

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-50)**

Subject

Initiative petition from Ron Calzone regarding a proposed constitutional amendment to Article I, Sections 26, 27, and 28. (Received December 17, 2008)

Date

January 6, 2009

Description

This proposal would amend Article I, Sections 26, 27, and 28 of the Missouri Constitution.

The amendment is to be voted on in November, 2010.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Office of the State Public Defender**, the **Missouri Senate**, the **Secretary of State's Office**, the **State Tax Commission**, the **State Treasurer's Office**, **Cole County**, **Greene County**, **Jackson County**, **St. Louis County**, the **City of Columbia**, the **City of Gladstone**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community Colleges**, the **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated this proposal creates no fiscal impact on their agency.

Officials from the **Department of Economic Development** indicated this petition will have no fiscal impact on their department.

Officials from the **Department of Higher Education** indicated this initiative would have no direct, foreseeable fiscal impact on their agency.

The **Department of Health and Senior Services** indicated no impact for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated passage of this initiative will have no cost or savings to their department.

Officials from the **Department of Mental Health** deferred its response to the Office of Administration-Division of Facilities Management, Design and Construction who is responsible for managing state-owned and leased property utilized by the department.

Officials from the **Department of Corrections** indicated the impact on their agency as a result of this initiative is unknown. They deferred to the Office of Administration-Division of Facilities Management, Design and Construction to address property issues and any resulting fiscal impact on behalf of state agencies.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their department.

The **Department of Revenue** indicated this petition will have no fiscal impact on their department.

The **Department of Public Safety** indicated there is no fiscal impact for this petition on their department.

Officials from the **Department of Social Services** indicated there is no fiscal impact on their agency as a result of this initiative petition.

Officials from the **Governor's Office/Office of Administration** indicated this proposal will have no fiscal impact on their agencies.

The **Missouri House of Representatives** indicated this initiative petition has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that no fiscal impact to their department would be expected as a result of this proposal.

The **Office of State Courts Administrator** indicated that this initiative petition should not have a fiscal impact on the judiciary.

Officials from the **Department of Transportation** indicated this initiative petition changes property acquisition procedures and limits property acquisition by public entities, including their department, which will impact their department. They estimate it would significantly delay their department's project delivery process and would increase their property acquisition costs, based on the constitutional changes described by the department [Missouri Department of Transportation (MoDOT)/Missouri Highway and Transportation Commission (MHTC)] below:

Limits Eminent Domain Authority: Section 26 is amended to state that eminent domain power shall only vest in the state, including state entities expressly granted such power by this constitution, and in political subdivisions of the state whose officials are directly accountable to elected officials. Private property will not be taken or damaged unless the taking is necessary for a public use and just compensation is paid. This change should not prohibit MoDOT from condemning property to be used for state highway system purposes (as authorized by article IV, section 30(b)) or for the state transportation system (authorized by article IV, section 30(c)).

Appraisal Methods: Section 26 changes the way property is to be valued for just compensation arising from a condemnation proceeding. The initiative petition would allow any appraisal method used in the ordinary scope of business to be admissible in a condemnation proceeding. This change could have a significant, unknown negative fiscal impact on MHTC and MoDOT.

Interlocutory Appeals: Section 26 would also prohibit use of the condemned land by the condemnor until all legal challenges to the condemnation are final. This process could take years and delay project lettings. Appellate courts have typically recognized a very limited number of legal challenges against a condemnation petition: (1) fraud; (2) bad faith; or (3) arbitrary and unwarranted abuse of discretion. By allowing any legal challenge to the condemnation petition, this significantly alters the number and types of challenges to a condemnor's petition to condemn, which will significantly delay the acquisition of property for MHTC's state highway construction program, and which will also encourage more landowners to contest MHTC's authority to condemn property in an attempt to force MHTC to pay more money for the property or risk delaying the project. Delay of projects results in a negative fiscal impact, loss of safety benefits from constructing such projects on time, as well as the additional inflation costs for the construction projects that arise through such delays.

