

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4508-07
Bill No.: HCS for SB 1186
Subject: Political Subdivisions: Land Purchases, Public Works
Type: Original
Date: May 10, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue *	(\$154,348 to Unknown)	(\$105,135 to Unknown)	(\$108,336 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds	(\$154,348 to Unknown)	(\$105,135 to Unknown)	(\$108,336 to Unknown)

* Some of the costs incurred by the state may be reimbursed.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 15 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Transportation** assume no fiscal impact from this proposal.

Section 67.320: Land Set Aside for Future Public Works

Oversight assumes that this is a procedural change for political subdivisions that would set-aside private property for future public works projects, and political subdivisions would have to consider this requirement when planning projects. Any fiscal impact would be discretionary. Oversight assumes no state or local fiscal impact. Oversight assumes the requirement of purchasing the property within ten years of the date of plan approval would be beyond the scope of this fiscal note, therefore, fiscal impact in FY 03, 04, and 05 to local governments is \$0.

Sections 82.293 and 82.294: Political Subdivisions, Surcharges for Schools

Department of Economic Development- Public Service Commission officials assume this proposal would have no fiscal impact to their Commission.

City of Springfield- City Attorney's Office stated that the yearly fiscal impact to the City of Springfield, if the City were not allowed to require that the cities of Strafford, Willard, and Battlefield collect and pay to the City of Springfield the Sewer Connection Fees for their new sewer customers, would have a loss of \$80,000 each year.

Oversight assumes if there would be any Constitutional Charter City that is imposing a surcharge or fee for the benefit of another political subdivision, without statutory authority, then that political subdivision would realize a loss of fees.

Chapter 99: Downtown Economic Stimulus Act

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact regarding the perfected version of this proposal. However, in response to an earlier version of this proposal, DED 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.

ASSUMPTION (continued)

DED stated this bill would include more state revenues than State TIF currently does. State TIF

allows up to half of one or the other type of state increment to go to a project. MODESA dedicates 100% of both types of state increment. Of importance to determining fiscal impact is that the incremental state income tax for "new jobs" is based upon new hires in the area after approval of the development plan. This does not ensure that the new jobs are new to the state and therefore there is a potential for a loss of revenue that the state currently receives.

DED assumed the need for the assistance of contract labor to review information received and produce the two reports required. DED also assumed contract labor help to develop the manual required by 99.984 RSMo and assumes that annual updates would be required. DED assumed contract costs for performing the cost benefit analysis required by 99.948 RSMo. DED assumed there will be some unknown costs to comply with 99.969 that requires General Revenue to pay for DED costs to provide assistance with this section. Cost would be unknown.

DED also assumed there would be an unknown impact on state tax revenue collections. This proposal may actually result in a net loss of revenue to the state due to the fact that it does not require that the state income tax diverted be for new jobs to the state but only for new hires to a business in the development area after the approval of the development plan.

The MDFB anticipates the need of one professional FTE (at \$50,000) to accomplish tasks imposed plus associated expenses. The MDFB would recover these costs as development finance costs from the proceeds received by the authority from the municipality or the state. Therefore, these costs are stated as local costs. All costs for DED and MDFB are estimates and are subject to adjustment.

Oversight assumes the costs incurred by DED would be paid from the General Revenue fund.

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 than one location only file one withholding tax return and report income tax withheld for both locations on one return.

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.

ASSUMPTION (continued)

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.

Officials from the **Office of Administration - Budget and Planning (BAP)** state 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 99.945.14 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.

Section 99.945.18 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.

Section 99.969.6 gives a sales tax offset to municipalities for local development in amounts ranging from \$10 million to \$40 million, per municipality. It is unknown how many municipalities would participate in the program. As an example of the magnitude of the potential impact - if the 50 largest cities and the 15 largest counties in the state each had one project under this section, then \$850 million in tax revenue would not be collected by the state

ASSUMPTION (continued)

each year. The definition of "municipality" in Section 99.945 of the bill includes all cities, villages, townships and counties.

Section 99.969.7(1) gives a 100% sales tax credit to any new or existing business in a development project area. In FY 2003, it is estimated that \$919.4 million in local sales tax revenue will be generated. It is unknown how much in local sales taxes would be generated in these zones that employers could then take as a credit against their state tax liability.

