Office of Missouri State Auditor

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Cass County
Tax Increment Financing

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CITIZENS SUMMARY

Findings in the audit of Cass County Tax Increment Financing

TIF Financing

Tax increment financing (TIF) is an economic development tool that redirects local tax revenues toward the redevelopment of eligible properties that are otherwise economically unfeasible. When a TIF plan is adopted, real estate taxes in the redevelopment area are frozen at the current level. By applying the real estate tax rate to the increased assessed valuation resulting from redevelopment, a tax "increment" is produced. The real estate tax increments are referred to as payments in lieu of taxes (PILOTs).

PILOTs for each TIF district are collected by the county collector and distributed to the cities that authorized the TIF. The cities make further distributions to the TIF special allocation funds and to the other political subdivisions or back to the county collector for redistribution to the political subdivisions. The county assessor prepares reports of assessed valuations that are provided to the county clerk. The county clerk reports assessed valuations to the political subdivisions. The political subdivisions utilize the assessed valuations received from the county clerk to set their property tax levies. The county clerk is also responsible for reporting the assessed valuations to the Department of Elementary and Secondary Education (DESE) and the State Tax Commission. According to state law, the incremental increase in assessed value is not to be included in the total assessed value reported.

Cass County TIFs

In 2015, the Belton School District #124 questioned the accuracy of the assessed valuations reported to the district by the Cass County Clerk. The Cass County Assessor concluded the reports incorrectly included the full assessed valuation amounts for all TIF districts in Cass County. The County Assessor's reports indicated assessed valuations for the purpose of setting the property tax rates were likely overstated by $23.8 million for 3 county-wide political subdivisions and lesser but significant amounts for 3 school districts, 3 cities, the county road and bridge property tax, a special road district, a community college and one fire protection district. The Belton School District #124 requested the State Auditor investigate the propriety of the assessed valuations reported by the county clerk and used in setting the district's tax rates. Each of the 12 TIF districts in existence during the audit period (2004-2015) have been approved by the governing bodies in the cities of Belton, Harrisonville, or Raymore.

TIF Assessed Valuation Reporting

The County Assessor's office does not have adequate controls to ensure compliance with state laws related to the valuation of TIF property. Although concerns had been raised about the assessed valuations for all 12 TIF districts in the county, auditors determined reporting errors were limited to one district, the Mullen TIF district in Belton for the 2004, 2005 and 2006 tax years. As a result of the reporting errors, additional property tax revenue of approximately $203,000 could have been generated by four political subdivisions in Cass County if the adjusted tax rate ceiling had been calculated accurately. Belton School District #124 could have generated an additional $52,000 in property taxes, the City of Belton could have generated an additional $144,000 in property taxes, the Cass County Library could have generated an additional $5,000 in property taxes, and the Metropolitan Community College District could have generated an additional $2,000. Additionally, Belton School District #124 received

approximately $265,000 less in state funding than it would have otherwise collected under the state school funding formula. The County Assessor's office did not review parcel level assessed valuations to ensure the accuracy of TIF district valuations, and overstated valuations were reported under the administrations of the former County Assessor and County Clerk. Auditors reviewed current procedures and determined both offices lack adequate controls to ensure accuracy.

Emergency Service District Distribution	Auditors determined the South Metropolitan Fire Protection District was underpaid $23,016 in property tax distributions based on statutory requirements. The City of Raymore issued payments to the district to correct the error.

Due to the limited scope of this audit, no overall rating is provided

Cass County Tax Increment Financing
Table of Contents

State Auditor's Report 2

Introduction
- Background 3
- Scope and Methodology 4

Management Advisory Report - State Auditor's Findings
1. TIF Assessed Valuation Reporting 5
2. Emergency Service District Distribution 8

Organization and Statistical Information 10

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Missouri State Auditor

To the County Commission
and
Officeholders of Cass County

We have audited certain operations of Cass County as it relates to the reporting of the assessed valuation of tax increment financing (TIF) districts in fulfillment of our duties under Section 29.200.3, RSMo. Due to concerns regarding errors in the reporting of TIF district assessed valuations and the potential for financial impact to local political subdivisions, the State Auditor initiated the audit with the approval of the Cass County Commission. The objectives of our audit were to:

1. Evaluate internal controls over significant management and financial functions of Cass County related to the TIF districts and reporting of assessed valuations.

2. Evaluate compliance with certain legal provisions related to TIF districts and reporting of assessed valuations.

3. Evaluate the economy and efficiency of certain management practices and operations related to TIF districts and reporting of assessed valuations.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures.

The accompanying Management Advisory Report presents our findings arising from our audit of Cass County procedures related to the reporting of TIF district assessed valuations.

