

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2909-03
BILL NO.: SB 802
SUBJECT: Economic Development; Cities, Towns, and Villages; Counties; Taxation and Revenue - General; Taxation and Revenue - Property; Revenue Department.
TYPE: Original
DATE: February 7, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal revises criteria used to evaluate redevelopment projects funded by tax increment (TIF) financing. It also requires the DED to do a cost benefit analysis of the redevelopment plans submitted.

The DED assumes the need for one (1) Economic Development Program Administrator (\$54,840) to coordinate the work associated with the cost benefit analysis and one (1) Clerk Typist IV (\$25,440) to prepare documents and correspond with developers, host municipalities, and surrounding municipalities. The DED estimates there will be up to 30 local TIF projects in 120 local TIF districts each year. The DED assumes the services of an outside vendor will be utilized to conduct the cost benefit analysis work, under the guidance and coordination of the DED. The DED contacted the Midwest Research Institute in Kansas City, Missouri and they projected the charge to do the cost benefit analysis as roughly \$30,000 for each analysis. Since the number of cost benefit analyses to be conducted each year will vary, the DED would submit a budget request for an estimated appropriation amount to cover the varying costs of the cost benefit analysis.

The DED would have to charge the costs to the developer so there would be some collection efforts. The DED assumes they would need to spend \$15,000 for an upgrade of computer software to the REMI model to verify the cost benefit analysis work done by the vendor. The DED also assumes there would also be additional costs of \$10,000 per year for data maintenance, software upgrades, software training and equipment upgrades.

Officials from the **Department of Revenue (DOR)** state this proposal revises the criteria used to evaluate redevelopment projects funded by tax increment financing. If this revision causes major change in the DOR systems, certain system development costs could result. At present time, however, the DOR does not foresee major change and are projecting no administrative impact to their agency.

The **City of Kansas City** states the proposed changes in the TIF statutes contained in this bill have the potential of severely restricting Kansas City's ability to use TIF to accomplish their development goals. While a number of the proposed changes appear to be geographical limitations on where TIF could be applied, there are also several proposed changes which could effectively restrict the local governments ability to decide on projects and hold out the potential of having each project be forced to go through a Circuit Court review.

The **Office of State Courts Administrator** assumes this proposal will not fiscally impact their agency.

ASSUMPTION (continued)

The **City of Springfield** and the **City of Saint Louis** did not respond to our requests for fiscal impact.

Oversight assumes the Department of Economic Development can collect the contract expense from the project developers for the cost benefit analysis in the same fiscal year that the expenditure occurs. Oversight also assumes the DED will not require the additional FTE nor the computer expenses since they are expecting to contract out the cost ratio analysis evaluations.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE

<u>Costs</u> - Department of Economic Development			
Contract expense for cost benefit analysis	(\$749,700)	(\$927,000)	(\$954,810)

<u>Income</u> - Recovery of contract expense for analysis from the TIF developer	\$749,700	\$927,000	\$954,810
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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	\$0	\$0	\$0
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FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses if they are in a potential tax increment financing district.

DESCRIPTION

This proposed legislation modifies requirements for redevelopment projects funded through tax increment financing. Redevelopment projects must meet existing requirements and have low fiscal capacity, high unemployment, or be characterized by poverty and be located in an area where the overall assessed valuation has not increased in the last 6 years, and the area must have experienced out migration of businesses and residents.

No more than 50% of the costs of a project may be expended for retail development unless the area is a distressed community or a federal enterprise or empowerment zone, or at least 50% of the residents are living in poverty.

Developers must submit their plans to the government body and the Department of Economic Development. The Department will conduct a cost-benefit analysis based upon criteria set out in the act. The analysis must be complete in 180 days and the Department may charge a fee for conducting the analysis in an amount that does not exceed the cost.

No more than 30% of project costs may be derived from public funds but under the following circumstances 50% of the cost may be derived from public funds:

- (1) The area meets two of three criteria (low fiscal capacity, high unemployment or poverty); or
- (2) At least 20% of the cost is allocated to affordable housing.

Developers and municipalities are required to report to the Department of Economic Development each year and the Department will issue an annual report examining the impact of each project, using the criteria initially used to evaluate the project.

Any affected person may file an action to challenge a decision relating to tax increment financing within 60 days of the decision.

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

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SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
City of Kansas City
Office of the State Courts Administrator

**NOT RESPONDING: City of Springfield
City of Saint Louis**



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Director
February 7, 2000