Takings for Private Ownership Prohibited: Section 28(1) would prohibit takings for private ownership and could therefore be construed to bar condemnations for certain public-private partnerships, transportation corporations, transportation development districts and the like. There is no exception to the private use prohibition for transportation projects, except as it relates to railroads and to regulated utilities. Therefore, private property could not be acquired by MHTC and later transferred, even by lease, to a private person for a public use. This provision would result in a negative, unknown fiscal impact to MoDOT.

Corridor Preservation 5 Year Limitation: Section 28(2) would allow landowners to claim their property back from the condemnor after 5 years and at the original price paid if the project is not substantially pursued. This language would repeal existing section 226.955 RSMo, which authorizes a 10 year construction initiation time limit on MHTC corridor acquisitions. This provision would significantly undermine MHTC's authority to do long-range planning and acquire property within a designated highway corridor in advance of design and construction because of the 5 year time frame to substantially accomplish the project. This language will also have a significant, negative unknown fiscal impact on MHTC and MoDOT.

Easements Only: Section 28(3) would allow the taking of property for transportation or utility facilities or transmission systems used by a railroad, regulated utility or rural electric cooperative, but the fee of property taken for these purposes without consent of the owner will remain in the owner subject to the use for which it is taken. Condemnations for transportation purposes that occur under this section shall be limited to right of way easements only, and fee simple title will be reserved in the landowner unless the landowner consents to give the condemnor fee simple title.

Whether this provision will negatively impact MoDOT depends upon how the language in this section is interpreted. If the provisions of this section are only applicable to condemnations by a railroad, regulated utility or rural electric cooperative for transportation purposes, then this section should not impact MHTC. If, however, this section is applicable to all takings for transportation purposes, then this provision will adversely impact the value of excess right of way that MHTC holds by only an easement rather than having fee simple title and will therefore have a negative, unknown impact upon MHTC.

Right of First Refusal 20 Year Limitation: Section 28(4) also would prohibit a condemnor from selling or leasing condemned property or allowing its use by a private entity within 20 years of the acquisition unless the owner or the owner's successor in title has been given the opportunity to buy the property back for the original price paid at the time of the taking. Please note that this IP also amends section 27 so that the sale of any excess property is now subject to this section 28(4). This provision might be construed by a court to prohibit conveyances or

leases to certain public-private partnerships, transportation corporations, transportation development districts and the like. This language will have a significant, unknown fiscal impact on MHTC and MoDOT.

MoDOT is unable to provide an estimate of the negative fiscal impact this initiative petition will have upon the department if it is approved by the voters; therefore, the negative fiscal impact due to this petition is unknown, greater than \$100,000.

Officials from the **Office of the State Public Defender** indicated this petition will not have any significant impact on their agency.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$1.35 million to publish (an average of \$270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

The **State Tax Commission** indicated this petition will not have a fiscal impact on their agency.

The **City of St. Louis** indicated the initiative petition would result in significant increases in cost and significant amounts of lost revenue to the city. In addition, the following related information was provided by the city.

The initiative petition proposes changes to Article I, Sections 26, 27, and 28 that would prohibit the use of eminent domain for redevelopment by providing that: (a) only public entities can acquire property using eminent domain; (b) no private ownership or other private rights shall be considered a public use; (c) the future use must be declared at the time of acquisition and cannot be changed; and (d) the public entity that acquired the property via eminent domain cannot transfer such

property to private ownership any sooner than twenty (20) years following the acquisition unless the original owner has been offered the right to buy back the property at the original price or unless the private owner is providing products or services incidental to the function of a publicly owned facility. Section 5 of the proposed amendment to Article I, Section 28, also appears to change Article VI, Section 21, by effectively stripping out the ability of local governments to use eminent domain for redevelopment that involves private entities through a provision that states that the proposed revisions to Article I, Sections 26, 27, and 28 limit the application of Article VI, Section 21. These proposed changes will result in both extreme costs and extreme loss of revenue to the City. The city uses eminent domain sparingly. But it is a very important tool that is vital in their efforts to overcome hundreds of acres of blight caused by five decades of suburban flight.

