City of Des Peres
Missouri

Sent by e-mail: fiscalnote@auditor.mo.gov.

April 3, 2019

Honorable Nicole Galloway
State Auditor
State Capitol Building
Jefferson City, Missouri 65101

RE: Fiscal Note Regarding Constitutional Amendment to Article VI (2020-054)
City of Des Peres, Missouri

Dear Mrs. Galloway:

Please accept and consider the contents of this letter in drafting your fiscal note for initiative petition #2020-054 required under Section 116.332, RSMO on all initiative petitions. Specific example is given for the impact on the City of Des Peres.

SUMMARY:

The proposal as presented strips all existing municipalities in St Louis County of substantial revenues including sales tax and any revenues associated with courts, police, business licensing and regulations and roads which by current statutes are remitted to cities in St Louis County. While the proposal also strips from cities (now called Municipal Districts) all responsibility and associated costs for courts, police, business regulation including zoning, permits and general economic development, the net result will be a substantial deficit for the remaining municipal district that will require either dissolution or substantial increases in real estate or utility taxes.

In the case of Des Peres, the net result of changes proposed in the Constitutional Amendment is a deficit for the surviving Des Peres Municipal District of nearly $6,000,000 per year with no funds allocated for capital equipment or projects which we expect would need to average $1,000,000 per year for parks, recreation and fire purposes and maintenance of public facilities. (Des Peres currently allocates $2.5 million per year from the capital improvement sales tax for capital equipment and projects with over 50% allocated to streets)

While some reduction in service levels and expenses would likely be appropriate post-merger, the end result would be a requirement to substantially increase local taxes on the property owners in the surviving Des Peres Municipal District focused on only three options: (1) a

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Relay Missouri 1-800-735-2966 TDD
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substantial real estate and personal property tax); (2) a substantial increase in gross receipts taxes on utilities (passed thru to the underlying customers); or (3) an increase in fees charged by the city the area of trash services and parks & recreation fees.

For purposes of this analysis, we have adjusted the current 2019 Des Peres Budget to show the fiscal impact of Better Together Proposal if it were in place for this year.

2019 Budget	General Fund	Park Fund	Operating Budget	Capital Budgets
Revenues	11,833,825	6,269,400	18,103,2225	3,227,055
Expenses	(11,680,947)	(5,133,616)	(16,814,096)	(4,448,055)
Transfers In (Out)	29,000	(1,214,500)	(1,185,500)	1,213,000
Surplus (Deficit)	182,467	(78,816)	101,751	(8,000)
Post Better Together	General Fund	Park Fund	Operating Budget	Capital Budgets
Revenues	3,160,447	3,232,400	6,392,847	473,305
Expenses	(6,014,343)	(5,133,616)	(11,147,918)	(2,400,900)
Transfers In (Out)	0	(1,207,000)	(1,207,000)	1,234,500
Surplus (Deficit)	(2,853,896)	(3,108,175)	(5,962,000)	(729,095)

Footnotes:

1. The "General Fund" is a compilation of budgets for the General Fund, Fire Fund and Public Safety Fund
2. This analysis is a restatement of our current budget assuming the Better Together proposal was in effect on January 1, 2019. For purposed of the analysis, the 'General Fund" also includes revenues and expenses from the Fire Fund and Public Safety Fund since revenues from both of those funds are largely transferred into the General Fund.
3. For purposes of this analysis, transfers out of the Park Fund to the Debt Service Fund ($1,050,000) are not included in the analysis since all outstanding debt for The Lodge will be fully retired in early 2020.
4. The major transfer in 2019 in the Park fund is to our Capital Improvement Fund to finance a large scale capital project to refurbish one of our major parks.
5. Capital Budgets: the city has funded an average of $2.5 million in capital projects per year utilizing a 0.5% capital improvement sales tax. No funds will be available as a dedicated income to the capital fund post Better Together.

