

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0882-02
Bill No.: HB 289
Subject: Cities, Towns and Villages; Economic Development; Economic Development Department; Taxation and Revenue - General.
Type: Original
Date: February 18, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	\$0 to (\$150,000,000)	\$0 to (\$150,000,000)
Total Estimated Net Effect on General Revenue Fund *	\$0	\$0 to (\$150,000,000)	\$0 to (\$150,000,000)

* Subject to appropriation. Language in the proposal indicates "may."

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State Supplemental Downtown Development Fund **	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds **	\$0	\$0	\$0

** Income and expenses for each fiscal year net to zero.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0 to \$150,000,000	\$0 to \$150,000,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state the bill requires an initial appropriation of fifty million dollars, with subsequent appropriations of the lesser of previous year's new revenue plus \$50 million or \$150 million, but annual appropriation is capped at \$100 million.

DED states that it appears the mechanism for using state revenue for a project would allow 100% of the state increment to go back to a project, thus there would be no net benefit to the state and perhaps a net loss to the state in TSR.

Assuming that the program would require work on at least 25 projects per year and an amount of up to \$100 million total, DED assumes it would need one Economic Development Incentive Specialist II (at \$37,488 annually) plus associated costs to administer their part of the program. The DED costs would need to be appropriated through General Revenue. A billing could be sent and costs recovered from the locals from the increment funds. The reimbursement would be paid back to GR funds when received.

ASSUMPTION (continued)

Applications for state financing are made to the Missouri Development Finance Board (MDFB), which forwards its recommendation to DED. The MDFB anticipates the need for one professional (at \$55,000 annually) and one support person (at \$28,500 annually), plus associated costs to perform the work required of the Board. The MDFB assumes a total cost of roughly \$170,000 in each of the three fiscal years in the fiscal note. All cost for MDFB are assumed to be local because they are assessed and re-paid.

In response to a similar proposal from last year, the MDFB assumed they could administer the program with one additional FTE. Therefore, **Oversight** has reduced the expenses of the MDFB to reflect the one professional FTE at costs anticipated on last years' fiscal notes.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist II to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

In response to similar legislation from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposal makes the following changes:

Section 99.917 (13) definition of major initiatives. BAP stated that it is unknown the additional number of municipalities which would participate under this section.

The proposal allows the General Assembly to appropriate up to five percent of the state sales tax increment portion of other net new revenues generated by the development projects to the "community development corporation revolving fund", beginning January 1, 2004. It also states that at no time shall the sum of grants exceed one million five hundred dollars annually. Other net new revenues are defined as, the amount of state sales tax increment or state income tax increment or the combination of the amount of each increment. BAP assumed this may increase Total State Revenue.

The proposal also allows a municipality to submit an application to the Missouri Development Finance Board for approval of the use of other net new revenues to fund one or more development projects through state supplemental downtown development financing. It states that at no time shall the annual amount of other net new revenues for state supplemental downtown development financing exceed one hundred million dollars. BAP assumed this has no impact to Total State Revenue.

ASSUMPTION (continued)

RAS:LR:OD (12/02)

The proposal also allows the Department of Economic Development, the Office of Administration and the Department of Revenue to charge a fee to recover costs from the municipality fund for evaluation, administration and implementation of development plans. BAP assumed this could increase Total State Revenue.

And finally, the proposal allows the General Assembly to annually appropriate up to one hundred fifty million dollars to the state supplemental downtown development fund.

Officials from the **Department of Revenue (DOR)** state the proposal states that DOR will provide "the aggregate baseline year amount of state sales tax revenues and the aggregate baseline year amount of state income tax withheld on behalf of existing employees, reported by existing businesses within the development project area". Businesses currently report withholding taxes by company, not by location of employees. This provision would require businesses within the project area to provide this data by location to DOR. Without some idea of the number of businesses involved in the project area, the number of locations, employees and system changes necessary to compile this data, there would be an unknown cost to DOR to implement this legislation.

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

Officials from the **City of Kansas City (CKC)** state this legislation will have a positive fiscal impact on them. CKC stated the actual amount cannot be estimated at this time and that it would need to be based on what projects came forward.

