Cass County, City of Kansas City and the City of Belton have not responded to Oversight's request for fiscal impact regarding this provision.

Oversight assumes this part of the proposal would not fiscally impact the state or the local governments.

PUBLIC WORKS AND CONDEMNATION (Sections 88.010 - 88.1027);

In response to similar legislation from this year (SB 711), officials of the **Office of State Courts Administrator** stated that they would anticipate one or more cases to test the parameters of the law, and would not expect a significant increase in the workload of the Judiciary. Officials assumed no fiscal impact.

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Ridge** assume that this proposal would have no fiscal impact to their finances.

ASSUMPTION (continued)

In response to similar legislation from this year (SB 711), officials of the **Village of Bel-Nor** assume that this proposal would have no fiscal impact to their finances.

In response to similar legislation from this year (SB 711), officials of the **Jefferson County Commission** assume fiscal impact is unknown.

Oversight assumes this proposal is enabling legislation that would give authority to towns and villages to use the power of eminent domain when establishing or improving roads, and other related infrastructure projects. Oversight assumes no state fiscal impact. Certain cities would have no fiscal impact, unless their governing body would elect to use the authority granted by this proposal.

MAKE-UP OF COMMISSION (Sections 99.050);

In response to similar legislation from this year (SB 1039), officials of the **Department of Economic Development- Mo. Housing Commission** assumed no state fiscal impact.

DOWNTOWN ECONOMIC STIMULUS ACT (Sections 99.915 to 99.984);

Officials from the **Department of Economic Development (DED)**, in response to an earlier version of this proposal, stated this bill enacts the Missouri Downtown Economic Stimulus Act. Certain taxes deemed new increment would be diverted to pay for the development of the area (or noncontiguous areas). PILOTS, EATS, and "other net new revenues," which purport to be incremental state sales tax revenues and incremental state income taxes attributable to new hires. To be eligible for the state revenue portion, an application is made to the Missouri Development Finance Board (MDFB). If approved, state revenue that is "other net new revenues" would be paid to a special fund in the city rather than to the state.

Officials from the **Department of Economic Development** state this part of the proposal has no impact or cost to their agency.

Officials from the **Department of Revenue (DOR)** state this legislation will have no administrative impact in their Business Tax Division. DOR states that implementation of the sections pertaining to withholding tax can not be done. Currently DOR does not know how much income tax is withheld on each employee since businesses only report total income tax withheld. Also, businesses that have more

ASSUMPTION (continued)

than one location only file one withholding tax return and report income tax withheld for both locations on one return. DOR states that a complete system rewrite will ne needed if the legislation is passed as written. This cost will be substantial and unknown.

DOR assumes their Personal Tax Division will need one Tax Processing Tech. I for every 10,000 credits claimed and one Tax Processing Tech. I for every 3,000 additional pieces of correspondence. DOR estimates the costs of the two FTE to be roughly $63,000 per year.

DOR also assumes that they will need to make programming changes to MINITS to recognize the new credit. DOR estimates that the changes will require 1,384 hours of programming at a total cost of $46,170. State Data Center costs to implement the legislation are estimated to be $9,007.

Oversight assumes DOR could absorb some additional tax credits generated from this legislation (and therefore have not reflected their request for additional FTE), but may need to request additional FTE in future fiscal years to handle additional tax credits if the program is successful.

In response to similar legislation from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated this substitute has the various provisions:

Section 99.915.2 removes the eligibility of sports stadiums in the Missouri Downtown Economic Stimulus Act. This prevents stadiums from claiming tax benefits available to other businesses that participate in this program.

Section 99.936.1(11) allows the Department of Economic Development, the Office of Administration and the Department of Revenue to recover costs from the municipality fund for evaluation, administration and implementation of development plans. BAP assumes this will increase Total State Revenues.

Section 99.945.13 changes the definition of major initiative removing stadiums from being considered under major initiatives and lowering the project costs and jobs created for municipalities under 100,000 to a cost of $1,000,000 and 10 jobs. BAP states this could potentially increase the number of municipalities involved under the act further decreasing state revenue. It is unknown the additional number of municipalities which would participate under this change.

