

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 7317H.011
 Bill No.: HB 3395
 Subject: Economic Development; Department of Economic Development; Business and
 Commerce; Taxation and Revenue - General
 Type: Original
 Date: March 9, 2026

Bill Summary: This proposal provides incentives for Expanded Downtown Redevelopment
 Projects approved by DNR.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	Could substantially exceed (\$1,244,597)	Could substantially exceed (\$136,394)	Could substantially exceed (\$138,794)
Total Estimated Net Effect on General Revenue	Could substantially exceed (\$1,244,597)	Could substantially exceed (\$136,394)	Could substantially exceed (\$138,794)

*Oversight assumes revenues losses could substantially exceed \$250,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Conservation Commission Fund (1609)*	(Unknown)	(Unknown)	(Unknown)
Parks, Soils and Water Fund (1613 & 1614)*	(Unknown)	(Unknown)	(Unknown)
School District Trust Fund (1688)*	(Unknown)	(Unknown)	(Unknown)
State Road Bond Fund (1319)*	(Unknown)	(Unknown)	(Unknown)
State Road Fund (1320)*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

* Oversight assumes the unknown loss in revenue will exceed \$250,000 as indicated by DOR.

ESTIMATED NET EFFECT ON FEDERAL FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

§§99.1250, 99.1255, 99.1260, 99.1265, 99.1270, and 99.1275 - Missouri Downtown Economic Stimulus Act Extension Act (Act)

Officials from the **Department of Revenue (DED)** note:

§99.1250.2(8) The legislation extends MODESA for the MODESA-approved development projects in order to serve as a catalyst for new economic development and revitalization in the state, propel private investment, generate jobs, tax revenue, and other economic benefits.

§99.1255(7) defines Residential income tax increment as 85% of the estimate of the income tax due to the state and municipality for the salaries or wages paid to natural persons residing in a development project area of a development project or an expanded development project approved by the Department.

§99.1255(8) defines State construction income tax increment as 100% of the estimate of the income tax due the state for the salaries or wages paid to workers involved in or related to the construction of an expanded development project approved by the Department. The estimate shall be a % of the gross payroll which payroll shall be based on an analyst by DOR of the practical tax rate on gross payroll as a factor of overall taxable income.

§99.1260.2(1) states a development area may be amended, expanded, or modified and may include three or more noncontiguous areas.

§99.1260.2(2) states a development area shall not be restricted to the central business district and may be amended, expanded, or modified to include areas outside the central business district.

§99.1260.2(3) a development project area for a development project may be amended, enlarged, reduced, or modified.

§99.1260.2(5) states the term of any obligation issued to carry out a development project and the term of any payments in lieu of taxes related to a development project shall be extended to 35 years.

§99.1260.2(8) states the state income tax increment for an expanded development project shall be up to 85% of the estimate of the income tax due to the state for salaries or wages paid to new employees in new jobs at a business located in the development project area.

§99.1260.2(9) states the state sales tax increment for expanded development project shall be up to 85% of the incremental increase in the state sales tax revenue in the development project area. The provisions of section 99.918 requiring a de minimis portion finding by the Missouri

development finance board and limiting the state sales tax increment in relation to the relocation of a Missouri facility to a development project area shall not apply.

§99.1260.2(10) calls for 100% of PILOTS and 85% of EATS generated in relation to an expanded development projects shall be used each year of the approved term to support development project costs.

§99.1260(11) states an office displacement % and retail or restaurant displacement % shall not apply to an expanded development project.

§99.1260(12) states an application for an extended development project shall not be required to demonstrate that it could not be financed without the use of MODESA or other state incentives or funding.

§99.1260(13) indicates that development project costs incurred prior to the departments approval of the project, may be reimbursed and funds committed or incurred prior to approval may qualify for any local match requirement.

§99.1260(14) expanded development project shall be eligible for all tax credits, subsidies, incentives, discounts, rebates, or other economic development programs authorized under state law.