In 1950, the city had 850,000 people—today, they have just over 350,000. As a result of this population loss, there are now thousands of vacant lots and structures in the City of St. Louis. As a result of this population loss, many former residences and businesses have now become vacant buildings and vacant lots. Many of these vacant properties have fallen into city ownership by default—when the private owner did not pay property tax due, the property was placed in a tax foreclosure sale, and if a private party did not bid on the property its ownership was transferred to the Land Reutilization Authority. Redeveloping this decay would be easy if all of the properties were side by side—and if all of our vacant buildings and lots were owned by the city. In fact, they are not. The city-owned properties are scattered among many properties in the hands of private owners. Too many of these privately held properties are also blighted, making it very difficult—and in some cases nearly impossible—to redevelop these run-down areas. The vast majority of our privately owned vacant buildings and lots are not maintained by their private owners.

The result is that some of the City of St. Louis' neighborhoods are the best in the State of Missouri. But, others are plagued by poverty, poor infrastructure, and violence.

The City of St. Louis has made great progress in turning some of these neighborhoods around. But, it would not have happened without the possible use of eminent domain. Other neighborhoods waiting to be redeveloped will remain blighted if developers do not know at the beginning of a project that they will be able to complete it.

Eminent domain is needed to eradicate the vacant, abandoned, dangerous and problem properties that were left behind when half a million people left the City of St. Louis.

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of St. Louis. Private participation in the redevelopment process is necessary because the city does not have the resources to acquire the thousands of problem properties in the city, eliminate the problematic conditions, and hold the property for twenty (20) years. These properties were never used for governmental purposes and were not intended for governmental use. The city does not wish to—and cannot afford to—use public funds and eminent domain to purchase these properties, use public funds to redevelop them—and then own them and operate them for what are essentially private business and residential purposes for a twenty-year period. As provided in the proposed amendment, the city will not even be able to enlist the assistance of private enterprise in the operation of the properties or to realize any income from the property to offset the expense of acquiring and redeveloping it for the twenty-year period, because the proposed amendment prohibits the property from being “sold, leased, transferred, or otherwise made available for use by a private party within 20 years of such taking...unless the private owner is providing products or services incidental to the function of a publicly owned facility.” Private redevelopment and ownership will allow the city to rebuild its tax base; public ownership for a twenty-year period, on the other hand, will cost the city millions upon millions of dollars and result a veritable wasteland for two decades since it will not be possible for the city to use the property in any manner that allows the city to recoup even a portion of its investment—if it were even possible for the city to make the investment in the first place. Since city funds are not available, it will not possible to address these conditions with the limited and weak mechanisms that will remain if the amendment passes. Thus, the proposed amendment would sentence the city to another five—and more—decades of decline, disinvestment and population loss as people and businesses again leave the city because they cannot tolerate negative conditions that the city is powerless to change. The city needs to rebuild the market for city real estate and rebuild its tax base in the process—the proposed amendment would make it impossible for the city to do this.

Even more important, the amendment will make it impossible for the city to address the redevelopment of blighted areas in a manner that returns these areas to productive uses that generate tax revenues for the city and the State of Missouri. The redevelopment of blighted areas necessarily involves the participation of the private sector, which the amendment would prohibit for a twenty-year period. Developments like CORTEX, the new Pinnacle entertainment development, and Botanical Heights would no longer be possible—and it may not even be possible to complete those major developments that are already underway. It is critical that the city retain the ability to address blighted areas and to partner with private enterprise for the redevelopment of these blighted areas—the city cannot address the distress that currently exists in the city using public funds alone. The reason they need redevelopment is because their tax base has eroded over the past fifty years. They cannot reconstruct their tax base without the ability to address blighted areas, and they cannot reconstruct their tax base without partnerships with private enterprise. The proposed amendment would prohibit partnerships with private enterprise in redevelopment.

If the city is forced to address its distressed areas by using city funds and twenty-year city ownership to cure the distress, before having the ability to acquire and sell the property to responsible owners, the result will be a significant additional cost to the City of St. Louis, as detailed on the attachments below. Further, since the city cannot possibly afford this cost, estimated at over \$40 million per year, the vast majority of these distressed areas will remain distressed. The proposed amendment would render the city powerless to arrest the decline that has occurred over the past five decades, and set the stage for greater decline in the future as the proposed amendment rewards speculators, slumlords and predatory land owners for their irresponsible behavior by eliminating one of the few effective tools for addressing the problems they cause.