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Cass County Tax Increment Financing
Introduction

Background

Tax increment financing (TIF) is an economic development tool that redirects local tax revenues to the redevelopment of eligible properties that are otherwise economically unfeasible. Sections 99.800 to 99.865, RSMo, the Real Property Tax Increment Allocation Redevelopment Act, enables cities to finance certain redevelopment costs with the incremental tax revenue generated by the net increase in assessed valuation resulting from the redevelopment. When a TIF plan is adopted, real estate taxes in the redevelopment area are frozen at the current level, or base valuation. By applying the real estate tax rate of all taxing districts having taxing power within the redevelopment area to the increased assessed valuation resulting from redevelopment, a tax "increment" is produced. The real estate tax increments are referred to as payments in lieu of taxes (PILOTs).[1]

The PILOTs for each TIF district are collected by the county collector and distributed to the cities that authorized the TIF. The cities make further distributions to the TIF special allocation funds and, as required, either to the other political subdivisions or back to the county collector for redistribution to the political subdivisions.

The county assessor prepares reports of assessed valuations that are provided to the county clerk. The county clerk is responsible for reporting those assessed valuations to the political subdivisions. The political subdivisions utilize the assessed valuations received from the county clerk to set their property tax levies. The county clerk is also responsible for reporting the assessed valuations to the Department of Elementary and Secondary Education (DESE) and the State Tax Commission. According to state law, the incremental increase in assessed value is not to be included in the total assessed valuation reported.

As part of financial planning efforts in 2015, the Belton School District #124 began questioning the accuracy of the assessed valuations reported to the district by the Cass County Clerk. As a result, the Cass County Assessor compiled a series of annual reports for tax years 2004 through 2015 covering all political subdivisions within Cass County. Based upon those reports, the County Assessor concluded the reports provided to political subdivisions by the County Clerk incorrectly included the full assessed valuation amounts for all TIF districts in Cass County. Such an error would impact the tax rate ceiling calculation of the 13 political subdivisions in the county with a TIF for each year the TIF was in place. The County Assessor's reports indicated assessed valuations for the purpose of setting the property tax rates were likely overstated by $23.8 million for 3 county-

[1] Source: Summary of the Missouri Real Property Tax Increment Allocation Redevelopment Act, <http://www.armstrongteasdale.com/files/Uploads/Documents/Summary%20of%20 MO%20Real%20Property-8992445-1.PDF>, accessed February 16, 2016.

wide political subdivisions and lesser but significant amounts for 3 school districts, 3 cities, the county road and bridge property tax, a special road district, a community college, and one fire protection district. The Belton School District #124 requested the State Auditor investigate the propriety of the assessed valuations reported by the County Clerk and used in setting the district's tax rates. On February 4, 2016, the Cass County Commission passed a resolution to allow the State Auditor's Office to audit Cass County offices with responsibilities related to TIF districts and assessed valuation calculations.

There have been 12 separate TIF redevelopment districts in existence in Cass County during our review period from 2004 through 2015. The TIF districts have been approved by the governing bodies in the cities of Belton, Harrisonville, or Raymore.

Scope and Methodology

To gain an understanding of how Cass County TIF district assessed valuations are reported, property taxes are impacted, and TIF property taxes are collected and distributed, we held discussions with the County Assessor, County Clerk, and County Collector. In addition, we held discussions with officials of the Belton School District #124, and officials with the City of Belton and the City of Raymore. To determine the potential impact on Cass County school districts and other political subdivisions we met with officials of the Department of Elementary and Secondary Education (DESE) and the State Tax Commission. Auditors obtained the data submitted to our office by the county and the political subdivisions for purposes of setting the property tax rates from 2004 through 2015. We obtained assessed valuation reports for the period of 2004 through 2015 from the County Assessor's office. We obtained and reviewed school funding reports submitted by the Belton School District #124 and assessed valuation reports submitted by the County Clerk to the DESE. We provided DESE officials with the estimated amounts of incremental assessed valuations reported to the Belton School District #124 in error and requested DESE officials determine any potential impact on the school district's state funding resulting from the error.

1. TIF Assessed Valuation Reporting

The County Assessor's office does not have adequate controls in place to ensure compliance with state laws related to the valuation of tax increment financing (TIF) property. As a result, four political subdivisions in Cass County could have generated additional property tax revenues of approximately $203,000 and Belton School District #124 received approximately $265,000 less in state funding than the district otherwise would have collected from the state school funding formula.