The Des Peres Municipal District could cover the operational deficit created by the Better Together petition IF the city were to take all of its authorized taxes for real estate, personal property and gross receipts to their statutory maximums:

Revenue Source Available	Statutory Maximum	Added Revenue Potential
Real Estate Tax	$ 1.00	4,148,734
Personal Property Tax	$ 1.00	451,157
Gross Receipts Tax on Utilities	10.0%	1,563,488
Sanitation Fee	Actual Cost of Service	887,625

Major assumptions used in this analysis are attached hereto as Exhibit "A" along with associated excel spreadsheets using our 2019 budget as our baseline.

The overall general impact of the proposal on local government finance is to shift all sales taxes from existing cities (surviving as "municipal districts") projected at over $300 million per year to the Metropolitan City requiring the most "municipal districts" face the options of either substantially decreasing fire-ems and parks & recreation services or seek substantial increases in property taxes to finance municipal services.

FISCAL IMPACT - THE METROPOLITAN CITY

The Fiscal Impact note previously filed by Unite STL (Christopher Pieper) with the State Auditor suggests that the measure will "result in savings for local governments of up to $55 million annually in 2023 and up to $1 billion annually by 2032." (Petition 2020-042). The revised petition filed March 25, 2019 makes no substantive changes in the structure or finances of the proposed Metropolitan City and one would assume that the fiscal impact statement initially filed will be reiterated as a filing for the new petition (2020-054).

That original fiscal note is flawed in a number of its basic financial assumptions and failed to consider the impact on all governments in the region. The financial plans as presented will require that the "municipal districts" will in total be required either to substantially reduce their level of services being provided OR seek substantial tax increases in property taxes to support Fire & EMS and Parks & Recreation functions absent the current funding mechanism provided by various sales taxes which are being shifted to the Metropolitan City.

The fiscal analysis submitted by UniteSTL is flawed and unrealistic in the following respects:

1. The analysis used in projections for all governmental entities in the 2023 analyses uses as a baseline of current budgets in 2016 and 2017 both of which pre-date the adoption of Prop P (0.5% sales tax in St Louis County in 2017). While their analysis updates revenues to reflect the $84 million generated from the tax annually, the analysis does not adjust the expense projections for 2023 to reflect how those funds were allocated in 2018 (the first full year of receipt). In many cases, those funds were allocated substantially to recurring costs associated with police staffing, salaries and benefits.

2. The analysis uses "status quo" revenues and expenses for comparative purposes are based on 2016-17 revenues & expenses. However, the plan as submitted defines the 2021 budget as being the same as the 2019 budgets. The numbers used as "status quo" for calculation of "savings" in year one and on which their preposterous claims of dramatic savings of $55.0 million. That analysis ignores the impact of inflationary growth in expenses for the 5 years from 2016 to 2021.

   Given that the lion share of operating budgets are personnel related – that assumption must be that no adjustments in compensation have been or will be made from 2016-2019. Their analysis also ignores the overall impact of adoption of Prop P (0.5% sales tax for public safety) in St Louis County representing $84 million. Their analysis incorporates the additional revenue into 2021 projections but fails to recognize the additional public safety expenditures (much of which are recurring costs for personnel) for 2018 and forward to 2021.

3. The analysis of revenue growth shows an assumed 2.0% growth in real estate tax revenue which they states is attributed to "new construction". That assumption runs counter to the last decade in which total assessments (including increases due to new construction and reassessment) have grown only 0.17% annually since 2009.
   That assumption overstates property tax revenue by over $5.5 million per year

4. Sales Tax projections assume a 1.0% growth line going forward. While consistent with historic growth in the last decade, the projections fail to assume any impact of the continuing erosion of local sales tax revenues due to internet sales which are growing

exponentially and that growth is not anticipated to diminish going forward. National trends are a declining reliance on "brick and mortar" sales taxes.

The sales tax assumptions are also flawed by lumping all sales tax revenues into a single line-item and co-mingling those approved for a dedicated purpose (Fire, Parks, Capital, Public Safety, ECC Fund, Children's' Fund) into a single pot of money for the Metro City without regard for their restricted uses.