Over the years, the city has also come to own many properties in distressed areas due to property tax and other lien foreclosures—this is but one symptom of areawide distress. Many of the distressed properties in the city remain in private ownership, even though they are for all practical purposes abandoned, because their owners pay minimal property taxes and weed and trash removal liens. Approximately 3,700 vacant buildings and 10,000 vacant lots remain in private ownership. This private ownership of abandoned property causes problems for both neighboring residents and businesses and the city and impairs the city's ability to heal itself after five decades of decay.

In addition, redevelopment of both publicly owned and privately owned vacant properties is seldom feasible without the ability to combine those parcels with other blighted property for redevelopment, since most of the city was originally platted in 25-foot frontage increments. Today, a 25-foot lot is virtually useless for any purpose, residential or commercial. The proposed amendment would render the city unable to engage in redevelopment of these properties unless the city used public funds to do so. As detailed on the attachments below, they estimate that this inability to engage in redevelopment would cost the city more than \$40 million annually in lost future revenues, in addition to the \$40 million in additional city costs the city would incur in direct city funding of redevelopment activities directed towards alleviation of nuisance and problem properties.

The analysis in Attachment B provides detail on the types of costs the city would incur and the types of revenue losses the city would suffer if the amendment were to become law. Given the complexity of the issue and the amount of time available to provide this fiscal note, these figures are necessarily estimates. They believe, however, that the methodology described in Attachment B provides a reasonably accurate assessment of the fiscal impact to the City of St. Louis related to the impacts analyzed. In addition, in the interest of time, the attached assessment does not include each and every fiscal impact on the city—there are others which could be detailed if more time were available. The attached chart (Attachment A) summarizes the results of the methodologies applied in Attachment B and the estimated fiscal impact of the constitutional amendment.

As noted on the chart in Attachment A, they estimate that the total negative fiscal impact of the proposed Constitutional Amendment on the City of St. Louis is nearly (\$70 million) annually, and nearly (\$750 million) over a ten-year period. In addition, the amendment would produce a related negative fiscal impact on responsible private property owners whose property values suffer because of blight, absentee landlords, and predatory land owners.

ATTACHMENT A
SUMMARY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION
(Estimate Details Provided on Exhibit B)

CITY OF ST. LOUIS

COST OR LOST REVENUE ITEM:	ANNUAL COST/ REVENUE LOSS:	10-YEAR COST/ REVENUE LOSS-- 2.5% ANNUAL INFLATION:	NOTES:
ESTIMATED CITY NEW/CONTINUING COSTS:			
Nuisance Identification/Abatement Management:	(\$2,725,000)	(\$31,066,152)	
Nuisance Eradication by:			
--City-Funded Repair:	(\$24,750,000)	(\$282,160,462)	
--Demolition:	(\$1,732,500)	(\$21,945,814)	
--Weed Cutting/Debris Removal:	(\$13,860,000)	(\$123,322,900)	10-year cost reduced by vacant lots assumed to be redeveloped
ESTIMATED CITY NEW/CONTINUING REVENUE LOSSES:			
Property tax impact: Negative impact of vacant/vandalized privately owned properties on adjoining property values:	(\$3,297,210)	(\$37,589,591)	
Property tax impact: Inability to make property available for private rehabilitation:	(\$458,840)	(\$5,230,969)	
Property tax impact: Inability to develop property commercially:	(\$4,740,289)	(\$54,041,293)	
Lost building permit revenue: Inability to make available for private rehabilitation:	(\$364,500)	(\$4,155,454)	
Lost sales tax revenue: Inability to develop property as retail:	(\$14,904,040)	(\$169,912,351)	
Lost earnings/payroll tax revenue: Inability to develop commercially:	(\$1,586,559)	(\$18,087,444)	
TOTALS:	(\$68,418,937)	(\$747,512,430)	

