

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 0129-01
BILL NO.: SB 79
SUBJECT: Economic Development; Cities, Towns, and Villages; Counties; Taxation and Revenue - General; Taxation and Revenue - Property; Revenue Department.
TYPE: Original
DATE: January 17, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	Unknown	Unknown	Unknown

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 (\$55,860) to coordinate the work associated with the cost benefit analysis and one (1) Clerk IV (\$26,460) to prepare documents and correspond with developers, host municipalities, and surrounding municipalities. The DED estimates there will be up to 20 local TIF projects 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 in certain areas and will not fiscally impact their agency.

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

The **County Commission of Jefferson County** assumes the fiscal impact from this proposal is unknown.

Officials from the **St. Charles County Government** assume passage of this legislation would result in significant sales tax savings for their agency. They state that although it is not possible to estimate the amount of savings this proposal would provide, abuse of the current TIF law by municipalities within the county is costing St. Charles County Government approximately \$1 million per year. This proposal would restrict the use and amount of public funds for projects

ASSUMPTION (continued)

which would economically warrant such assistance. Although this proposal would have no effect on current TIFs, it would limit future TIFs, which would reduce or eliminate the diversion of additional sales taxes from the County to municipalities.

Officials from the **City of St. Louis, St. Louis County, Warren County and Franklin County** did not respond to our request 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 2002	FY 2003	FY 2004
	(10 Mo.)		
GENERAL REVENUE			
<u>Costs - Department of Economic Development</u>			
Contract expense for cost benefit analysis	(\$500,000)	(\$618,000)	(\$636,540)
<u>Income - Recovery of contract expense for analysis from the TIF developer</u>			
	<u>\$500,000</u>	<u>\$618,000</u>	<u>\$636,540</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002	FY 2003	FY 2004
	(10 Mo.)		
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue - Reimbursement from the Special Allocation Fund for emergency service</u>			
	Unknown	Unknown	Unknown

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 proposal modifies requirements for redevelopment projects in St. Louis City, St. Louis County, St. Charles County, Jefferson County, Warren County and Franklin County funded through tax increment financing. Redevelopment projects must meet existing requirements and have low fiscal capacity, high unemployment or be characterized by poverty and any one of a series of indices of economic decline.

No more than 50 percent 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 90 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 percent of project costs may be derived from public funds, but under the following circumstances, 50 percent of the cost may be derived from public funds:

- The area meets two of three criteria (low fiscal capacity, high unemployment or poverty); or
- At least 20 percent 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.

Ambulance and fire districts shall be entitled for reimbursement of funds lost due to TIF projects for direct costs only in an amount not less than 25 percent of the revenue loss.

This act has an effective date of July 1, 2002.

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

RAS:LR:OD:005 (9-94)

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Department of Revenue
Office of the State Courts Administrator
Jefferson County Commission
St. Charles County

NOT RESPONDING: St. Louis County
City of Saint Louis
Warren County
Franklin County



Jeanne Jarrett, CPA
Director
January 17, 2001