ASSUMPTION (continued)

Section 99.945.20 changes the definition of other state revenues. The change allows all employers in a development project area to be subject to the 2% withholding taxes to be kept by the municipality. BAP states this will further decrease total state revenue by an unknown amount. BAP states they have no way of estimating the number of jobs that would qualify under this language.

In response to similar legislation from this year, officials from the **City of Springfield** assumed this proposal would not fiscally impact their city.

In response to a similar version of this proposal, officials from the **Kansas City** stated that capturing a portion of the additional increment of state income and sales tax revenues generated by new downtown developments would allow the city to leverage a larger revenue stream needed to address the extensive land acquisition, clearance and infrastructure needs associated with economic redevelopments in downtown Kansas City.

In response to a similar version of this proposal, officials from the **City of St. Louis (STL)** stated this legislation allows for new real estate taxes and economic activity taxes to be shifted from general revenue to the special allocation fund for economic development purposes within the plan area. How much and when will only be determined when the geography and timing is finalized by ordinance. The powers granted the authority are similar if not identical to the powers of the LCRA and TIF Commission. These powers are combined into a single entity, the Downtown Economic Stimulus
authority.

STL states the bill allows for an easier program based approach to the State of Missouri for direct financial assistance for approved development within the plan area.

STL states that if the authority is a stand-alone entity separate from SLDC, there could be costs of administration (salaries, consultants, legal fees, etc.). If the authority is established within SLDC, there is no duplication of effort and existing SLDC staff could function as staff support for the Authority.

Oversight assumes the loss of revenue for the state is $0 to $15,000,000, since the proposal is permissive to any Missouri municipality and the Downtown Economic Stimulus Authority may designate various portions of the city as development areas, as long as they meet the specified requirements, and since Section 99.969.5 states that “at no time shall the aggregate annual amount of other net new revenues approved for state supplemental downtown development financing exceed fifteen million dollars..”

<u>ASSUMPTION</u> (continued)

Oversight has reflected the fiscal impact to local governments as $0, since this proposal is permissive and does not require municipalities to enact their Downtown Economic Stimulus Authority.

SATELLITE ZONE IN SPRINGFIELD (Section 135.207);

Officials from the **Department of Economic Development (DED)** stated this bill authorizes one new satellite enterprise zone in Springfield. DED states the average cost for each satellite enterprise zone is $60,000 per year.

In response to similar legislation from this year, officials from the **City of Springfield** assumed this proposal would have no fiscal impact on their City.

In response to similar legislation from this year, officials from the **Department of Revenue (DOR)** stated they did not anticipate a significant increase in the number of new credits filed. Therefore, DOR did not request additional FTE at that time.

However, if DOR is incorrect in this assumption, they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

In response to similar legislation from this year, officials from the **Department of Insurance (INS)** stated the designation of an additional enterprise zone will increase the areas that receive enterprise zone tax credits. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Premium taxes are split between GR and the County Foreign Insurance fund which is later distributed to school districts. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. Oversight has reflected the estimated tax revenue loss to the General Revenue fund, however, since insurance companies are considered eligible applicants for the Enterprise Zone tax credit program, that loss could be split between the General Revenue fund and the County Foreign Insurance Fund (which is distributed to the local school districts). The fiscal note does not reflect any direct or indirect positive result that may occur because of the tax

credits issued.

EXPANSION OF ENTERPRISE ZONES (Section 135.230);

Officials from the **Department of Economic Development (DED)** state there are 13 enterprise zones that would be included in this description, with a possibility of 84 enterprise zone expansions.

DED states this part of the proposal would result in an unknown cost to the state.

Oversight assumes this part of the proposal could result in an unknown loss of revenue, greater than $100,000 per year if each county within an enterprise zone could expand 3 times, as opposed to current law where the entire enterprise zone, no matter how many counties it is in, could only expand three times.