Officials from the **City of St. Louis** and **St. Louis County** did not respond to our request for fiscal impact.

Oversight assumes the loss of revenue for the state is \$0 to (\$100 million), 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 there is a cap on the annual amount of "other net new revenues" of \$100 million. The annual amount the General Assembly can appropriate each year from the General Revenue Fund to the State Supplemental Downtown Development Fund is the lesser of net new revenues (capped at \$100 million) plus \$50 million, or \$150 million.

ASSUMPTION (continued)

Oversight also assumes that all costs incurred by DOR and DED shall be paid out of the State

Supplemental Downtown Development Fund. Oversight also assumes the DED will, in accordance with Section 99.945 (7) and (8), charge a fee to the various municipalities to cover their costs to administer the program. This fund could require a General Revenue appropriation if DED is not able to recoup the expenses incurred by the State. Oversight further assumes DED will disburse all of the remaining monies in the State Supplemental Downtown Development Fund to the local governments in charge of the various projects.

This proposal could impact Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Transfer Out</u> - Incremental state sales and income taxes directed to the State Supplemental Downtown Development Fund			
	\$0	\$0 to (\$100,000,000)	\$0 to (\$100,000,000)
<u>Transfer Out</u> to State Supplemental Downtown Development Fund			
	\$0	\$0 to (\$50,000,000)	\$0 to (\$50,000,000)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND *	<u>\$0</u>	<u>\$0 to (\$150,000,000)</u>	<u>\$0 to (\$150,000,000)</u>

* Subject to appropriation

**STATE SUPPLEMENTAL
 DOWNTOWN DEVELOPMENT
 FUND**

Income - DED is allowed to charge a fee and recover costs to reimburse the state for COA, DOR & DED expenses from local projects

\$76,030 to Unknown	\$159,801	\$155,044
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Costs - Department of Revenue

To determine baseline year taxes	(Unknown)	\$0	\$0
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Costs - MDFB

Personal Service (1 FTE)	(\$41,667)	(\$51,250)	(\$52,531)
Fringe Benefits	(\$16,863)	(\$20,741)	(\$21,259)
Expense and Equipment	<u>(\$17,500)</u>	<u>(\$21,630)</u>	<u>(\$22,280)</u>
<u>Total Costs - MDFB</u>	<u>(\$76,030)</u>	<u>(\$93,621)</u>	<u>(\$96,070)</u>

Costs - DED

Personal Service (1 FTE)	\$0	(\$32,338)	(\$33,147)
Fringe Benefits	\$0	(\$13,087)	(\$13,415)
Expense and Equipment	<u>\$0</u>	<u>(\$20,755)</u>	<u>(\$12,412)</u>
<u>Total Costs - DED</u>	<u>\$0</u>	<u>(\$66,180)</u>	<u>(\$58,974)</u>

Transfer In - from General Revenue Fund

	\$0 to	\$0 to
\$0	\$150,000,000	\$150,000,000

Transfer Out - to various local economic development projects.

	\$0 to	\$0 to
<u>\$0</u>	<u>(\$150,000,000)</u>	<u>(\$150,000,000)</u>

ESTIMATED NET EFFECT TO THE STATE SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Local Government

FY 2004 (10 Mo.)	FY 2005	FY 2006
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LOCAL POLITICAL SUBDIVISIONS

Transfer In - from State Supplemental Downtown Development Fund

<u>\$0</u>	<u>\$0 to</u> <u>\$150,000,000</u>	<u>\$0 to</u> <u>\$150,000,000</u>
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FISCAL IMPACT - Small Business

This proposal would impact small businesses that are within a designated development areas as defined by the municipality's Downtown Economic Stimulus Authority.