The proposal as presented redirects 100% of sales taxes from existing cities to the new Metropolitan City estimated at $300 million per year in the St Louis County area of the new city. Sales tax rates vary substantially among existing cities in St Louis County:

Sales Tax	Rate	Applied	# Cities with Tax
State Sales Tax	4.2250%	County Wide	
General- County	3.0125%	County Wide	
Public Safety - County	0.50%	County Wide	
General Purpose	0.25%	Municipal Districts	44
Fire Protection	0.25%	Municipal Districts	17
Parks & Storm Water	0.50%	Municipal Districts	55
Capital Improvements	0.50%	Municipal Districts	79
Econ Development	0.50%	Municipal Districts	13
Public Safety (Police)	0.50%	Municipal Districts	1 - Eureka

Footnote: Rates in the City of St Louis also differ dramatically from those of the County Municipalities

The sales tax projections in the UniteSLT analysis states that current sales tax rates in both the Metro City (St Louis City and St Louis County) and all "municipal districts" remain at current levels. Their projections appear to assume no equalization of rates by metro city over time. That would not be tenable that different sales tax rates for fire, parks, capital and economic development would be applied in some but not all municipal districts or in the metro city as a whole. At some point in time, rates will need to be normalized across the Metropolitan City.

5. Other revenues from sources such as business licenses, permits etc... are based on 2016 budgets and not 2021 estimates. Those revenues remain constant in their projections and at the same levels as the base year. Existing license fees imposed by a municipal district remain at pre-merger levels and are never equalized by the Metropolitan City? Current business license rates in the City of St Louis, St Louis County and many of the "municipal districts" are substantially different and logic would require that they be equalized by the new government over some short period of time.

6. The fiscal note for the Metropolitan City assumes an annual reduction in operations of -1.0% (3% savings due to merger efficiencies offset by 2.0% inflation) but nowhere does it suggest where those savings are derived. The general assumption is "trust us" that they will materialize. Their fiscal note makes no mention of how those cuts will be achieved or what the impact is on service levels in the Metropolitan City or resulting municipal districts. However, typically police budgets across the region represent roughly 50% of municipal expenditures suggesting that a substantial portion of those reductions will need to come in police operations.

7. The fiscal note provides all current debt obligations of the Metropolitan City are paid off using earnings tax revenues and assumes that no new debt will be incurred by the new Metropolitan City going forward. This runs counter to experiences in other metro cities in the country (including Indianapolis and Nashville) which continue to incur debt and runs counter to experience logic that a larger government can finance everything with cash and no new debt.

8. The financial proforma provided by UniteSTL does not provide for any transitional costs associated with the merger itself. Any consideration of a large scale merger, whether involving governments or private entities, will require substantial costs during the transition period for planning and execution. In large scale mergers, corporations typically take huge write-offs against earnings during transition to reflect those high transitional costs.

SUGGESTED LANGUAGE FOR FISCAL NOTE

These are but a few of the flaws in the Fiscal Note by UniteSTL and should be considered by the State Auditor in drafting any fiscal note that will accompany a ballot proposition. Perhaps an appropriate fiscal note might read:

> *The constitutional amendment is so broad and vague that the fiscal impact cannot be reasonably calculated. However, individual St Louis County Municipalities can expect decreased revenues that exceed savings with transfer of $300 million in sales tax revenues from municipalities to the Metropolitan City likely necessitating substantial tax increases in the municipal districts. The overall savings to the taxpayers of the Metropolitan City is unknown in-as-much as decisions on taxation, finances and service levels going forward are not defined in the amendment and are entirely dependent on decision of the future Metropolitan Council. State income tax revenue is estimated to increase by $2.5 million to $7.0 million as a result of repeal of the city earnings tax.*

At best any fiscal note on this constitutional amendment should be that the proposal is so vague and broad that a fiscal impact cannot be reasonably projected. It certainly should not simply regurgitate the claims of UniteSTL that "savings are unknown but estimated to be as much as $1 billion annually by 2032" which suggests that this is a conclusion of the State Auditor's Office.