ENTERPRISE ZONE IN WRIGHT AND PULASKI COUNTIES (Section 135.230);

Officials from the **Department of Economic Development** state that the average cost for each rural enterprise zone is $138,000.00 per year and the cost of a metropolitan EZ is $888,204.00. To calculate the cost of an enterprise zone, DED looks at the costs of EZ tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped. DED assumes no additional personnel but could request some should work created dictate this course of action.

DED assumes the new zones in Wright County and Pulaski County would cost $138,000 each.

Officials from the **Office of Administration - Budget and Planning** defers to DED regarding the fiscal impact of the proposed satellite zone and enterprise zones.

<u>ASSUMPTION</u> (continued)

COMMUNITY DEVELOPMENT CORPORATIONS AND SMALL BUSINESS TAX CREDITS (Sections 135.400 - 135.423);

In response to a similar proposal (SB 1117) from this year, officials from the **Department of Economic Development (DED)** state the proposal makes the following changes with the corresponding <u>fiscal impacts</u> to state revenues;

135.400 – (3) Redefines ""Community Development Corporation"" and (10) Redefines ""Principal Owners"" . <u>No Impact</u>.

135.408 – Ownership of "small business" changes from a 50% level to a maximum of 65% for investors. No Impact.

135.411 and 423 – The length of time a qualified investment must remain in a small business is changed from 5 years to 3 years. The DED is given authority to revoke and pro-rate collection of credits. Sale of a business does not automatically trigger a revocation if the business continues. No Impact.

TAX CREDIT FOR REHABILITATION AND CONSTRUCTION OF RESIDENCES IN DISTRESSED COMMUNITIES (Sections 135.478 - 135.530);

Officials from the **Department of Economic Development (DED)** state this part of the proposal (regarding Neighborhood Preservation language as well as change in definition of distressed communities) appears to have no fiscal impact on DED. It only redistributes credits that already exist.

In response to a similar proposal from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated this part of the proposal expands various definitions. This will increase the universe of eligibles for rebuilding communities and the neighborhood preservation tax credits. Expanding tax credit eligibility could increase the amount of these tax credits redeemed. Consensus revenue estimates include projected redemption of tax credits.

BAP states that Section 135.481 increases the tax credit from 15% to 20% of costs incurred. This expands the cost of the program and could increase the amount of tax credits redeemed.

ASSUMPTION (continued)

BAP also states that Section 135.484 allows 70% of the cap for the neighborhood preservation tax credit to be reallocated if one cap is not met before October 1 of the calendar year. This could increase the tax credits use and could increase the amount of tax credits redeemed.

BAP also states that Section 135.530 expands the definition of distressed community. This could increase the use of tax credits with distressed community requirements, increasing the amount of tax credits redeemed.

In response to a previous version of this proposal;

...officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in

the number of new credits filed as a result of this proposal. Therefore, DOR did not request additional
FTE at this time. However, if DOR is incorrect in this assumption, they assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

...officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of $16 million, or $8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of $8 million in credits for eligible areas was
claimed while only $2.6 million of the $8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of $0 to ($16 million) annually starting in FY 2001. Therefore, while this proposal <u>may result in an increased utilization of the Neighborhood Preservation tax credit program</u>, Oversight assumes the cap on the program has not changed from the $16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

Oversight assumes the proposal also changes the definition of "distressed communities" in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for

<u>ASSUMPTION</u> (continued)

expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate.

With DED's assumption from a previous version of this bill that changing the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this part of the proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this part of the proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

VARIOUS TAX CREDIT PROGRAMS (Sections 135.535, 348.300 - 348.302);

Officials from the **Department of Economic Development (DED)** state this part of the proposal makes changes in the Rebuilding Communities Tax Credit Program (unused cap in any year shall be available in subsequent year). DED assumes the fiscal impact would be an unknown loss of revenue, up to $10,000,000 as a result of this part of the proposal.

DED states sections 348.300 – 302 (Seed Capital Tax Credit Program) changes would result in no costs to their agency. DED states this part of the proposal raises the credit percent from 50% to 75%
for contributions and would not change the cap.

