

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 7317H.02C
 Bill No.: HCS for HB 3395
 Subject: Economic Development; Department of Economic Development; Business and
 Commerce; Taxation and Revenue - General
 Type: Original
 Date: April 21, 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)

FUND AFFECTED	FY 2027	FY 2028	FY 2029
State Supplemental Downtown Development Fund(1766)**	\$0	\$0	\$0
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

**Oversight notes the cap under MODESA is \$108 Million annually.

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
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

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 to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

§99.918 – 99.980 – Incentives for Downtown Redevelopment

Officials from the **Department of Economic Development (DED)** note:

Legislation revises MODESA program, with an unknown positive impact to the State.

§99.918 — revises and expands key definitions to support expanded development projects. Adds “expanded development area,” “expanded development project,” “state residential income tax increment,” and “municipal residential earnings tax increment,” and updates rules on state income and sales tax increments, including treatment of out of state relocations. These widen the scope of projects and revenues that may be approved by the Department for state supplemental financing.

§99.930 — reduces the challenge period for contesting approval of a development plan, expanded development plan, development project, or expanded development project from 90 days to 30 days.

§99.933 — Provides that authorities may implement and administer both development and expanded development projects, including acquiring property, issuing obligations, conducting studies, and undertaking improvements.

§99.936 — Extends procedures governing property acquisition and disposition for development areas to expanded development areas and expanded development projects.

§99.942 — Requirements for Development and Expanded Development Plans
Requires development and expanded development plans to include:

- maps and legal descriptions,
- studies of blight or undeveloped character,
- feasibility analysis,
- cost–benefit projections,
- detailed revenue projections, including residential income and population data for expanded areas,
- identification of project boundaries, with expanded development areas allowed to include up to three noncontiguous areas within the central business district,
- and calculations of municipal residential earnings tax increment and state residential income

tax increment.

§99.948 — Establishes the process for adopting an expanded development area and expanded development project, including ordinance adoption, findings of necessity, feasibility requirements, and incorporation of expanded revenue types such as state residential income tax increment.

§99.951 — Requires public hearings before approval, amendment, or modification of development or expanded development plans and project areas. Boundary changes may require an additional hearing unless the boundaries are reduced or modified in a way that does not add new parcels.

§99.954 — Authorizes municipalities to issue obligations for development and expanded development projects and to pledge project revenues toward debt retirement. Establishes a maximum term of 30 years for obligations and for payment streams such as PILOTs and EATs dedicated to those obligations.

§99.957 — Defines “economic activity taxes” for development and expanded development projects and expressly excludes personal property taxes, transient guest taxes, licenses, fees, and special assessments. Authorizes local allocation of PILOTs, EATs, and municipal residential earnings tax increment to pay development or expanded development project costs, subject to adoption of a local ordinance.

§99.960 — Allows the Department to approve the following for up to 30 years:

- Up to 70% of state income tax increment,
- Up to 70% of state sales tax increment,
- Up to 70% of state residential income tax increment.

Requires cost–benefit analysis, an affidavit that the area would not be reasonably anticipated to develop without state appropriation of other net new revenues, and prohibits approval if projected state costs exceed projected state benefits. Also removes the Missouri Development Finance Board from the approval process, making DED the sole certifying authority.

§99.963 — Authorizes the Fund to distribute state revenues to both development and expanded development projects approved by the Department. Retains the \$108 million statewide annual limit for total disbursements and requires pro rata reductions when requests exceed the cap.

§99.965 — Requires that upon termination of a development or expanded development plan, surplus funds be returned proportionally to the taxing jurisdictions, including the state. All obligations and reimbursements must be completed within 30 years.

§99.968 — Establishes that the initial assessed valuation for development and expanded development areas is fixed at the base year for up to 30 years, with increments above that base captured for the benefit of the project.

§99.975 — Prohibits new development project applications after July 1, 2013. Allows expanded development project applications through January 1, 2037.