If you have any questions regarding our analysis please feel free to contact me by e-mail at dharms@desperesmo.org and I will respond as quickly as possible.

Sincerely,

Douglas J. Harms
City Administrator
City of Des Peres, Missouri

EXHIBIT A
DES PERES, MISSOURI

MAJOR ASSUMPTIONS IN THE ANALYSIS:

REVENUES:

Sales Taxes – currently the city receives the proceeds from a 1.25% general sales tax (shared in St Louis County) that will flow to the new Metropolitan City under the proposal. In addition, the city has imposed a 0.25% Fire Sales Tax, a 0.5% Parks Sales Tax and a 0.5% Capital Sales Tax (shared in St Louis County)

Under the proposal as detailed in the proposed constitutional amendment, all sales and use taxes will go to the new Metropolitan City and no longer to current municipalities. The proposal provides that those taxes remain in place in the areas of the municipal districts and the Metro City shall remit to the municipal district those sales tax revenues necessary to meet outstanding obligations of any kind (which we assume to mean pensions and bonds tied to the revenue source) and **may** remit any remaining balance to the municipal district **as necessary** for providing municipal services within the district. Since the pass-thru of sales and use tax is discretionary and associated with a finding of "necessity" by the new Metropolitan City, these projections assume that no pass thru for dedicated sales taxes for municipal services except the Fire Sales Tax since the Metro City is not responsible for any fire services.

Intergovernmental Revenues – are assumed under the proposal to be redirected by the state to the Metro City since the Des Peres Municipal District is not a city under state law. Further, most of the shared revenues from the state are related to transportation – a function defined as a service reserved to the Metro City and not the municipal districts.

Licenses – all business license fees including merchants and liquor licenses are under the proposal the sole jurisdiction and are to be levied by the Metro City and not the municipal districts.

Permits – the proposal provides that all "public works" is reserved to the Metro City and not a function of the municipal district. While that term is not defined in the proposal, the prevailing document for interpretation is the current St Louis County Charter which provides for a Department of Public Works with responsibility for all "permits" which are assumed to include all building and related permits. That revenue, along with the responsibility for those services, would appear to be assigned to the Metro City and not the municipal district

Municipal Court - all municipal court functions are assigned by the proposal to the Metro City and one would then assume that all fines, costs and forfeitures would also flow to the Metro City.

Contracts - Des Peres has a contract with a Community Improvement District to provide additional police protection to West County Center. That contract and related revenue would no longer be collected since municipal districts are not allowed to provide police services.

EXPENSES

The proposal assigns as the sole responsibility of the Metropolitan City certain functions currently provided by the City of Des Peres including police, courts, business licensing and regulation, transportation, public works and economic development. Therefore, it is assumed that 100% of those costs for the city contained in its current budget for both operating and capital purposes will no longer be necessary and the Des Peres Municipal District budget reduced accordingly.

Expenses relating to Fire and EMS services, Parks & Recreation and Solid Waste Collection are retained as municipal district services and the costs associated with each such service are carried forward to the adjusted municipal district budget. In this analysis, the budget for Public Safety is assumed to be split evenly between the Police function and the Fire-EMS function. We believe that assumption not to be true since Des Peres enjoys some economies by having a combined Department of Public Safety with all employees cross trained and utilized in both functions, rather than separate police and fire agencies and expect that the cost of a stand alone Fire-Ems department to be greater than half cost of our current combined department. expect that the cost to operate a stand- alone Fire Department in lieu of our combined Public Safety Department.

I would assume that an additional $750,000 could be reduced from our operations budget due to a 50% in the reduction of administrative costs including general administrative and finance functions supporting operating departments resulting from the service levels to be provided by the successor Des Peres Municipal District.

Pensions – Des Peres Municipal Pension Plan is a 401 Defined Contribution Plan and there are no unfunded pension liability associated therewith to be carried over to the new municipal district. Current obligations are embedded in departmental operations budgets.