In response to a similar proposal from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated Section 135.535 expands the uses of the rebuilding communities tax credit. This could increase the amount of tax credits redeemed. Further, this section allows the unused portion of the rebuilding communities tax credit cap to be carried to the next fiscal year and be used by the seed capital tax credit program. This will increase the amount of credits issued and could increase the amount of tax credits redeemed. Currently, the cap of the seed capital tax credit program is exhausted.

BAP stated that Section 348.300 expands the definition of "follow up capital" for the seed capital program. This could increase the amount of redeeming tax credits. Based on changes in Section

<u>ASSUMPTION</u> (continued)

135.535, this tax credit now has a cap of the unused portion of the rebuilding communities tax credit program.

BAP also states that Section 348.302 increases the percentage of the qualified contribution for the seed capital tax credit program. This could increase the amount of redeeming tax credits.

Oversight assumes this part of the proposal allows unused tax credits within one program (Rebuilding Communities Tax Credit Program, which has an annual cap of $10,000,000) to be allocated to another program - the Seed Capital Tax Credit program. While this may result in an increased usage of the $10,000,000 annual allocation of tax credits for the Rebuilding Communities program, the proposal would not result in any additional statutory tax credits. The $10 million in tax credits have been accounted for by Oversight in our fiscal note for the enabling legislation (HB 1656 in 1998) as cost to the state, therefore, Oversight will not reflect additional cost to the state as a result of these changes, even though <u>the changes may result in</u>

increased utilization of the $10 million of tax credits.

Interest payments for use of carryback of tax credits (Section 143.811);

There are no changes to this section of RSMo, therefore, **Oversight** assumes no fiscal impact from this part of the proposal.

MISSOURI BIO-MEDICAL INCENTIVE TRUST (Section 166.550);

Officials from the **Office of the State Auditor (SAU)** states that pursuant to this section, they would be required to audit the Missouri bio-medical incentive trust annually. The SAU assumes the need for .5 Staff Auditor II at a salary of $35,000 and related equipment and expenses

Officials from the **Office of the State Treasurer** assume this proposal would not fiscally impact their agency.

Oversight assumes the creation of this trust does not fiscally impact the state and that the SAU could assume the responsibilities of auditing this trust with existing resources until the fund becomes large enough to require extensive audits.

ASSUMPTION (continued)

EMPLOYMENT IN INDIAN TRIBE (Senate Amendment 3);

Officials from the **Department of Labor and Industrial Relations** note on December 21, 2000, the President signed the Consolidated Appropriations Act (CAA) into law which amended Federal law to change the way American Indian tribes are treated under the Federal Unemployment Tax Act (FUTA). Specifically, Indian tribes must be treated similarly to State and local governments. Tribes must now be offered the reimbursement option for financing unemployment insurance (UI). Prior to the CAA amendments, States were prohibited from offering the reimbursement option to Indian tribes. Instructions issued by the United States Department of Labor provide, “States with ‘Indian tribes,’ as defined by the CAA amendments, within their state boundaries must amend their laws to implement the requirement created by the CAA." Employees of an out-of-state company owned by a federally recognized Indian tribe began working in Missouri during 2001. Wages earned by these employees are subject to Missouri law, which does not currently allow the Division of Employment Security (DES) to meet the federal requirements. If Missouri law does not conform with Federal law the result could be a loss of certification for FUTA credits which could cost Missouri employers as much as $992 million annually and the DES an estimated $40 million annually in administration funds from the Federal government.

Oversight assumes that any loss of federal funds would depend upon determination of a nonconformity/noncompliance by the U. S. Department of Labor and the imposition of sanctions by the U. S. Department of Labor. The likelihood of such sanctions would be speculative. For fiscal note purposes, no impact to federal funds is reflected.

TAX INCREMENT FINANCING IN ST. LOUIS AREA (Senate Amendment 7);

In response to a similar proposal from this year, officials from the **Department of Economic Development (DED)** state this bill primarily makes changes to local tax increment financing, which does not affect DED. The only provision amended that would affect DED is the addition of blighted areas in distressed communities as areas eligible for state (supplemental) tax increment financing (99.845). The changes should have no fiscal impact on DED. Any State TIF projects are separately subject to application and approval by DED and the Office of Administration and subject to appropriation.