§99.1260(15) includes personal property taxes, taxes imposed on sales or charges for sleeping rooms paid by transitional guests of hotels and motels in the development project area, license fees, and any other fees or assessments related to economic activity in the project development area of the expanded development project.

§99.1265.2 includes a provision for the Department to disburse state construction income tax increment to support the development project costs or obligations issued to carry out the development project.

§99.1265.3 includes a provision for the Department to disburse the residential income tax increment to support the development project costs or obligations issued to carry out the development project.

§99.1265.5 includes language that the projects qualify for the most favorable economic development rate offered by a public utility servicing the development project area for the expanded development project. The duration of the rate shall coincide with the term of any obligation issued to carry out an expanded development project.

§99.1270.2 application may be submitted by a developer.

§99.1270.5 The Department has 60 days from time the application is determined complete to

approve the application unless it determines the expanded development project is contrary to the best interests of the state.

Officials from the **Office of Administration- Budget & Planning (B&P)** assume §99.1250 to 99.1275 would allow development areas under the MODESA program to be amended, expanded, or modified and may include 3 or more noncontinuous areas including areas outside of a central business district. It would also extend existing projects under sections 99.915 to 99.1060, RSMo, and/or new projects by 35 years. It also increases from 50% to 85% the state tax increments for income, sales, and economic activity generated by the existing or expanded development areas. Economic activity taxes will include personal property taxes, hospitality taxes, license fees and other fees or assessments related to the development area. However, as stipulated by section 99.957, RSMo, "levies upon taxable real property in such development area by taxing districts" doesn't include the state blind pension property tax or the conservation and DNR sales taxes under the Missouri Constitution.

The MODESA also created the State Supplemental Downtown Development Fund (SDDF) which receives a GR transfer annually. In FY 24, \$1.7M GR was appropriated for transfer to the fund. In FY 25 t& FY 26, his was increased to \$3.9M GR appropriation for transfer to the fund. The changes in this bill may further increase the annual GR transfer, subject to appropriation in the future.

Therefore this bill will have an indeterminant fiscal impact on GR, TSR, other state funds and local funds.

Oversight notes that according to the State Treasurer, fiscal year end activities 2025, the fund activity was as follows:

Beginning balance:	\$82,986
Receipts:	\$0
Disbursement:	\$2,130,414.89
Transfer in:	\$2,192,188.07
Transfer out:	\$0

Current Balance: \$144,759.89

Officials from the **Department of Revenue (DOR)** note:

Section 99.1250

This provision creates the MO Downtown Economic Stimulus Act Extension Act (Act). This provision states its purpose is to continue the work done by the MO Downtown & Rural Economic Stimulus Act (MODESA), which program ran from August 29, 2003, to December 31, 2006. This provision just names this newly created program and states its intent and therefore will not fiscally impact DOR.

Section 99.1255

This provision provides definitions used in the newly create Act. Specifically, it adds “residential income tax increment” and “state construction income tax increment”. The residential income tax increment would require DOR to calculate the amount of income tax due to the state and municipalities from wages received by residents living in the approved development project area. This proposal says that 85% of the resident’s wages is eligible to be disbursed to the project developer. DED is to handle the disbursement.

The state construction income tax increment is the amount of income salaries and wages paid to workers that are involved in the construction of the development project area. This proposal says that 100% of the wages paid to the construction workers should be disbursed to the project developer. DED is to handle disbursement.

Sections 99.1260 & 99.1265

This provision states that the rules and regulations under the original MODESA program will apply to this Act. Additionally, this allows a project that previously qualified to qualify again and allows those projects to be expanded. A project can be expanded to areas noncontiguous to the original projects and outside the central business district (section 99.1260.2).

This provision adds language that would allow a project development area to receive a state sales tax increment (section 99.1260.2(9)). The sales tax increment would be 85% of the state sales tax revenue. It furthers states that a project development area can receive 100% of payments in lieu of taxes (property tax handled by the local political subdivisions) and 85% of “economic activity taxes” though that term is not defined in this proposal.