§99.980 — Requires municipalities to submit annual reports including project revenues, job creation/retention data, payroll data, construction activity, compliance information, and reconciliation of state disbursements. Non compliant projects may have state payments suspended.

Residential Increments creates state residential income tax increment (up to 70%), and Municipal residential earnings tax increment (based on municipal earnings tax). Applies to natural persons residing in primarily residential buildings in an expanded development project area post baseline.

Retained Job Increments - State income tax increment may include tax associated with retained employees, not only new jobs, where the Department determines that retaining jobs is necessary for project feasibility.

Feasibility Affidavit - Applicants must certify by affidavit that the development area and expanded development area would not reasonably be anticipated to develop without appropriation of other net new revenues.

State Benefit Limitation - The Department may not approve a project if projected annual state disbursements exceed projected annual state benefits.

Pro Rata Reductions - If total statewide requests exceed the \$108M annual program limit, the Department must apply pro rata reductions across projects.

Oversight notes the cap under MODESA is \$108 Million annually.

Oversight will show unknown amount of funds being transferred into the supplemental downtown development fund (1766) and transfer out the monies to the local political subdivisions for purpose of the project financing netting the Fund to zero.

Officials from the **Office of Administration- Budget & Planning (B&P)** assume this proposal expands provisions in the Missouri Downtown and Rural Economic Stimulus Act (MODESA) program. This proposal may impact total state revenues; any additional disbursements under the MODESA program would be subject to appropriation.

This proposal may impact TSR. However, this proposal will not impact the calculation under Article X, Section 18(e).

Oversight notes that according to the State Treasurer, fiscal year end report 2025, the State Supplemental Downtown Fund (SDDF) activity was as follows:

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

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

Sections 99.918 – 99.980 - MO Downtown & Rural Economic Stimulus Act

This proposal would expand the existing Missouri Downtown & Rural Economic Stimulus Act. Under the existing program, development areas in cities or counties could apply to receive local and state incentives based on the number of new businesses locating in the development area and the number of new residents in these areas. Projects had to be approved by January 1, 2013, and commerce with redevelopment. Based on the amount of increased development in the designated development area, the incentives were awarded.

This proposal would allow these previously approved projects to be expanded in up to three non-contiguous areas and into no more than 10% of the area of the city or county. With the expansion of the development area additional incentives can be awarded.

The current Missouri Downtown & Rural Economic Stimulus Act is administered by the Department of Economic Development and the Missouri Development Finance Board (MDFB). The first change made by this proposal would remove the MDFB from administration of this program.

Incentives awarded under this program allow the development area to retain the following:
Economic Activity Taxes – taxes imposed by the city/county for doing business in the development district.

Payment in Lieu of Taxes -revenue from property tax paid in the development district.

Municipal Residential Earnings Tax – 10% of the total amount of earnings tax paid by new residents in the development district

State Income Tax – 50% of the income tax due the state on wages or salaries paid to new employees in the district. Additionally, 50% of the income tax due the state on wages or salaries paid to retained employees in the district. These 50% rates can be increased to 70% based on decision by DED.

State Residential Income Tax – 70% of the income tax due the state for salaries and wages paid to people living in these development district buildings.

State Sales Taxes – 50% but up to 70% of the sales tax collected in the district.

State Sales Tax revenue- all sales tax collected that would be deposited into general revenue. Therefore the 3% general revenue portion on all items purchased.

This proposal states that DED will calculate the amount to be disburse of the state income tax, the state residential income tax and the state sales tax . It is unclear how DED is to do the calculation, as DOR notes that due to our confidentiality laws DOR cannot provide information that is receive on a tax return. Additionally, it appears the residential income tax is an earnings tax. Earnings taxes are collected by locals and not DOR./

This proposal states that DED will disburse these benefits and 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 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 the DOR's 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 the different individual income tax processing and distributions systems is estimated to be at least \$1,000,000.