DED assumes the amendments to the proposal would not fiscally impact their agency.

<u>ASSUMPTION</u> (continued)

Officials from the **Office of the State Courts Administrator** and the **Department of Revenue** each assume this proposal would not fiscally impact their respective agencies.

Officials from the **City of St. Louis** and the **counties of St. Louis**, **Jefferson**, **Warren**, **St. Charles**, **Franklin**, **Lincoln**, **St. Francois** and **Ste. Genevieve** did not respond to our request for fiscal impact.

Oversight assumes the local political subdivisions could absorb the costs of establishing the regional tax increment finance review authorities as well as developing the reports regarding the economic feasibility analysis of the projects. Oversight also assumes the municipalities could also absorb the cost of developing the annual reports to the Department of Economic Development.

Oversight has not shown the fiscal impact of sharing payments in lieu of taxes between municipalities and other taxing entities since it would result in a zero fiscal impact overall. However, the municipalities that must share the payments would be negatively impacted and the various other taxing entities would be positively fiscally impacted.

Oversight has also not reflected a fiscal impact to local political subdivisions for their entitlement to reimbursement from the special allocation fund of the municipality for direct costs of providing emergency services. This provision would net to an overall zero fiscal impact to local political subdivisions in the counties and city specified. Oversight has also assumed no fiscal impact resulting from the various changes made to the criteria of tax increment financing.

Changes to Section 99.845 would now include redevelopments in blighted areas in distressed communities (as defined in RSMo 135.530) to participate in the state TIF program. Under the program, up to 50 percent of the new state revenues generated in the redevelopment area may be available for appropriation by the general assembly to DED's supplemental tax increment financing fund (from the general revenue fund) for distribution to the treasurer or other designated financial officer of the municipality. **Oversight** assumes the fiscal note prepared for the enabling legislation (SB 1 in Special Session in 1997) reflected the potential loss of state funds of $0 to $15 million annually starting in FY 1998. According to the DED, the anticipated State TIF funding for projects is roughly $6 million in FY 2003 and 2004 and roughly $7 million in FY 2005. Therefore, while this proposal may result in an increased utilization of the State TIF program, Oversight assumes the cap on the program has not changed from the $15 million reflected in the fiscal note for SB 1 in SS 1997, and that the amount of state funds available for allocation is subject to appropriation by the general assembly, therefore, Oversight assumes no additional fiscal impact from the changes in this section of the proposal.

ASSUMPTION (continued)

MISSOURI FINANCE DEVELOPMENT BOARD (Senate Amendment 21);

Oversight assumes removing the ceiling of total outstanding certificates sold by the board would not have a direct fiscal impact.

Oversight also assumes that Section 100.840.4 does not pertain to tax credits, and therefore, limiting them to $10 million annually would not have a fiscal impact.

INDUSTRIAL DEVELOPMENT (Senate Amendment 22);

Officials from the **Department of Economic Development** state this proposal requires an approval plan of development for industrial development projects, and should have no fiscal impact on their agency.

Officials from the **Office of Administration**, **Department of Revenue** and the **Office of the Secretary of State** each assume this proposal would not fiscally impact their respective agencies.

In response to similar legislation from this year, officials from the **City of Kansas City (CKC)** stated this bill requires no additional cost to the City unless they wish to authorize a project which would involve the issuance of revenue bonds or the conveyance of fee interest in property to the City. If the City wishes to authorize such a project, this bill would add the new and additional requirements that the impact of the project on real and personal property taxes be estimated.

CKC stated they currently prepare a plan for such projects. This bill requires that plan to be more specific and detailed, which would entail only a nominal increase in cost. The City currently holds public hearings before such projects. The other additional costs that would be incurred by the City, if this bill is adopted and the City elects to authorize a project, would be estimating the impact of a project on tax revenue to all the taxing jurisdictions. If the project is a large one, that cost to the City could be substantial ($10,000 or more). If it is a small, limited project, the City assumes the written estimate could be prepared for something less than $10,000.