This proposal states that DED will disburse the resident’s income tax incentive, the construction income tax increment and the economic activity taxes. DED is to work with DOR in determining the amount of the disbursement. This proposal delineates a formula to use in making these calculations but bases the formula on the requirement to use actual numbers received.

DOR does not track our tax types by location. In order to supply tax data by location, DOR would first need to change our withholding forms to collect information on the number and location of employees. The change in the forms is estimated at \$10,000.

DOR would also need to modify our business registration sales and use tax forms to have businesses report which locations they have in an approved project development area. Since the sales tax per this proposal would distribute 85% of the sales tax back to the project development, DOR would need to track that revenue to ensure it is distributed differently than the current sales tax. The modification to the form is estimated to be \$10,000.

The sales tax distribution computer programs would need to be modified to allow for the transfer to the project developers. The change to the distribution programs as well as our sales/use tax maps is estimated to cost \$100,000.

DOR's individual income tax and withholding tax systems would need to be updated to allow the collection by address and distribution to the designated projects rather than general revenue. The upgrade to all our different individual income tax processing and distributions systems is estimated to be at least \$1,000,000.

DOR assumes that Department would also need an additional Auditor (\$83,530 salary plus years of service pay) to administer the calculations needed for this proposal. This person would also ensure that taxpayers claiming to be in these project areas are properly reporting all taxes. DOR notes that all taxes under this proposal are still required to be paid and then only after collected would be distributed back to the developers.

This provision allows these projects to receive benefits under this program as well as under any other tax credit program or other incentive program. This also allows them to retain other taxes and fees collected in the project area. DOR notes that of those taxes and fees listed, including personal property tax, transient guest taxes and local fees. DOR notes that the Department do not collect these taxes and therefore cannot estimate the impact of this provision. DOR defer to the counties and cities to estimate the impact.

DOR does not have a way to estimate the number of residents in these development areas or the number of businesses. DOR notes that should a developer be given the income tax, withholding tax and sales tax generated in the district instead of the state, this would result in a reduction of revenue to general revenue from the income & withholding tax. It would also result in a loss of revenue to the state sales tax funds which are general revenue, school district trust fund, conservation commission and the DNR park, soil & water funds. DOR notes there is no cap on the amount of revenue that can be distributed to the developers. DOR assumes the loss would be over \$250,000 annually starting in FY 2027.

Section 99.1265

This provision states that DED will disburse the state construction income tax increment and the residential income tax funds to the developers. DOR notes this proposal does not designate a fund for the depositing of the received revenue by DOR. DOR assumes it will be deposited into general revenue and DED will need an appropriation to transfer general revenue to these developer projects.

Section 99.1270

This provision describes all the information required to be on the application the builder must complete to qualify for this program. DOR does not have a fiscal impact from the application process.

Section 99.1275

This gives DED rulemaking authority over this program. DOR notes that without rulemaking authority the department may not be able to implement some of these provisions.

SUMMARY

DOR will need at least one additional FTE and related expenses costing over \$1 million in computer upgrades to be able to track this revenue by project.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DOR.

Oversight will reflect unknown revenue loss to general revenue, various state funds, and local political subdivisions. Oversight assumes the revenue loss could substantially exceed \$250,000.

Officials from **Office of the State Auditor, Department of Commerce and Insurance, Department of Social Services, and Office of the State Auditor** both assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these respective agencies.

Officials from the **City of Kansas City** assume the proposed legislation has an indeterminate fiscal impact dependent on project details.

