COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3307-06
Bill No.: HCS for HB 1070
Subject: Cities, Towns and Villages; Economic Development.
Type: Original
Date: February 14, 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 7 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**

*** Offsetting gains and losses to various local political subdivisions.**

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, officials from the **Department of Revenue** stated the proposal would not fiscally impact their agency.

In response to a previous version of this proposal, officials from the **Office of Administration - Commissioner's Office** assume the proposal would not fiscally impact their agency. The duty to approve the duration of any project that receives new state revenue is already established. At present the language of the statute requires a review when new state revenues are used for a redevelopment project, regardless of the amount. The proposed modification increases the threshold by which a review would occur to those instances where 50% or more of the funding for a redevelopment project are state revenues.

Officials from the **Office of Administration - Facilities Management, Design and Construction** assume 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

ASSUMPTION (continued)

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.

In response to a previous version of the proposal, officials from the **School District of Kansas City** assumed the proposal would result in a positive fiscal impact on the district revenue. Tighter guidelines will result in fewer projects qualifying 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 additional restrictions placed on future TIF projects will not fiscally impact local governments. Oversight also assumes the referendum clauses within the proposal will not fiscally impact local governments as the TIF projects are discretionary.

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

ASSUMPTION (continued)

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 School Districts - real property levies attributable to the residential portion of TIF residential developments shall pass through to school districts (99.866)	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)**

FISCAL IMPACT - Local Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
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 - real property levies attributable to the residential portion of TIF residential developments shall pass through to school districts (99.866)	(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) States that the revenue derived from any increase in any tax within any TIF district shall be used solely for the specified purposes of the tax increase. In no event shall any such revenue be used for or diverted to any redevelopment plan or project in any TIF district.

DESCRIPTION (continued)

(2) Changes the definitions of "blighted area", "conservation area", and “redevelopment project costs”;

(3) 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;

(4) 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;

(5) States that a sales tax increase for the Jackson County Sports Authority shall not be allocated to the TIF special allocation fund;

(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) The bill states the Department of Economic Development and the Commissioner of Administration shall approve the duration of any project that is approved to receive over 50% of new state revenues. In no event shall the duration of a project that is approved to receive over 50% of new state revenues extend beyond fifteen years;

(8) States a TIF project shall not be authorized within a one hundred year flood plain, unless the redevelopment area actually abuts a river or major waterway and is substantially surrounded by contiguous properties with residential, industrial, or commercial zoning classifications; and

(9) Requires municipalities to pass through real property tax levies attributable to the residential portion of the TIF development to school districts (99.866)

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 Administration
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

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February 14, 2006