Section 99.969.7(2) gives all employees of an approved development project area an entitlement to receive a 100% tax credit of the 2% of withholding taxes that are diverted to the municipality against their state income tax liability. The amount of credits that could be claimed against this section are unknown. BAP states they have no way of estimating the number of jobs that would qualify under this language.

Officials from the **City of Springfield** assume 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.

ASSUMPTION (continued)

Oversight assumes the loss of revenue for the state is \$0 to unknown, 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.

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. Oversight notes that some of the expenses incurred by the Department of Revenue and the Department of Economic Development may be reimbursable from the municipality fund and has indicated such expenses with an “*”.

This proposal could impact Total State Revenues.

Section 141.720 - 141.790: Land Trusts

Oversight assumes that most of the changes in these sections are procedural, some are permissive, and would have no fiscal impact. Section 141.770.6 states that in addition to the required annual audit, that the Land Trust may be performance audited by the State Auditor or the City of Kansas City Auditor, with the cost to be paid by the Land Trust. Oversight does not know if either entity would audit, therefore, fiscal impact in a given year would be \$0 if no audit occurred, or an unknown cost of an audit.

Section 392.410 : Cities: Telecommunications

In response to similar legislation HB 1402, the following entities made the following statements:

Officials of the **Department of Economic Development - Public Service Commission** and the **Department of Economic Development - Office of the Public Counsel** stated that the proposal would not significantly affect their agencies.

Officials of the **City of Kansas City** stated, in response to the original proposal, that while the proposal would not affect any sources of city revenue it would, by making permanent the prohibition on city-provided telecommunication services, eliminate a possible future source of revenue. **Oversight** notes that this proposal would allow cities to, with voter approval, own and operate cable television facilities. Therefore, it is assumed that Kansas City would not be affected.

ASSUMPTION (continued)

Sections 650.390 - 650.411: Emergency Communications System- St. Louis County

In response to identical legislation from both this year and last year the following statements were made:

Officials of the **Department of Revenue** stated that if St. Louis County were to establish an

Emergency Communications Systems District, and voters would approve a sales tax as its funding source, then the department would normally collect a 1% collection fee; **however, this proposal does not provide for the DOR to collect the sales tax or provide for a 1% collection fee to be retained by the DOR.** Officials stated that if an Emergency Communications Systems District were established, and the DOR was to collect the sales tax for the county, there would be no administrative impact because the district has a defined boundary.

Oversight assumes, provided the voters would adopt the imposition of a sales tax, that this proposal does not require the Director of Revenue to collect the sales tax, and does not provide for the retention of a 1% collection fee. Therefore Oversight will show fiscal impact to the Department of Revenue as \$0. This proposal does not require St. Louis County to establish an Emergency Communications Systems District.

Officials of the **City of Kirkwood** assume this proposal is permissive, and would only have impact if the County with voter approval would establish an emergency communications system district. Assuming that the Kirkwood Chief of Police were appointed a member of the communication commission, officials would expect a time commitment of 6 hours per month. The cost is already embedded in the salary structure, but it has a value of \$3,545 annually. Officials assume no fiscal impact.

Officials of **University City** assume no fiscal impact.

The following political subdivisions did not respond , however, in response to similar legislation from last session, the following subdivisions submitted their fiscal impact statements:

Officials of the **Office of the Director of Administration for St. Louis County** stated that this proposal would not have any fiscal impact for St. Louis County because they are not obligated to set up an Emergency Communications Systems District.

Officials of the **University City Police Department, LeMay Fire Protection District**, assume there would be no fiscal impact. Officials assume there would be election costs if voters were asked to approve a funding source.

ASSUMPTION (continued)

Officials of the **Creve Coeur Police Department, City of Bridgeton Police Department and the City of Brentwood Police Department** stated that if an Emergency Communication tax were approved by the voters their departments would be able to afford communication equipment that is needed. Officials assume no impact to their departments.