Officials from the **State Tax Commission** assume this proposal would not fiscally impact their agency.

Officials from the **City of St. Louis**, **St. Louis County**, **Jackson County**, **City of Springfield** and the **City of Independence** did not respond to Oversight's request for fiscal impact.

<u>ASSUMPTION</u> (continued)

Oversight assumes the proposal would result in additional costs to local governments that have industrial development projects, if those projects involve the issuance of revenue bonds or involves the conveyance of a fee interest in property. Oversight assumes additional cost would result from the additional research and reporting that would be required and the amount is unknown but minimal to each local government, but may not be minimal in the state-wide aggregate.

Oversight also assumes the proposal may reduce property tax collections since some industrial development properties and the capital improvements made to them will go on the tax rolls later than under current law.

EMERGENCY SERVICES REIMBURSEMENT (Senate Amendment 23);

Officials from the **State Tax Commission** and **Department of Economic Development** assume the proposed legislation would not fiscally impact their organizations.

Officials from the **Department of Health and Senior Services (DOH)** stated this legislation would not be expected to significantly impact the operations of the DOH. If the proposal were to substantially impact the DOH programs, then the DOH would request funding through the legislative process.

Oversight assumes this amendment would increase the amount of TIF moneys transferred to emergency services.

MECHANIC LIEN IN ST. LOUIS (Senate Amendment 25);

Officials from the **Department of Economic Development** and the **Office of State Courts Administrator** indicated there would be no fiscal impact to their agencies as a result of this proposed legislation.

Officials from the **City of Saint Louis** stated that this proposed legislation pertains to allowing liens against derelict property for which the City has performed abatement. The existence of a lien would provide a means by which the City could pursue reimbursement for the costs of board-up or demolition, and thus potentially increase revenues received for this purpose. In 2001, the City of Saint Louis performed over $2.6 million in derelict building abatement and demolition work. In the same time frame, the City received just over $130,000 in payments.

<u>ASSUMPTION</u> (continued)

ENTERPRISE ZONE IN ST. LOUIS COUNTY (Senate Amendment 28);

In response to other legislation this year that established enterprise zones, officials from the **Department of Economic Development** stated that the average cost for each rural enterprise zone is $138,000.00 per year and the cost of a metropolitan EZ is $888,204.00. To calculate the cost of an enterprise zone, DED looks at the costs of EZ tax credits, refunds, and income modifications
(modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped. DED assumes no additional personnel but could request some should work created dictate this course of action.

DED assumed the new zone in St. Louis County would cost $888,204 starting in FY 2004.

In response to similar legislation from this year, officials from the **Office of Administration - Budget and Planning** provided the following summary of DED tax credit programs

Tax Credit Program	Current Annual Cap	FY 2003 Proj. Red.
Business Facility	None	$ 7,700,000
Development	$ 4,000,000	$ 2,880,000
Rebuilding Communities	$10,000,000	$ 4,000,000
Community Bank	$ 500,000	$ 1,500,000
Neighborhood Assistance	$18,000,000	$11,475,000
Transportation Development	$10,000,000	$ 5,586,000
Affordable Housing	$11,000,000	$11,000,000
Neighborhood Preservation	$16,000,000	$11,250,000
Total	$69,500,000	$55,391,000

Oversight has not reflected the possible positive benefits from the various economic development proposals and changes contained in this bill.

This proposal may impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Costs - Department of Revenue Programming charges - Missouri Downtown Economic Stimulus Act (MODESA)	($55,177 to Unknown)	$0	$0
Loss - loss of sales tax and income tax revenue - MODESA *	$0 to (15,000,000)	$0 to (15,000,000)	$0 to (15,000,000)
Loss - Satellite Zone in Springfield	$0	($60,000)	($60,000)
Loss - Expansion of enterprise zones allowed 3 times in each county	$0	(Unknown greater than $100,000)	(Unknown greater than $100,000)
Loss - Enterprise Zone in Wright Co.	$0	($138,000)	($138,000)
Loss - Enterprise Zone in Pulaski Co.	$0	($138,000)	($138,000)
Loss - E. Zone in St. Louis Co.(SA28)	$0	($888,204)	($888,204)