ATTACHMENT B
DETAIL AND METHODOLOGY OF FISCAL IMPACT ESTIMATE:
EMINENT DOMAIN INITIATIVE PETITION

CITY OF ST. LOUIS

PROBLEM/NUISANCE PROPERTIES:
DIRECT CITY COSTS

Most neighborhoods in the City of St. Louis have problem properties. The majority of these properties are privately owned—problems associated with the properties include criminal behavior, excessive trash and noise, collapsing walls, missing windows, open to the elements and to trespass, unsightly conditions, and a host of other issues. These properties plague responsible neighborhood residents and have serious negative impact on residential and business quality of life. While some portion of these problem properties may fall into City ownership due to property tax delinquency, the majority of them will need to be addressed in another manner, because owners continue to pay minimal property tax and retain ownership of these problem properties. The only manner in which many of these properties can be addressed is ultimately via eminent domain, which the proposed amendment eliminates as a redevelopment tool by providing that any property acquired by the City using eminent domain cannot be “sold, leased, transferred, or otherwise made available for use by a private party” for a twenty-year period after the acquisition. The following analysis assumes that the City can in fact acquire the properties and alleviate the problematic conditions and hold them for a twenty-year period, even though this will not be possible in a practical sense, and attempts to calculate the cost. If these properties cannot be addressed with eminent domain and private redevelopment, actions currently undertaken to address problem/nuisance properties will (a) need to continue for the foreseeable future; (b) will need to be multiplied to address all rather than just some of the problems; (c) the City will need to add new staff to carry out the nuisance eradication work and management of the properties. The analysis below does not calculate the additional loss of revenue the City will face as more people and business leave the City because the City is powerless to address their problem and nuisance property concerns, nor does it assume that the City will acquire the properties using eminent domain and hold them for twenty years—it assumes that the proposed amendment effectively eliminates eminent domain as a tool for dealing with problem properties, which is clearly the intent of the amendment. If eminent domain were used and the City were required to hold and operate the properties for a 20-year period, the costs would be far greater than the costs estimated below.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

Explanation: The following analysis estimates the cost of the new staff the City will need to put in place to identify problem properties and manage the eradication of the problems without the use of eminent domain and private redevelopment. This analysis assumes that 10% of the estimated nuisances that exist today will be eradicated each year.

NUISANCE ERADICATION IDENTIFICATION AND MANAGEMENT:

• Current cost of problem properties task force:	\$342,000	Actual current cost
• Cost of police officer to serve warrants:	\$60,000	Actual current cost
• Cost to increase problem properties task force by 400%:	\$1,608,000	Current cost X 4
• Cost of staff to manage eradication of 750 nuisances per year (10% of 7,500 total):	\$715,000	(10 staff x \$50K ea.; 2 attorneys @ \$75K each; 1 manager @ \$65K, including
TOTAL ESTIMATED ANNUAL COST:		\$2,725,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$31,066,152

NUISANCE ERADICATION BY REPAIR:

Explanation: Occupied privately owned problem properties where owners cannot be induced to make repairs via prosecution will require nuisance eradication by City-funded repair—and it will not be practical or in many cases legal to evict the occupants in order to eradicate the nuisance. The estimated number of such nuisances is 4,000. Further, it will be necessary for the City to rehabilitate some vacant privately owned properties, either because the property is located in an historic district or because the legal risks associated with demolition are too great to risk demolition at a lower cost.

NUISANCE ERADICATION BY REPAIR:

• # occupied building nuisances abated by City:	400	10% of estimated 4,000 buildings
• # vacant nuisances abated by City:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Additional cost to abate occupied building nuisances:	\$10,000,000	Estimated \$25,000 per occupied
• Additional cost to abate vacant building nuisances:	\$17,500,000	Estimated \$100,000 per vacant building
TOTAL ESTIMATED ANNUAL COST:		\$27,500,000
LESS: 10% cost recovered via lien foreclosure:		(\$2,750,000)
NET ANNUAL COST:		\$24,750,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$282,160,462

NUISANCE ERADICATION BY DEMOLITION:

Explanation: The above analysis assumes that 50% of privately owned vacant nuisance buildings can and should be rehabilitated, and that the remaining 50% require demolition. Often privately owned vacant buildings problem properties fall into such disrepair that the only mechanism for addressing the problem is demolishing the structure on the property. If these properties cannot be addressed by eminent domain before such time as demolition is inevitable, the City will be forced to continue to spend City funds to demolish the properties. While some of the cost of demolition is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost.

