

HCS HB 289 -- MISSOURI DOWNTOWN ECONOMIC STIMULUS ACT

SPONSOR: Dempsey

COMMITTEE ACTION: Voted "do pass" by the Committee on Job Creation and Economic Development by a vote of 20 to 0.

This substitute:

(1) Allows municipalities to create a Downtown Economic Stimulus Authority, as long as certain findings are made;

(2) Establishes the State Supplemental Downtown Development Fund, which will be administered by the Department of Economic Development;

(3) Defines "other net new revenues" as a percentage of state sales taxes and state income taxes generated within the development area. Other net new revenues are the state's contribution to the downtown development projects. The state income tax portion is based on the salaries and wages paid by businesses in the development area to new employees in new jobs. No more than 2% of these state income taxes can be deposited into the State Supplemental Downtown Development Fund. The contribution of state sales taxes is the additional state sales tax revenue collected by businesses in the development area in a given year as compared to what was collected in the baseline year. For businesses that relocate to the development area, the state sales tax contribution is the additional state sales tax revenue collected in the development area as compared to what was collected in the year prior to relocating to the development area;

(4) Requires the municipality to deposit 50% of the Economic Activity Taxes (EATS) generated within the development area in its special allocation fund. EATS are the additional revenue generated by taxes within the development area that are greater than the taxes which were generated in the same development area in the baseline year. EATS do not include personal property taxes, hotel/motel taxes, licenses, fees, or special assessments;

(5) Requires Payments in Lieu of Taxes (PILOTS) that are attributable to the increase in the current equalized assessed valuation of real property that is over the initial equalized assessed valuation to be deposited into the municipality's special allocation fund;

(6) Allows the General Assembly to annually appropriate up to \$150 million into the fund;

(7) Requires the department to disburse financing from the fund annually 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;

(8) Prohibits municipalities from obligating state funds prior to receiving a certificate of approval from the department;

(9) Allows municipalities to apply for money from the State Supplemental Downtown Development Fund by submitting an application to the Missouri Development Finance Board. The substitute explains the requirements of the applications;

(10) Prohibits the amount of state supplemental downtown development financing approved for a project from being greater than the projected state benefit of the development project;

(11) Prohibits the approved state contribution to the State Supplemental Downtown Development Fund from exceeding \$100 million annually;

(12) Prohibits development projects from using both state supplemental downtown development financing and tax increment financing simultaneously;

(13) Prohibits moneys from the State Supplemental Downtown Development Fund from being used for the construction, maintenance, or operation of sports stadiums;

(14) Requires each authority to be governed by a board of commissioners with from five to 14 members. One board member will be appointed by the school districts within the development area and the remaining members will be appointed by the mayor or chief executive officer of the municipality. Initially, members will serve staggered terms of one, two, and three years. Thereafter, terms will be for three years;

(15) Outlines the powers of the board;

(16) 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;

(17) Explains the requirements of the development plan;

(18) Allows the municipality or the authority to issue bonds for the development project but prohibits the state from issuing

bonds for the development project;

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

(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 Tem of the Senate no later than February 1 following the year in which the review was conducted;

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

(22) Requires the director to submit a report to the Governor, the Speaker of the House of Representatives, and the President Pro Tem of the Senate summarizing the information submitted by the municipalities. This report must be submitted by April 30 of each year;

(23) Defines "central business district" as that area which is locally known as the "downtown" with a substantial percentage of buildings that are 50 years or older;

(24) Considers the reasonable costs incurred by the departments of Economic Development and Revenue and the Office of Administration for processing applications for funding to be considered allowable development project costs. These costs can include the portion of salaries and expenses paid by the departments of Economic Development and Revenue that can be reasonably allocated to each development project; and

(25) Prohibits lawsuits protesting the creation of an authority or anything relating to the development plan, project, or area from being brought more than 90 days after the effective date of the ordinance creating the authority.

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

(1) Requires 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;

(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 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.

FISCAL NOTE: Estimated Net Transfer Out of the General Revenue Fund of \$0 in FY 2004, \$0 to \$150,000,000 in FY 2005, and \$0 to \$150,000,000 in FY 2006. Subject to appropriation. Language in the proposal indicates "may." Estimated Net Effect to the State Supplemental Downtown Development Fund of \$0 in FY 2004, FY 2005, and FY 2006.

PROPOSERS: Supporters say that the bill allows cities to be more flexible when attracting businesses to their downtown areas. Specifically, the bill will help Kansas City revitalize its downtown area, allowing the city to be competitive with Johnson County, Kansas, when trying to attract businesses. The bill is an improvement on the State Supplemental Tax Increment Financing Law, which has only produced seven projects. The bill will allow more projects to move forward in a more timely fashion.

Testifying for the bill were Representative Dempsey; Greater Kansas City Chamber of Commerce; Economic Development Corporation of Kansas City; City of Kansas City; St. Louis Regional Chamber and Growth Association; St. Louis County Municipal League; Clay County Commission, and Department of Economic Development.

OPPOSERS: Those who oppose the bill say that it doesn't properly target the use of incentives because terms used in the bill aren't precisely defined. The "development financing" in the bill is really tax increment financing (TIF). While TIF can be a useful tool, it is easily misused for purposes other than those for which it is intended. The bill does not address the problems acknowledged in the current TIF statute, such as the ambiguous definition of "blight" and the loose "but-for" test. It is this ambiguity which led to the TIF-funded development of a Nordstrom's department store at the West County Mall in St. Louis County. Other key terms in the bill are not well defined, which

will lead to more misinterpretation and bad projects being approved for financing.

The bill also diverts tax dollars from police departments, schools, and infrastructure maintenance. These are things which, if properly funded, would help revitalize downtowns throughout the state by reducing crime and increasing property value.

Testifying against the bill were the East-West Gateway Coordinating Council; and Metropolitan Congregations United.

Alice Hurley, Legislative Analyst