Controls over assessed valuation reporting

The County Assessor's office does not review parcel level assessed valuation reports to ensure the accuracy of TIF district valuations. As a result, the office provided overstated assessed valuations to the County Clerk for the 2004, 2005, and 2006 tax years. The County Clerk does not have adequate procedures in place to ensure the abstracted assessed valuations provided to the political subdivisions were correct. As a result, tax rate ceilings for local political subdivisions were understated, resulting in reduced property tax revenues, and the school funding formula for one school district was negatively impacted. The overstatement of the assessed valuations discussed above occurred under the administrations of the former County Assessor and the former County Clerk. However; the current controls and procedures in both offices are not sufficient to ensure incremental assessed valuations related to TIF projects are properly excluded from the assessed valuation totals reported to political subdivisions.

While initial indications were the County Assessor's office had incorrectly included incremental assessed valuations for all 12 TIF districts in the county, auditors determined errors in assessed valuation reporting were limited to one TIF district. The County Assessor's office incorrectly included the incremental assessed valuation for the Mullen TIF district for 2004 through 2006 in the assessed valuation totals reported to the County Clerk. The Mullen TIF district was terminated in 2006, reducing the impact of the inaccurate assessed valuation. Section 137.073.4(1), RSMo, requires additional assessed valuations from TIF districts to be excluded from the assessed valuations for the purpose of setting the property tax rates. This noncompliance was likely caused by the manner in which the assessed values for the Mullen TIF district were entered into and tracked by the County Assessor's property tax assessment system when the Mullen TIF district was established in 1995. The assessed values were further overstated due to the manner in which the additional assessed valuations for this TIF were added to the assessment system as the TIF developed. Due to the age of the project, we were unable to determine if the problems identified occurred because of system programming errors or manual override of the established procedure. For all other TIF districts in the county, the property tax system properly reflects only the base year assessed valuation.

Incorrect assessed valuations

The County Clerk's report to political subdivisions of total assessed valuations incorrectly included incremental assessed valuations for the Mullen TIF district of $2,051,300, $1,870,740, and $2,193,650 for 2004, 2005, and 2006, respectively. In addition, in 2005 the assessed valuation of new construction from the Mullen TIF district, $399,320, was manually added into the new construction assessed valuation total when it should not have been added to that amount until 2007. The combination of these errors caused the property tax rate ceilings for 4 of the 7 political subdivisions where the Mullen TIF district was located to be lower than the ceiling would have been if the assessed valuations had been reported in accordance with state law. In addition, the incorrect reporting of the 2004 assessed valuation to the Belton School District #124 resulted in errors in the districts school funding formula.

Financial impact

In order to estimate the financial impact on the political subdivisions involved, auditors utilized tax rate ceiling calculators used by the State Auditor's Office tax rate section. Property tax rate data submitted to our office for 2004 through 2015, and the tax rate calculation forms for each tax year for each political subdivision were reviewed. Tax ceilings and rates were recalculated after reducing the assessed valuations by the amount of the overstatement of the Mullen TIF district. In addition, auditors corrected the timing of the $399,320 in new construction value, moving it from 2005 to 2007. Auditors then determined the amount of additional tax revenue that could have been generated if the adjusted tax rate ceiling would have been in effect. The primary effect of the overstated assessed valuations and the new construction impact would have ended in 2007 following the expiration of the Mullen TIF district in 2006. However, subsequent year tax rates would have been impacted slightly due to the effect of the prior year's tax rate ceilings, limitations on tax revenue growth, and the revenue neutrality provisions required under state law.

Belton School District #124

We estimate the Belton School District #124 could have generated an additional $52,000 in property tax revenue from 2004 through 2015 if the correct assessed valuations had been reported to the district.

City of Belton

We estimate the City of Belton could have generated an additional $144,000 in property tax revenue from 2004 through 2015 if the correct assessed valuations had been reported to the city. Both the city general revenue and city parks and recreation property taxes were affected.

Other political subdivisions

The total additional property tax revenue that could have been generated by the Cass County Library and the Metropolitan Community College District from 2004 through 2015 were less than $5,000 and $2,000, respectively. The Mount Pleasant Special Road District over imposed approximately $6,000 in property taxes from 2005 through 2008. We could determine no

potential impact upon the property taxes for the County Medical Center and the Senate Bill 40 Board.

School funding formula

The errors made by the County Assessor and the County Clerk that caused the overstatement of the 2004 assessed valuations resulted in the Belton School District #124 receiving approximately $265,000 less from the state school funding formula than the district otherwise would have received.

The current school funding formula utilizes the 2004 assessed valuation as the base of the local effort portion of the formula. The assessed valuation reported to the school district for 2004 by the County Clerk incorrectly included $2,051,300 for the incremental assessed valuation of the Mullen TIF district. In addition, the school district and the County Clerk both reported the incorrect assessed valuations to the DESE, causing the local effort portion of the school funding formula to be overstated and the amounts of state school funding available to the school district to be lower than otherwise allowable. Since the school funding formula is based on the 2004 local effort amount, the error impacted all subsequent years.