Debt Service – for purposes of this analysis, Des Peres current obligations for Debt Service ($1,455,000) in 2019 has been deleted from the analysis since all outstanding debt will be retired in 2020 before the effective date of the proposed reorganization.

Capital Improvements – the City of Des Peres currently receives $2.5 million from the capital improvement sales tax none of which is dedicated to repayment of outstanding general Obligation Bonds or Certificates of Participation. It is assumed that the proceeds from the capital improvement sales tax would not be remitted to the municipal district by Metro City. The adjusted 2019 budget deletes all projects or equipment relating to functions which are transferred to the metropolitan city (the largest of which is transportation and streets) and includes only equipment relating to fire-ems, parks & recreation and maintenance of public buildings being retained by the municipal district.

	General Fund **Public Safety Fund** **Fire Fund**	**BUDGET 2019**	**Changes Better Together**	**Municipal District 2019 Budget**
REVENUES				
[redacted]	Real Estate Taxes	-		
	Sales & Use Tax	**5,920,000**	(5,920,000)	-
	Intergovernmental Revenue	**783,500**	(783,500)	-
	Franchise Fees	**1,167,000**	-	1,167,000
	Licenses	**1,114,000**	(1,114,000)	-
	Permits	**176,000**	(168,000)	8,000
	Municipal Court	**103,000**	(103,000)	-
	Ambulance Fees	**265,000**		265,000
	Interest Income	**75,000**		75,000
	Contracts, Grants and Donations	**150,000**	(135,000)	15,000
	Other Income	**65,000**		65,000
	Total General Fund Revenues	**9,818,500**	-8,223,500	1,595,000
	Total Public Safety Fund Rev	**454,447**	-450,000	4,447
	Total Fire Fund Revenues	**1,561,000**	0	1,561,000
		11,833,947	-8,673,500	3,160,447
EXPENDITURES				
[redacted]	Boards & Commissions	**158,755**	-	158,755
	Administration	**486,885**	-	486,885
	Court & Law	**153,300**	(153,300)	-
	Prosecuting Attorney	**104,180**	(104,180)	-
	Finance	**541,690**	-	541,690
	Public Safety	**7,420,965**		-
	Police		(3,710,483)	
	Fire			3,710,483
	Public Works	**516,325**	(516,325)	-
	Streets	**1,161,850**	(1,161,850)	-
	Sanitation	**788,730**		788,730
	Government Center	**136,280**		136,280
	Information Technology	**211,520**	(20,000)	191,520
	Total Operating Budget	**11,680,480**	**(5,666,138)**	6,014,343
CHANGES IN FUND BALANCE				
[redacted]	Excess of Revenues-Expenses	**153,467**		**-2,853,896**
	Transfer from Capital Imp Fund	**6,500**	(6,500)	-
	Transfer from Park Fund	**7,500**	(7,500)	-
	Transfer from Sewer Fund	**15,000**	(15,000)	-
	Transfer to Capital Imp Fund	-		
	Transfer to Debt Service Fund	-		
	Transfer to Park Fund	-		
	Net Changes to Fund Balance	182,467	-29,000	$ **(2,853,895.50)**
	Beginning Fund Balance	7,629,331		7,821,804
	Ending Fund Balance	7,811,798		4,967,909

