

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0734-04
Bill No.: SCS for SB 253
Subject: Office of Administration; Cities, Towns and Villages; Economic Development;
Kansas City; Taxation and Revenue.
Type: Original
Date: March 3, 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 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
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.

DED states that this committee substitute modifies the definition of "baseline year" which serves as the basis for calculating state increment. The application of this revised definition is not clear but it appears it could, in conjunction with the new definition of "out of state business", result in a net loss to the state in Total State Revenue purported to be net new increment.

ASSUMPTION (continued)

DED states 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.

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.

Officials from the **Office of Administration - Budget and Planning (BAP)** states the proposal makes the following changes:

Section 99.918 (14) definition of major initiatives. BAP states that it is unknown the additional number of municipalities which would participate under this section.

Section 99.939.3 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 assumes this could have a negative impact on General Revenue.

ASSUMPTION (continued)

Section 99.960. 1 and 4 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. Subsection 4 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 assumes this has no impact to Total State Revenue.

Section 99.960.7 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 assumes this could increase Total State Revenue.

And finally, section 99.963.2 allows the General Assembly to annually appropriate up to one hundred fifty million dollars to the state supplemental downtown development fund. There is no impact to Total State Revenue, but this section could have a negative impact on the General Revenue Fund.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** stated Section 99.960 specified that DOR would 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 **City of Kansas City** and the **Office of the State Treasurer** each assume this proposal would not fiscally impact their respective agencies.

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

ASSUMPTION (continued)

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.

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 99.960 (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 - Incremental state sales and income taxes directed to the State Supplemental Downtown Development Fund</u>	\$0	\$0 to (\$100,000,000)	\$0 to (\$100,000,000)
<u>Transfer Out to State Supplemental Downtown Development Fund</u>	\$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)
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Fringe Benefits

(\$16,863)	(\$20,741)	(\$21,259)
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Expense and Equipment

<u>(\$17,500)</u>	<u>(\$21,630)</u>	<u>(\$22,280)</u>
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Total Costs - MDFB

<u>(\$76,030)</u>	<u>(\$93,621)</u>	<u>(\$96,070)</u>
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Costs - DED

Personal Service (1 FTE)

\$0	(\$32,338)	(\$33,147)
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Fringe Benefits

\$0	(\$13,087)	(\$13,415)
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Expense and Equipment

<u>\$0</u>	<u>(\$20,755)</u>	<u>(\$12,412)</u>
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Total Costs - DED

<u>\$0</u>	<u>(\$66,180)</u>	<u>(\$58,974)</u>
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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

LOCAL POLITICAL SUBDIVISIONS

Transfer In - from State Supplemental
 Downtown Development Fund

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

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 creates the Missouri Downtown Economic Stimulus Act. The provisions of the proposal shall not be construed to provide funding for sports stadiums or related facilities. Powers in the proposal are to be exercised by authorities created in the proposal.

A Downtown Economic Stimulus Authority is created in each municipality upon the enactment of an ordinance establishing a development area in accordance with the act. Each Authority will be governed by a Board of Commissioners which will consist of between 5 and 14 members with staggered terms of three years. Commissioners will be appointed by the mayor or chief executive. One of the Commissioners will be appointed by the school district or districts within the development area for a term of three years. In addition to the Commissioners, a non-voting advisor shall be appointed by the other taxing districts located within the development area.

The powers of the Authority shall be exercised by its Board of Commissioners and powers of the authority are specified. The Authority shall be a public body corporate and politic. Powers granted to the authority are specified, excluding the right to acquire property by eminent domain. Certain information must be included in a development plan.

The proposal allows Kansas City, St. Louis City or St. Louis County to enact an ordinance establishing a fund for the purpose of providing funds to a community development corporation. The Community Development Corporation Revolving Fund is created. A board to administer the fund is created. Funding is provided from 5% of the state sales tax increment portion from other net new revenues

DESCRIPTION (continued)

generated from projects certified for state supplemental downtown development financing.

Prior to the adoption of the ordinance designating the development area, adopting a development plan or adopting a development project, the authority must hold a public hearing. Projects must be located in the central business district. Projects must also cost specified amounts as well as create certain numbers of new jobs depending on the size of the municipality.

A municipality may adopt development financing for the development project area and a special allocation fund for the deposit of certain taxes from the development area to be apportioned or diverted pursuant to the Real Property Tax Increment Allocation Redevelopment Act if all or a part of the development project area becomes subject to tax increment financing. The definition of "baseline year" provides that if state withholding tax revenues and sales tax revenues from businesses other than out-of-state businesses locating in the area decrease in the year following adoption of the ordinance, the baseline year shall be the year after.

The municipality may submit the development plan to the Missouri Development Finance Board for approval of the use of tax increment financing and if submitted must contain certain information. The municipality may request certain information from the Department of Revenue which must be provided within 45 days of the request. The General Assembly may annually appropriate the lesser of the tax increment increase plus \$50 million or \$150 million into the state supplemental downtown development fund which is created.

The proposal establishes a Missouri Downtown Economic Stimulus Act Joint Legislative Committee which will consist of ten members of the General Assembly, five from each body.

The Authority must make a report to the Director of the Department of Economic Development by the end of February each year. The Director shall then compile a report for submission to the Governor and General Assembly.

Every five years after the establishment of a development plan, the governing body of the authority must hold a public hearing. The Director of the Department of Economic Development shall provide information and technical assistance as requested by any municipality.

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

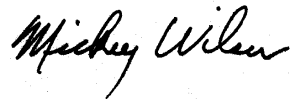
SOURCES OF INFORMATION

RAS:LR:OD (12/02)

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Department of Economic Development
Department of Revenue
Office of Administration
 Budget and Planning
Office of the State Treasurer
City of Kansas City
Department of Transportation

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 3, 2003