Oversight assumes this is enabling legislation and would require action by St.Louis County's governing body with voter approval of either a 6 cents per one hundred dollars of assessed

valuation tax levy, or a sales tax that could not exceed one-tenth of one percent before there would be fiscal impact. Oversight assumes there would be income from the tax, and costs of establishing and maintaining an Emergency Communications System.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Loss</u> - loss of sales tax revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - loss of income tax revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs</u> - DED *			
Contract labor charges	(\$25,000)	(\$13,800)	(\$14,609)
<u>Costs</u> - MDFB *			
Personal Service (1 FTE)	(\$41,667)	(\$51,250)	(\$52,531)
Fringe Benefits	(\$15,004)	(\$18,455)	(\$18,916)
Expense and Equipment	<u>(\$17,500)</u>	<u>(\$21,630)</u>	<u>(\$22,280)</u>
<u>Total Costs</u> - MDFB	(\$74,171)	(\$91,335)	(\$93,727)
<u>Costs</u> - Department of Revenue *			
Programming charges	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$154,348 to <u>Unknown</u>)	(\$105,135 to <u>Unknown</u>)	(\$108,336 to <u>Unknown</u>)

***Some of the costs incurred by the state may be reimbursed from participating municipalities**

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
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**CERTAIN POLITICAL
SUBDIVISIONS**

Loss to certain Political Subdivisions

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
from surcharges or fee restrictions not allowed by statute.	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

LAND TRUST (FIRST CLASS CHARTER COUNTIES)

<u>Cost</u> to Certain Land Trusts for Audit by State Auditor or City Auditor (Sections 141.720- 141.790)	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
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EMERGENCY COMMUNICATIONS FUND ST. LOUIS COUNTY

<u>Income</u> to Communication System Fund from either a property tax or sales tax	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Cost</u> to Communications System Fund from providing communications services	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
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Estimated Net Effect to Emergency Communications System Fund *	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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PUBLIC SAFETY ENTITIES

<u>Income</u> - to Public Safety Entities from Emergency Communication Fund	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Cost</u> to Public Safety Entities from providing Communications	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
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Total costs to Public Safety Entities *	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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*** Oversight assumes this proposal is permissive. The income and costs as described above would not occur without action by the governing body, and with a voter approved tax. Oversight assumes cost would not exceed income to any of the special funds as listed above,**

therefore, the annual estimated net effect to each fund would be either zero or a positive unknown. For purposes of this fiscal note annual fund balance will be shown a \$0

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. (Chapter 99).

If St. Louis County were to establish a Communications Commission, and voters would approve either a sales or property tax, small business could expect to pay the tax, and if a sales tax were approved, small business would have additional duties of collecting and paying the sales tax. (Sections 650.390 - 650.411)

DESCRIPTION

This substitute makes several changes regarding services provided by municipal governments.

CITIES (Sections 67.320 and 82.293, RSMo)

The substitute requires political subdivisions to pay the owner of property the fair market value for property that the political subdivision has required the owner to set aside for future public works projects.

No city may, without specific statutory authority, enact any surcharge for the benefit of a school district.

DESCRIPTION

MUNICIPAL ECONOMIC AUTHORITIES (Sections 99.915 - 99.984)

The substitute:

- (1) Creates in each municipality 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. At least one of the commissioners will be a member of a local community development corporation, at least one other will be a minority business owner, and at least one other member will be appointed by the school boards whose districts are included within the development area. In addition to these commissioners, two advisory members will be appointed by the school boards whose districts are included within the development area, and one additional advisory member will be appointed to represent all other districts levying ad valorem taxes or sales taxes within the development area. All remaining commissioners will be appointed by the mayor for terms of one to three years;

(4) States the powers of the authority, which do not include the power of eminent domain;

(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 good and services within the development project areas;

(6) Outlines methods by which real property can be disposed of;

(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) 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 in these municipalities;

(10) Requires the revolving funds to be administered by a 13-member community development corporation revolving fund board. One member of the board must be a member of the local

DESCRIPTION (continued)

regional community development association and one must be a minority business owner;

(11) Allows the General Assembly to appropriate up to 5% of certain new state revenues for distribution to the revolving funds. No more than \$1.5 million can be deposited in the fund annually;

(12) Allows the board to issue grants and forgivable loans to community development corporations in Kansas City, St. Louis City, and St. Louis County for community economic development activities being implemented by the corporations;

(13) Outlines the requirements of a development plan, what is required of a municipality before it can adopt the development plan, and the manner in which the plan must be reviewed;