NUISANCE ERADICATION BY DEMOLITION:

• # of privately owned vacant buildings requiring demolition:	175	5% of estimated 3,500 non-LRA buildings per 2008
• Average cost to demolish each privately owned vacant buildings:	\$11,000	5% of estimated 3,500 non-LRA buildings per 2008
TOTAL ESTIMATED ANNUAL COST:		\$1,925,000
LESS: 10% cost recovered via lien foreclosure:		(\$192,500)
NET ANNUAL COST:		\$1,732,500
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation:		\$21,945,814

NUISANCE ERADICATION BY WEED CUTTING & DEBRIS REMOVAL:

Explanation: Many privately owned problem properties are vacant; other privately owned properties have improvements but are abandoned—e.g., the owner does nothing to maintain the property. In both of these situations, City funds must be spent to remove unsightly conditions from the property so that the properties cause the least amount of harm to other properties on the block. While some of the cost of is recoverable through the lien and foreclosure process, this is only a small (less than 10%) portion of the cost. No deduction is made in this category for parcels acquired via property tax foreclosure, since once the property and the neighborhood deteriorate due to irresponsible property ownership it takes a long period of time for the property to be placed into productive use and the City must still maintain the property in the meantime to the best of the City's ability. Unlike the cost to abate nuisances, these costs cannot be spread over a number of years—maintenance must be performed annually. If liens are imposed and foreclosed upon, in most instances the private owner will not pay off the liens—thus, the property falls by default into public ownership and the City will be still responsible for maintaining the property on an ongoing basis, unless and until the City can sell the property to another private owner.

NUISANCE ERADICATION BY WEEDCUTTING & DEBRIS REMOVAL:

• # of privately owned vacant lots requiring demolition:	7,000	70% of total 10,000 vacant lots
• Average cost per lot for weedcutting/debris removal:	\$2,200	8 events/year @ \$275/event
TOTAL ESTIMATED ANNUAL COST:		\$15,400,000
LESS: 10% cost recovered via lien foreclosure:		(\$1,540,000)
NET ANNUAL COST:		\$13,860,000
TOTAL ESTIMATED 10-YEAR COST, w/2.5% annual inflation, 5% inv. reduction per year:		\$123,322,900

LOST REVENUES

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

Explanation: Vacant and abandoned properties drive down the value of other properties located on the same block. The abandonment of a property is visible signal that its owners do not care about it to other owners on the block and to those who otherwise might be interested in purchasing property on the block. The City receives a high volume of complaints each year about vacant and vandalized privately owned properties. In 2005, according to the City's vacant building survey, the City had 3,751 privately owned residential vacant and vandalized buildings located on approximately 1,631 City blocks—the number of vacant and vandalized properties per block ranged from 1 to 16. The City must be able to take these properties out of the hands of

irresponsible owners who care nothing about the surrounding neighborhoods. If the City cannot do so, the City and other taxing jurisdictions will suffer from the negative impact of these problem properties on other properties forever, with no way to take back neighborhoods from owners that wreak havoc on our neighborhoods and responsible neighbors' lives. Assuming that each City block with one or more abandoned property reduces the value of other properties on the block by 10% (believed to be a conservative number in blocks that are plagued with more than one vacant and vandalized property), the cost to the City and other taxing jurisdictions in property taxes and the cost to adjacent owners in reduced property values are calculated below. No deduction is made in this category for parcels acquired via property tax or nuisance eradication lien foreclosure because the damage to neighboring property values has already been done by the time the City acquires the property through tax or nuisance eradication lien foreclosure. With eminent domain, the City has the ability (assuming funding is available) to acquire the property before damage to neighboring property values becomes irreversible.

NEGATIVE IMPACT ON ADJOINING PROPERTIES:

• Total # of City blocks (approximate):	5,771	Per City Assessor's
• Total # of parcels:	103,475	Per City Assessor's
• Average parcels/City block:	17.93	Per City Assessor's
• City blocks w/vacant & vandalized buildings:	1,618	Per City Assessor's records/ vacant
• Parcels negatively impacted by vacant buildings:	29,011	
• Average assessed value of residential parcel:	\$17,500	
• Total value parcels w/vacant buildings on block:	\$507,692,709	Parcels negatively impacted x average
• Estimated negative impact on assessed values of parcels due to vacant buildings on block:	(\$50,769,271)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ESTIMATED LOST REVENUES:	\$3,297,210	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$37,589,591	

In addition, nuisances hurt adjacent property owners by negatively impacting the value of the adjacent owners' property. This hurts owners by impairing their ability to sell or borrow against the property at a higher value.