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Loss - Expansion of definition of "distressed community"	(Minimal)	(Minimal)	(Minimal)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($55,177 to Unknown)**	**($1,324,204) to (Unknown)**	**($1,324,204) to (Unknown)**

* Subject to appropriation

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

THE FISCAL IMPACT DOES NOT REFLECT POTENTIAL LOSS OF FEDERAL ADMINISTRATIVE GRANTS DUE TO POSSIBLE NONCOMPLIANCE WITH FEDERAL LAW. (SA 3)

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
COUNTIES, CITIES, TOWNS or VILLAGES			
Loss - Potential loss in property tax revenues (SA 22)	(Unknown)	(Unknown)	(Unknown)
Costs - new requirements for industrial development projects (SA22)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO COUNTIES, CITIES, TOWNS OR VILLAGES	**(Unknown)**	**(Unknown)**	**(Unknown)**

AMBULANCE DISTRICTS

Income - Ambulance Districts

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Additional 25% Reimbursement of Costs (SA23)	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON AMBULANCE DISTRICTS	**Unknown**	**Unknown**	**Unknown**
DISTRICT SPECIAL ALLOCATION FUND			
Costs - Ambulance Districts			
Reimbursement of 25% Additional Costs (SA23)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON DISTRICT SPECIAL ALLOCATION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**
CITY OF ST. LOUIS			
Income - City of Saint Louis			
Revenue from liens on real property (SA25)	**$0 to $2,500,000**	**$0 to $2,500,000**	**$0 to $2,500,000**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits may be fiscally impacted by this legislation.

DESCRIPTION

This proposal authorizes removal of property from the Springfield Community Improvement District (CID), or relocation of property from a certain zone of designation in the CID to a different zone. A public hearing must be conducted and approval by the board. The district must be able to meet its financial obligations without the revenues from the proposed portion to be removed.

RS:LR:OD (12/01)

This proposal also allows each municipality to create a "Downtown Economic Stimulus Authority," with certain provisions, which will constitute a public body corporate and politic to provide economic development within the municipality. The state may appropriate up to $15 million per year of general revenue collections to provide funding for projects created under this proposal.

DESCRIPTION (continued)

This proposal also gives the power of eminent domain to towns and villages with two hundred or more inhabitants.

Under current law, all seven members of the Kansas City Housing Authority Commission are appointed by the mayor, with one member from each of the six city council districts and the seventh member a tenant of a housing authority project. All commissioners must have resided in Kansas City for at least one year.

The proposal creates enterprise zones in Wright County and St. Louis County and a satellite zone in Springfield.

The proposal also allows enterprise zones to expand up to three times in each county that they are in, where currently, an entire enterprise zone can only expand three times, no matter how many counties it may be in.

This proposal makes several changes to the Neighborhood Preservation tax credit program within the Department of Economic Development.

Under current law, of the $16 million in community improvement tax credits allowed, $8 million are to
be allocated for "eligible residence" programs and $8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic
Development has issued all $8 million of the credits allowed for one of these programs and not the entire $8 million allowance for the other program, the director is required to reallocate 70% of any
unused tax credits from the program which has not reached its $8 million cap to the one which has.

The proposal also changes the definition of a "distressed community".

Senate Amendment 3 treats Indian tribes like any other employer for the purposes of unemployment reimbursement, requiring them to either pay contributions or make payments in lieu of contributions.

RS:LR:OD (12/01)

According to the Department of Labor and Industrial Relations this proposal is federally mandated as a result of Section 166 of the Community Renewal Tax Relief Act of 2000 as enacted by the Consolidated Appropriations Act, 2001(CAA), PL 106-554 requires States to make certain provisions for businesses solely owned by federally recognized Indian Tribes.

DESCRIPTION (continued)

Senate Amendment 7 defines the following new terms in the Real Property Tax Increment Allocation Redevelopment Act: "eligible employee," "high unemployment," "low-fiscal capacity," "moderate income," "new job," "public subsidy," "redevelopment project of regional significance," and "unfair competition."