We requested the DESE determine the additional amounts of state school funding the school district would have received if the correct 2004 assessed valuation had been reported. DESE officials estimated the school district would have received approximately $265,000 in additional state school funding over the period of 2007 through 2016. They indicated the district may be limited to two years of correcting distributions of approximately $66,800, and $69,000 for 2015 and 2016, respectively, if any correcting distributions were made. DESE officials indicated they plan to contact the Attorney General's office to obtain an opinion as to whether state law allows the department to correct the school funding formula for this error, and if so, how many years can be paid back to the school district.

DESE instructions to county clerks specifically state the assessed valuation should include the base equalized value of a TIF district, but not the incremental value upon which the payments in lieu of taxes (PILOTs) are collected. This guide is sent out each year to all county clerks in the state, who need to work with the assessor to ensure correct valuations are reported.

Requiring parcel-level detail reports of assessed valuations for TIF districts, and reviewing to ensure incremental assessed valuation amounts are not included in the overall assessed valuation amounts provided to political subdivisions, would help ensure compliance with Section 137.073.4(1), RSMo, and accurate assessed value data is used in local tax rate ceiling calculations. Such procedures also would have helped ensure the accuracy of the Belton School District's state school funding formula calculation.

Recommendation

The County Assessor and the County Clerk should develop additional controls and procedures to ensure assessed valuations are properly reported to political subdivisions and state agencies in accordance with state law.

Auditee's Response

The County Assessor provided the following response:

The TIF errors reported in this report happened in the years 2004-2006. Since taking office in 2007, we have implemented controls in the office to administer the TIF information properly. We also have contracted with outside firms to review our TIF properties since 2007 to be sure that we are in compliance.

The County Assessor's office is establishing additional controls to ensure that all reports are reviewed and that the TIF district valuations are reported in accordance with state law.

The County Clerk provided the following response:

The County Clerk is currently in the process of establishing additional controls and procedures to ensure that assessed valuations are properly reported to political subdivisions and state agencies in accordance with state law.

2. Emergency Service District Distribution

Controls over disbursing TIF monies to emergency service districts need improvement. The County Collector does not have controls in place to ensure city distributions are in accordance with statutory requirements. As a result, property tax distributions to one fire protection district were underpaid.

Section 99.848, RSMo, requires emergency service districts to receive a minimum of 50 percent of the PILOTs from a TIF district. In 2015, the City of Raymore distributed 25 percent of the PILOTs for the Raymore Galleria TIF district to the South Metropolitan Fire Protection District instead of the 50 percent required. For the other TIFs in the City of Raymore, the fire protection district received the appropriate amount of the PILOTs. After auditors discussed the error with city officials, the city issued the fire protection district payments totaling $23,016 to correct the error.

The County Collector distributes TIF property tax monies for the TIF districts located in the City of Raymore to city officials for further distribution to the political subdivisions and the TIF districts. The City of Raymore was the only city with an emergency service district with a property tax levy that included TIF redevelopment districts.

Recommendation

The County Collector monitor the City of Raymore to ensure TIF property taxes are distributed to the fire protection district in accordance with state law.

Auditee's Response

The County Collector provided the following response:

I will comply with this recommendation by preparing an insert to be attached to each TIF distribution to the City of Raymore stating Section 99.848, RSMo, requires a minimum of 50 percent of the emergency services portion of TIF revenues to be distributed to the fire protection district.

Although I am happy to comply, I am concerned with the responsibility that may ensue with other taxing districts as a result of this recommendation. To my knowledge there isn't any statutory requirement for my office to take on this responsibility.

Cass County Tax Increment Financing
Organization and Statistical Information

Cass County is a county-organized, first-class county. The county seat is Harrisonville, Missouri.

TIF Districts

Cass County had the following 12 tax increment financing (TIF) districts active during all or part of the 2004 to 2015 period reviewed.

TIF District	Approving City	Year Approved
Mullen[1]	Belton	1995
Marketplace	Belton	2001
Town Centre	Belton	2006
Belton Plaza	Belton	2007
Southtowne Plaza	Belton	2009
Boardwalk	Belton	2009
Y Highway-Marketplace	Belton	2010
Raymore Galleria	Raymore	2005
Good Ranch	Raymore	2006
Foxwood Village Shops	Raymore	2009
Towne Center	Harrisonville	2005
Marketplace	Harrisonville	2007

[1] TIF district terminated in 2006.

Elected Officials

The elected county officials serving as of December 31, 2015 with responsibilities related to assessment and reporting of TIF property valuations and collection and distribution of the related property taxes are listed below:

Elected Official	County Office
Michael J. Vinck	County Clerk
Bob Huston	County Assessor
Pam Shipley	County Collector