PARK FUND

	2019 BUDGET	PARK FUND BUDGET 2019	Changes Better Together	Municipal District 2019 Budget
REVENUES				
[redacted]	Park Sales Tax	3,037,000	(3,037,000)	-
	Interest Income	50,000		50,000
	Contract Revenue	6,000		6,000
	Rental Income	290,000		290,000
	Memberships	1,600,000		1,600,000
	Concessions & POS	83,900		83,900
	Daily Fees	278,000		278,000
	Aquatics	233,500		233,500
	Fitness	395,000		395,000
	General Recreation Programs	148,000		148,000
	Sports	136,000		136,000
	Grants & Donations	12,000		12,000
	Miscellaneous	-		-
	TOTAL REVENUES	6,269,400	(3,037,000)	3,232,400
APPROPRIATIONS				
[redacted]	Lodge Operations	2,292,425		2,292,425
	General Recreation Programs	120,480		120,480
	Aquatics	134,155		134,155
	Sports	115,055		115,055
	Fitness	307,210		307,210
	Building Operations	1,340,005		1,340,005
	Parks	824,245		824,245
	TOTAL EXPENSES	5,133,575	-	5,133,575
CHANGES IN FUND BALANCE				
[redacted]	Excess Revenues over Expenses	1,135,825		(1,901,175)
	Transfer to Debt Service Fund	(1,050,000)	1,050,000	-
	Transfer to Capital Imp Fund	(1,207,000)	-	(1,207,000)
	Transfer to General Fund	(7,500)	7,500	-
	Transfer From General Fund	-		-
	Net Changes to Fund Balance	(1,128,675)	1,057,500	**$ (3,108,175.00)**
	Beginning Fund Balance	**4,148,425**		
	TOTAL ENDING FUND BALANCE	**3,019,750**		

CAPITAL IMPROVEMENT FUND

	2019 BUDGET	CIF BUDGET 2019	Changes Better Together	Municipal District 2019 Budget
REVENUES				
[redacted]	Capital Sales Tax	2,630,000	(2,630,000)	-
	Interest Income	56,500		56,500
	Sale of Surplus Property	10,000		10,000
	Infill Housing Assessments	50,000	(50,000)	-
	Grants- Police	3,750	(3,750)	-
	Grants- Streets	16,000	(16,000)	-
	Grants - Parks	370,000		370,000
	Miscellaneous	805		805
	TOTAL REVENUES	3,137,055	(2,699,750)	437,305
	Sewer Fund Revenues	90,000	(90,000)	-
		3,227,055		437,305
APPROPRIATIONS				
[redacted]	**Furnishings & Equipment**			
	General Government	100,000		100,000
	Public Safety - General	27,500		27,500
	Public Safety - Police	128,500	(128,500)	-
	Public Safety- Fire & EMS	68,500	-	68,500
	Public Work	22,500	(22,500)	-
	Streets	175,000	(197,500)	(22,500)
	Solid Waste Management	2,500		2,500
	The Lodge	288,200		288,200
	Parks	69,000		69,000
		881,700	(348,500)	533,200
[redacted]	**Streets**			
	Sidewalks	100,000	(100,000)	-
	Asphalt Street Improvements	561,035	(561,035)	
	Concrete Street Improvements	596,420	(596,420)	-
	Bridge Improvements	10,000	(10,000)	-
	Other Street Projects	229,200	(229,200)	
	Forestry - Street Trees	50,000	(50,000)	-
		1,546,655	(1,546,655)	0
[redacted]	**Public Buildings**			
	Government Center	74,200	-	74,200
	Public Safety	20,000	(20,000)	-
	Street Garage	49,000	(49,000)	-
	The Lodge Des Peres	96,500		96,500
	Parks	1,697,000		1,697,000
		1,936,700	(69,000)	1,867,700
[redacted]	**TOTAL APPROPRIATIONS**	4,365,055	(1,964,155)	2,400,900
	Sewer Fund Expenses	83,000	(83,000)	-
		4,448,055		2,400,900
CHANGES IN FUND BALANCE				
[redacted]	Excess Revenues over Expenses	-1,221,000		-1,963,595
	Transfer to General Fund	-6,500	6,500	-
	Transfer From Fire Fund	27,500	-	27,500
	Transfer from PS Fund	0		-
	Transfer From Park Fund	1,207,000	-	1,207,000
	Transfer from Sewer Fund	-15,000	15,000	-
	Net Changes to Fund Balance	-8,000	21,500	$ **(729,095.00)**
	Beginning Fund Balance	**3,872,815**		3,872,815
	TOTAL ENDING FUND BALANCE	**3,864,815**		3,143,720