- (14) Requires that hearing notices be published in a general circulation newspaper in addition to two minority newspapers, one of which must be published in Spanish;
- (15) Allows the authority, municipality, or state to issue bonds to finance the development project;
- (16) Allows the municipality to collect new taxes within development areas for development projects, if approved by the voters of the municipality;
- (17) Explains the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;
- (18) Explains the manner in which other net new revenues will be paid to the municipality;
- (19) Requires the municipality to deposit other net new revenues into a separate account within the special allocation fund and explains when the municipality is required to remit excess funds to the Department of Economic Development;
- (20) Explains when particular affected taxpayers are entitled to receive tax credits;
- (21) Requires each municipality to submit an annual report to the Department of Revenue regarding development;
- (22) Allows payments in lieu of taxes, economic activity taxes, and other net new revenue 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;

DESCRIPTION (continued)

and

- (23) Requires the authority and the municipality to submit an annual report concerning development to the Director of the Department of Economic Development.

POLITICAL SUBDIVISION TELECOMMUNICATION SERVICE (Section 392.410)

The substitute also removes the August 28, 2002, expiration date for provisions that prohibit political subdivisions from providing or selling telecommunication services that require a certificate of service authority from the Public Service Commission. Municipal utilities are allowed to offer wholesale telecommunication services within their service boundaries on a nondiscriminatory, competitively neutral basis at a price that covers costs.

KANSAS CITY LAND TRUST (Sections 141.610 - 141.790)

The substitute makes several changes to the land trust law. The substitute:

- (1) Requires any challenge to the validity of an administrator's or sheriff's deed to commence within one year (Section 141.610);
- (2) Requires the county executive to appoint land trust members. If a county executive does not exist, the county commission will appoint the members (Section 141.720);
- (3) Authorizes a land trust to sell certain tracts of vacant residential property to the owners of contiguous property (Section 141.720);
- (4) Requires copies of the budget to be delivered to the county and city that appointed the trustee members. If the governing bodies of the county and city do not object to the budget, it will become the budget of the land trust. The approved budget may only be amended with the consent of the county and city that appointed members (Section 141.720);
- (5) Allows land trusts in counties of the first classification having a charter form of government to retain revenue from land sales to pay salaries and expenses of the trust. If the revenue derived from land sales is insufficient to meet the expenses of the land trust, it can requisition additional funds from the county and city. The additional funds cannot exceed \$25,000 per year without the consent of the county and city. The budget of the land trust must be approved by the governing bodies of the county and city that appointed the trustee members (Sections 141.720 - 141.790); and

DESCRIPTION (continued)

- (6) Allows performance audits by the State Auditor or the Kansas City Auditor. Cost of performance audits must be paid for by the land trust and made available to the public within 30 days of completion (Section 141.720).

ST. LOUIS CITY EMERGENCY COMMUNICATIONS SYSTEM (Sections 650.390 - 650.411)

The substitute allows St. Louis County to establish an emergency communications system within the county. The purpose of the system is to provide a wireless communication network that permits governmental or public safety entities to communicate within the area served. The district would be managed by a seven-member commission appointed by the chief executive officer of the county. The substitute outlines the qualifications and term of office of commission members and the powers of the commission. The commission may issue bonds. The issuance of bonds must be approved by the voters of the district. The county, upon voter approval, may also

levy and collect a sales tax not to exceed one-tenth of 1% or a property tax not to exceed six cents per \$100 of assessed valuation for the purpose of establishing and maintaining the system. All funds collected from the tax will be deposited in the Emergency Communication System Fund established by the substitute.

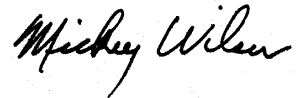
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Transportation
Office of Administration- Budget and Planning
Department of Revenue
Department of Economic Development- Public Service Commission
City of Springfield- City Attorney
City of St. Louis
City of Kansas City
City of Kirkwood
University City
Director of Administration- St. Louis County
Le May Fire Protection District
City of Creve Coeur
City of Brentwood
City of Bridgeton

NOT RESPONDING

Timing did not allow for all state agencies and local governments to respond to this proposal. Oversight used responses from several pieces of legislation from this session and last session.

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

Mickey Wilson, CPA
Acting Director
May 10, 2002