COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3307-03
Bill No.: HB 1070
Subject: Cities, Towns and Villages; Economic Development.
Type: Original
Date: January 18, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** state the proposal would not fiscally impact their agency.

Officials from the **Department of Economic Development (DED)** state the bill should have no fiscal or administrative impact on their agency. The bill makes the guidelines stricter because of the substantial changes to the definition of a "blighted area" and "conservation area." It is possible this will limit the number of projects able to apply because there are stricter requirements. The bill makes change to local and state TIF. The percentage changes from 50% to 90% for state TIF participation. Since there is a $32 million cap on state TIF and the cap has been reached, the change will have no immediate (next three years) impact on DED. The state TIF participation is discretionary. At some point, the state could decide to participate at the higher 90% rate and realize increases and reductions in benefits (sales or withholding tax) from the program. DED does not anticipate this happening unless the state TIF cap were raised above $32 million. The program is also subject to appropriation so, even if the cap were raised, no additional participation could be realized unless funding were available.

Officials from the **School District of Kansas City** assume the proposal would result in a positive fiscal impact on the district revenue. Tighter guidelines will result in fewer projects qualifying

ASSUMPTION (continued)

for the incentive, and the district will receive its share of the incremental revenue from the projects.

Officials from the **Lee's Summit School District**, **St. Louis Public Schools**, the cities of **St. Louis**, **Kansas City** and **Lee's Summit**, and the counties of **St. Louis**, **Jackson** and **St. Charles** did not respond to our request for fiscal impact.

Oversight assumes the proposal would require municipalities to pay to other local political subdivisions an amount equal to 25 percent of the payments in lieu of taxes received by the municipality. Oversight assumes this will result in a loss of an unknown amount to municipalities and a corresponding gain to school districts, counties and other taxing entities. Oversight assumes the net local government impact from this part of the proposal will be zero. Oversight also assumes the additional restrictions placed on TIF projects in Section 99.866.1 will not fiscally impact local political subdivisions.

Oversight assumes increasing the state's contribution to the TIF projects from 50% of new state revenues to 90% of new state revenues could substantially increase the state's costs to these projects. Currently, the state's portion of the TIF program is capped at $32 million annually (from SB 343 in 2005). These new state revenue contributions to the local projects are also specifically subject to appropriation by the General Assembly (99.845.6). Therefore, while this part of the proposal may increase the state's contributions to the local TIF projects, the annual limitation of the program and the discretionary characteristics of the program remain. Therefore, Oversight assumes the changes in subsection 99.845.4 will not have a direct fiscal impact upon state funds in excess of what has already been reflected in prior fiscal notes (a loss of state funds up to the annual cap amount).

Oversight assumes the net effect to all local political subdivisions, municipal special allocation funds and all other local taxing entities would net to zero. The proposal may result in an increase in funds to the municipal Special Allocation Fund and a corresponding (offsetting) loss to other local taxing entities. Therefore, Oversight will reflect the overall fiscal impact at the local level as zero.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
LOCAL POLITICAL SUBDIVISIONS			
Income to Other Taxing Entities - distributions from municipalities of 25% of payments in lieu of taxes (99.866.2)	Unknown	Unknown	Unknown
Loss to Municipalities and Other Taxing Entities - contribution percentage to Special Allocation Fund of payments in lieu of taxes increased from 50% to 90% (99.845.3)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**
MUNICIPAL SPECIAL ALLOCATION FUNDS			
Income - Contribution rate from payments in lieu of taxes increased from 50% to 90% (99.845.3)	Unknown	Unknown	Unknown
Loss - must now distribute 25% of payments in lieu of taxes to other taxing entities (99.866.2)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO MUNICIPAL SPECIAL ALLOCATION FUNDS	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**
TOTAL ESTIMATED NET EFFECT TO ALL LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses within current or anticipated TIF areas could be fiscally impacted by this proposal.

DESCRIPTION

This proposal changes the laws regarding tax increment financing (TIF). In its main provisions, the bill:

(1) Changes the definitions of "blighted area" and "conservation area";

(2) Removes architectural, engineering, legal, and marketing costs from professional service costs included within the definition of "redevelopment project costs";

(3) Adds a definition of "retail project";

(4) Requires redevelopment plans adopted by municipal and county governments to be approved by voters if a referendum petition is submitted according to procedures established in the bill;

(5) Increases from 50% to 90% the amount of total additional revenue from taxes, penalties, and interest that are imposed by a municipality or other taxing district which must be allocated to a separate segregated fund within the special allocation fund for redevelopment plans and projects approved or adopted after August 31, 1991;

(6) Increases from 50% to 90% the amount of defined new state revenues which may be available for appropriation by the General Assembly to the Department of Economic Development Supplemental Tax Increment Financing Fund for distribution to municipalities;

(7) Prohibits TIF from being used to fund more than 22% of the total estimated costs of a project that is primarily retail or to develop retail sites where 25% or more of the area is vacant land, considered open space, or is currently being used for agricultural or horticultural purposes. The bill exempts these types of areas that are part of the redevelopment project and were included in the municipality's comprehensive plan prior to January 1, 2004; and

(8) Requires municipalities to pay 25% of the payments in lieu of taxes they receive from TIF projects to taxing entities that would otherwise be entitled to receive revenue from property taxes. If a TIF project includes residential uses, real property tax revenues attributable to the residential portion of the development will pass through directly to the affected school districts unless commission members representing the affected districts say they will forgo this

DESCRIPTION (continued)

revenue.

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
Department of Revenue
School District of Kansas City

NOT RESPONDING: Lee's Summit School District, St. Louis Public Schools, cities of St. Louis, Kansas City, and Lee's Summit, counties of St. Louis, Jackson and St. Charles

Mickey Wilson

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Director
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