DESCRIPTION

This proposal:

- (1) Allows each municipality to create by ordinance a Downtown Economic Stimulus Authority, which will constitute a public body corporate and politic;
- (2) Restricts the authority from funding the construction, maintenance, or operation of any sports stadium or related facility;
- (3) Requires each authority to be governed by a board of commissioners with five to 13 members. The commissioners will be appointed by the mayor or chief executive officer of the municipality and will serve three year terms. In St. Louis County, three of the members will be appointed by the cities in the county which have tax increment financing districts;
- (4) States the powers of the board and of the authority;
- (5) Requires each municipality to establish a minority business plan to ensure that minority-owned businesses are provided good faith opportunities to participate in the procurement of goods and services within the development project areas;
- (6) Outlines methods by which real property can be disposed of;

DESCRIPTION (continued)

- (7) Outlines the required process for reviewing and accepting developer proposals;
- (8) Explains what the authority may do to carry out a development project, including how to transfer real property;

(9) Outlines the requirements of a development plan and the process by which it must be reviewed and adopted by the municipality. Among other things, the proposal requires that the development plan include a cost-benefit analysis showing the economic impact of the development plan on the municipality and the school districts that are at least partially within the boundaries of the development area. Also, the proposal prohibits the development plan from including the initial development or redevelopment of any gambling establishment;

(10) Requires that Kansas City, St. Louis City, and St. Louis County work with local community development corporations during the designation of the development area, development projects, and development project areas. The proposal further requires that a goal of 5% of the funds generated be spent on projects associated with community development corporations;

(11) Allows the municipality or the authority to issue bonds to finance development project costs. The proposal prohibits the state from issuing bonds to finance development project costs;

(12) Explains the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;

(13) Allows the municipality to submit an application to the Missouri Development Finance Board for approval of the use of other net new revenues to fund one or more development projects through state supplemental downtown development financing;

(14) Creates the State Supplemental Downtown Development Fund which will be administered by the Department of Economic Development;

(15) Considers the portion of salaries and expenses allocated by the Departments of Economic Development and Revenue to each development project approved for state supplemental downtown development financing to be eligible project costs and requires reimbursement of these amounts to be deposited in the State Supplemental Downtown Development Fund;

DESCRIPTION (continued)

(16) Prohibits a development project approved for state supplemental downtown development

financing from receiving tax increment financing as well;

(17) Allows the General Assembly to annually appropriate into the fund other net new revenues generated by the development projects during the prior fiscal year plus \$50 million or \$150 million, whichever is less;

(18) Requires the Department of Economic Development to annually disburse financing from the fund in amounts determined by the certificates of approval for projects. If the revenues in the fund are not sufficient to equal the amounts indicated on certificates of approval, the department will disburse revenues on a pro rata basis to all approved projects;

(19) Prohibits municipalities from obligating other net new revenues prior to receiving a certificate of approval;

(20) Requires a joint committee of the General Assembly to review the act every five years, beginning in 2008. A report must be issued to the Speaker of the House of Representatives and the President Pro Tempore of the Senate no later than February 1 following the year in which the review was conducted; and

(21) Requires the municipality to submit an annual report concerning the status of the development plan to the Director of the Department of Economic Development.

Relating to the Community Development Corporation Revolving Fund, the proposal:

(1) Allows Kansas City, St. Louis City, and St. Louis County to establish a Community Development Corporation Revolving Fund for the purpose of providing funds to community development corporations to stimulate economic development, housing, and other public benefits leading to the development of economically sustainable neighborhoods;

(2) Requires that the fund be administered by a board with 13 members appointed by the mayor or chief executive officer of the municipality. Of these 13 members, one must be a member of the local regional community development association and one must be an owner of a minority business;

DESCRIPTION (continued)

(3) Allows the General Assembly to appropriate up to 5% of the state sales tax increment

portion of other net new revenues generated by development projects certified for state supplemental downtown development financing, but not being used for that purpose, to be deposited into the State Supplemental Downtown Development Fund for the purpose of providing grants to Kansas City, St. Louis City, and St. Louis County for Community Development Corporation Revolving Fund programs; and

(4) Prohibits the sum of the grants from exceeding \$1.5 million annually.

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
Office of the State Treasurer
City of Kansas City
Department of Transportation
Office of Administration - Budget and Planning

NOT RESPONDING: **City of St. Louis, St. Louis County**



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