The proposal states that no redevelopment plan that requires the relocation of any homeowners from the proposed development area shall be adopted by a municipality until the plan has been submitted to the qualified voters of the municipality and a majority approve the plan.

The proposal changes criteria used to evaluate redevelopment projects funded by tax increment financing (TIF) in the City of St. Louis and in St. Louis, Jefferson, Warren, St. Charles, Franklin, Lincoln, St. Francois and Ste. Genevieve counties. The proposal requires approved project areas to have high unemployment, low fiscal capacity, and moderate income; to be a redevelopment project of regional significance; to avoid unfair competition with existing business; and to meet other criteria showing economic decline.

The proposal also limits the maximum amount of public funding for approved TIF projects to 30% of the total project costs, unless the redevelopment is occurring in certain specified areas. The proposal does not allow TIF to be used to develop sites where 25% or more of the area is vacant and has not been previously developed, or qualifies as "open space" as defined in Section 67.900, RSMo, or is presently being used for agricultural or horticultural purposes, except in certain cases.

The proposal requires an economic feasibility analysis indicating the return on investment of the proposed development and a study verifying that the proposed redevelopment property has not previously been developed through private enterprise. It allows sharing of payments in lieu of taxes among affected political subdivisions.

The proposal also requires the enumerated counties and the City of St. Louis to create regional tax increment financing review authorities for the purpose of determining whether projects submitted by municipalities within the counties meet the criteria as provided in the bill and approving or rejecting the projects.

The proposal also entitles said counties to reimbursement from the special allocation fund for direct costs of providing emergency services.

DESCRIPTION (continued)

The proposal also states that no tax increment financing project shall be approved until all political subdivisions affected by the project, approve the project by a majority vote of the political subdivision's governing body.

Senate Amendment 21 deletes the limit of outstanding certificates that can be sold by the Missouri Development Finance Board, which was $75 million. The amendment also states that the tax credits in 100.840.4 shall not exceed $10 million annually.

Senate Amendment 22 states that any municipality proposing to carry out a project for industrial development must first, by majority vote of the governing body of the municipality, approve the plan for the project. This proposal adds to the requirements of the plan for projects approved after August 28, 2002.

Such project plan shall include, in addition to the current law, the following information: (1) A statement identifying each taxing district affected by such project; (2) The most recent equalized assessed valuation of the real property and personal property included in the project, and an estimate as to the
equalized assessed valuation of real property and personal property included in the project after development; (3) An analysis of the costs and benefits of the project on each taxing district; and (4)

Identification of any payments in lieu of taxes, contributions, grants or other payments of any nature whatsoever expected to be made by any lessee of the project, and the disposition of any such payments by the municipality.

The proposal requires a public hearing, with notice provisions, to hear and consider the proposed plans and any objections.

Industrial development projects are considered new construction for the purposes of Section 137.073, relating to property tax assessments.

Senate Amendment 23 provides that any fire protection or emergency services district that provides emergency services to a redevelopment area shall be entitled to reimbursement from the special allocation fund in an amount of between 50% and 100% of the district's tax increment. Currently, the district must provide evidence to the municipality that any costs incurred by the district are directly attributable to the operation of the redevelopment project. Current law also provides that the district must demonstrate that the increased revenues the district receives from the project are insufficient to cover their costs to provide such services. This act removes both of these current requirements.

DESCRIPTION (continued)

Senate Amendment 25 allows the City of St. Louis to place a lien on real property when it has ordered a mechanic or other person to demolish a dangerous building on that property and it has paid the person for the work within 120 days of completing the work.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Agriculture
Department of Insurance
Office of Administration - Budget and Planning
Wright County
Missouri Housing Development Commission
Office of the State Courts Administrator
City of Springfield
City of Kansas City
Village of Bel-Ridge
Village of Bel-Nor
Jefferson County Commission
Department of Labor and Industrial Relations
State Auditor's Office
State Treasurer's Office
Department of Health
City of St Louis

Mickey Wilson

Mickey Wilson, CPA
Acting Director

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