Officials from the **County Employees Retirement Fund (CERF), Kansas City Civilian Police Employees' Retirement, Kansas City Police Retirement System, Public Education Employees' Retirement System (PSRS/PEERS), and Sheriff's Retirement System** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these respective organizations.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Revenue Loss</u> – (§99.1255. (7)&(8)) Income and withholdings tax p.7-10	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales & use tax on goods sold in area p.7-10	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> – DOR p.7-8			
Personnel Service	(\$69,608)	(\$85,201)	(\$86,905)
Fringe Benefits	(\$41,610)	(\$50,604)	(\$51,289)
Expense & Equipment	(\$33,379)	(\$589)	(\$600)
Total Costs – DOR	(\$144,597)	(\$136,394)	(\$138,794)
FTE Change	1 FTE	1 FTE	1 FTE
<u>Cost</u> – DOR (Sales and Use tax Distribution Changes) p.7-8	(\$100,000)	\$0	\$0
<u>Cost</u> – DOR (Income and Withholding Computer) p.7-8	(\$1,000,000)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could substantially exceed (\$1,244,597)	Could substantially exceed (\$136,394)	Could substantially exceed (\$138,794)
SCHOOL DISTRICT TRUST FUND (1688)			
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales & use tax on goods sold in the development area p.7-10	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales tax on motor vehicles p.7-10	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(Unknown)	(Unknown)	(Unknown)

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
CONSERVATION COMMISSION FUND (1609)			
<u>Revenue Loss – (§99.1260.2(9)) Sales & use tax on goods sold in the development area p.7-10</u>	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss – (§99.1260.2(9)) Sales tax on motor vehicles p.7-10</u>	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Unknown)	(Unknown)	(Unknown)
PARKS AND SOILS STATE SALES TAX FUNDS (1613 &1614)			
<u>Revenue Loss – (§99.1260.2(9)) Sales & use tax on goods sold in the development area p.7-10</u>	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss – (§99.1260.2(9)) Sales tax on motor vehicles p. 7-10</u>	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	(Unknown)	(Unknown)	(Unknown)
STATE ROAD BOND FUND (1319)			
<u>Revenue Loss – (§99.1260.2(9)) Sales tax on motor vehicles p. 7-10</u>	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE STATE ROAD BOND FUND	(Unknown)	(Unknown)	(Unknown)

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
STATE ROAD FUND (1320)			
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales tax on motor vehicles p. 7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales & use tax on goods sold in the development area p. 7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue Loss</u> – (§99.1260.2(9)) Sales tax on motor vehicles cities and counties p. 7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue Loss</u> – (§99.1260.2(15)) Personal property, transient guest, licenses and other fees p.7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

A direct fiscal impact on small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The bill establishes the "Missouri Downtown Rural Economic Stimulus Act Extension Act".

This bill allows development areas and development project areas approved under the Missouri Downtown Rural Economic Stimulus Act (MODESA) to be modified. Any debt obligations issued to carry out a development project will be extended to 35 years. Further, 100% of

payments in lieu of taxes and 85% percent of economic activity taxes generated in relation to an expanded development project must be used each year of the approved term to support development project costs. An office displacement and retail or restaurant displacement percentage will not apply to an expanded development project.

The bill requires the Department of Economic Development to disburse the state construction income tax increment to support development project costs. Such disbursements must cease within 180 days of the date on which the Department determines that the construction of the expanded development project is complete and has opened to the public.

The Department will disburse the residential income tax increment to support development project costs for a period not to exceed 35 years. The developer must elect how to calculate the amount of such disbursement.

A developer will apply to the Department for approval of an expanded development project, as described in the bill.

The bill authorizes the Department to promulgate temporary rules that will expire no later than two years following the publication of the temporary rules. Thereafter, such rules will be promulgated as provided in current law.

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
Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration – Budget & Planning
Office of the State Auditor
Department of Commerce and Insurance
Department of Social Services
Office of the State Auditor
City of Kansas City
County Employees Retirement Fund (CERF)
Kansas City Civilian Police Employees' Retirement

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Kansas City Police Retirement System
Public Education Employees' Retirement System (PSRS/PEERS)
Sheriff's Retirement System



Julie Morff
Director
March 9, 2026



Jessica Harris
Assistant Director
March 9, 2026