DOR assumes that they would also need an additional Auditor (\$83,530 salary plus years of service pay) to track these projects. 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 does not collect these taxes and therefore cannot estimate the impact of this provision. DOR defers 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.

DOR 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. Additionally, this will result in an unknown loss to the state to general revenue and the state sales tax funds.

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 the **Missouri Department of Conservation (MDC)** assume the legislation will have an unknown fiscal impact. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC's sales taxes are constitutional mandates. Oversight assumes the proposal may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will show an unknown estimated impact for MDC's funds.

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight assumes the proposal may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will show unknown estimated impact for MDC's funds.

Officials from **Office of the State Auditor, Department of Natural Resources, Department of Commerce and Insurance, Department of Social Services 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 agencies.

Officials from the **City of Kansas City** assume the proposed legislation may have a positive fiscal impact if residential tax redirections are limited to those taxes withheld from new residents to the state of Missouri who are not employed by an entity already receiving employment tax redirections.

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 – (\$99.960) Income and withholdings tax p.7-10</u>	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss – (\$99.960) Sales & use tax on goods sold in area p.7-10</u>	(Unknown)	(Unknown)	(Unknown)
<u>Cost – DOR p.7-8</u>			
Personnel Service	(\$69,608)	(\$85,201)	(\$86,905)
Fringe Benefits	(\$41,610)	(\$50,604)	(\$51,289)

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
Expense & Equipment	<u>(\$33,379)</u>	<u>(\$589)</u>	<u>(\$600)</u>
Total Costs – DOR	<u>(\$144,597)</u>	<u>(\$136,394)</u>	<u>(\$138,794)</u>
FTE Change	1 FTE	1 FTE	1 FTE
<u>Cost – DOR (Sales and Use tax Distribution Changes) p.7-8</u>	(\$100,000)	\$0	\$0
<u>Cost – DOR (Income and Withholding Computer) p.7-8</u>	(\$1,000,000)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could substantially exceed <u>(\$1,244,597)</u>	Could substantially exceed <u>(\$136,394)</u>	Could substantially exceed <u>(\$138,794)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
SCHOOL DISTRICT TRUST FUND (1688)			
<u>Revenue Loss – (\$99.960) Sales & use tax on goods sold in the development area p.7-10</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue Loss – (\$99.960) Sales tax on motor vehicles p.7-10</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
CONSERVATION COMMISSION FUND (1609)			
<u>Revenue Loss – (\$99.960) Sales & use tax on goods sold in the development area p.7-10</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<u>Revenue Loss</u> – (§99.960) Sales tax on motor vehicles p.7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
PARKS AND SOILS STATE SALES TAX FUNDS (1613 &1614)			
<u>Revenue Loss</u> – (§99.960) 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> – (§99.960) Sales tax on motor vehicles p. 7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
STATE ROAD BOND FUND (1319)			
<u>Revenue Loss</u> – (§99.960) Sales tax on motor vehicles p. 7-10	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD BOND FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
STATE ROAD FUND (1320)			
<u>Revenue Loss</u> – (§99.960) 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 – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND (1766)			
<u>Transfer-In</u> – (\$99.960) Monies from various tax (sales, use, fees, and income tax) p.5	Unknown	Unknown	Unknown
<u>Transfer-Out</u> - (\$99.960) Monies distributed to the local political subdivisions’ projects p.5	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT SUPPLEMENTAL DOWNTOWN DEVELOPMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> – Monies from Supplemental Downtown Development Fund p.5	Unknown	Unknown	Unknown
<u>Revenue Loss</u> – (\$99.960) Sales & use tax on goods sold in the development area p.7-10	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> – (\$99.960) Sales tax on motor vehicles cities and counties p.7-10	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> – (\$99.960) Personal property, transient guest, licenses and other fees p.7-10	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This proposal provides incentives for expanded downtown redevelopment projects approved by DNR.

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



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