NEGATIVE IMPACT ON MARKET VALUE OF NON-VACANT PRIVATELY OWNED PROPERTIES :	\$267,206,689	Assessed value/.19 = impact on market value
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LOST REVENUES DUE TO LACK OF PROPERTY IMPROVEMENT BY PRIVATE PARTIES:

Explanation—Vacant Building Rehabilitation: In addition to the loss of property tax associated with negative impacts on surrounding non-vacant properties, the fact that owners allow vacant and vandalized properties to deteriorate also costs the City and other taxing jurisdictions in lost tax revenue. When privately owned formerly abandoned or vacant properties are redeveloped as private property, these properties add growth to the City's tax base above and beyond the growth permitted by the Hancock Amendment. In addition, it is not reasonable to expect that the City itself would rehabilitate and occupy these properties that were formerly occupied by private parties—if the City were required to rehabilitate and occupy the properties forever, it would cost the City significant amounts of money to rehabilitate the properties, as described above, and to maintain the properties in the event that private parties do not purchase them. Further, if the City rather than private parties rehabilitates and occupies the properties (as

is required by the amendment—the City cannot take the property by eminent domain and sell it to a private owner for rehabilitation), the City will lose revenue that it would otherwise collect due to fees on improvement costs. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage property improvement and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF PRIVATE PROPERTY IMPROVEMENT:

• Average assessed value of privately owned vacant/vandalized building:	\$7,545	2005 value per City Assessor w/2.5%
• Average sales price--single-family home:	\$164,698	City Assessor Data--
• Average assessed value--single-family home:	\$31,293	
• Assessed value lost due to inability to make vacant buildings available for private rehabilitation:	\$23,748	
• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Total annual assessed value lost due to inability to make vacant buildings available for private rehabilitation:	(\$8,311,829)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$539,812	
LESS: 15% to City ownership via tax foreclosure:	(\$80,972)	
NET ANNUAL COST:	\$458,840	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$5,230,969	

LOST BUILDING PERMIT FEE REVENUE:

• # of privately owned vacant buildings that could be privately rehabilitated per year if available:	350	10% of total 3,500 buildings
• Approximate average rehabilitation cost:	\$100,000	
• Approximate total rehabilitation cost:	\$35,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
• # of privately owned occupied buildings that could be privately rehabilitated per year if available:	400	10% of total 4,000 buildings
• Approximate average rehabilitation cost:	\$25,000	
• Approximate total rehabilitation cost:	\$10,000,000	
• Building Permit Fee rate:	\$9/\$1000	City Assessor Data--
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$405,000	
LESS: 20% private owner compliance:	(\$40,500)	
NET ANNUAL COST:	\$364,500	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$4,155,454	

Explanation—Lost Revenue due to Lack of Vacant Land Redevelopment: Many privately owned City properties are vacant lots where the improvements have been demolished, either by the City or by the private owner. These vacant lots are scabs on otherwise intact neighborhoods. In many city neighborhoods, these vacant lots outnumber parcels with improvements. In many cases, the vacant parcels, 25' wide, are flanked by other vacant properties owned by multiple owners. The City's inability to use eminent domain to assemble these vacant lots and abandoned properties and return them to productive use will result in significant lost revenues—sales tax revenues, property tax revenues and payroll/earnings tax revenues. In addition, the development of new retail and other facilities is essential to preserving the City's existing population and encouraging new residents to locate in the City. Such development is currently occurring in the

City but will come to a halt if the amendment passes. The following factors are used below to calculate the loss of tax revenues associated with the fact that the City will be unable to encourage commercial redevelopment of abandoned property and tax base growth if the amendment is passed:

LOST REVENUE DUE TO LACK OF VACANT LAND REDEVELOPMENT:

• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Average area of one (1) vacant lot:	4,687	125' x 37.5'
• Total vacant lot area:	47,483,997	125' x 37.5'
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	23,741,999	
• Total developable vacant lot area:	71,225,996	
• Assume 10% of vacant lot area could be redeveloped as retail:	7,122,600	
• Assumed building coverage for retail:	25%	
• Total area not developed as retail:	1,780,650	
• Average retail sales/sq. ft./year:	\$300	
• Total retail sales lost:	\$534,194,966	
• City sales tax rate:	3.10%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$16,560,044	
LESS: 15% to City ownership tax foreclosure/other:	(\$1,656,004)	
NET ANNUAL COST:	\$14,904,040	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$169,912,351	
• Average jobs/1,000 sq. ft. retail:	3	
• Total retail jobs lost:	5,342	
• Average annual salary/retail job:	\$22,000	
• Total payroll lost:	\$117,522,893	
• City earnings/payroll tax rate:	1.50%	City Budget Office
TOTAL ANNUAL ESTIMATED LOST PERMIT REVENUE:	\$1,762,843	
LESS: 15% to City ownership tax foreclosure/other:	(\$176,284)	
NET ANNUAL COST:	\$1,586,559	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$18,087,444	
• Average assessed value of privately owned vacant parcel:	\$3,772	2005 value per City Assessor w/2.5%
• Average assessed value commercial non-vacant parcel:	\$57,139	2005 value per City Assessor w/2.5%
• Assessed value difference--vacant/non-vacant:	\$53,367	
• # of privately owned vacant lots in City:	10,131	2005 City Assessor
• Additional 50% City-owned vacant lots that cannot be redeveloped w/o adjacent privately owned lots:	5,066	
• Total developable parcels:	15,197	
• Assume 10% of vacant lot area could be redeveloped as retail:	1,520	
• Total estimated assessed value increase if parcels were developed:	(\$81,099,195)	
• 2008 residential property tax rate:	\$6.4945/\$100	
TOTAL ANNUAL ESTIMATED LOST PROPERTY TAX REVENUE:	\$5,266,987	
LESS: 15% to City ownership tax foreclosure/other:	(\$526,699)	
NET ANNUAL COST:	\$4,740,289	
TOTAL ESTIMATED 10-YEAR IMPACT, w/2.5% annual inflation:	\$54,041,293	

ATTACHMENT B (CONT'D)
OTHER FISCAL IMPACTS:

Non-Physical Nuisances: The proposed amendment does not clearly define “nuisance.” Non-physical nuisances (e.g., criminal activity, drugs, antisocial behavior) are difficult if not impossible to cure and cannot be cured with “eradication” activities that place a lien on the property. Often the use of eminent domain is the only way to get such a property out of the hands of problem owners and into the hands of a responsible party.

Inability to Redevelop as Higher Quality Residential Property: Much of the City’s housing stock is obsolete and unattractive to the modern housing market. Eradicating nuisances per se does not allow the City to redevelop obsolete residential property into homes that will attract modern residents. Thus, the inability to redevelop obsolete and deteriorated residential property as higher quality residential property also has a cost. This cost can be estimated but we have not taken the time to do so here.

Inability to Adequately Address Blighted Areas and Impact on Other Property: The City has been in a continuing state of decline for the past five decades. Only recently has this decline been arrested. Now the City’s problems are slowly but surely being turned into opportunities, in large part because people believe that the City is making progress and will continue to do so. This progress has been possible due in large part to the availability of eminent domain for private redevelopment. If the proposed amendment becomes effective, this progress will come to a halt, and this in turn will (a) discourage “new” investors and homeowners from giving the City a chance, and (b) discourage those who have already invested in the City from remaining. The City has many problems, and those problems are being addressed, but total transformation cannot and will not happen overnight. It is essential that the City be able to continue to make progress if the successes recently experienced are to be sustained. If eminent domain is not available as a redevelopment tool in conjunction with private redevelopment, businesses and residents will once again leave the City and the same kinds of decline, disinvestment and population loss that the City previously suffered will continue into the foreseeable future.

Officials from **Hannibal School District #60** indicated they do not believe this petition would produce any additional cost or savings to their school district.

Officials from **Rockwood R-VI School District** indicated they did not find anything objectionable in this petition that would result in a cost or savings for them.

Officials from **Linn State Technical College** indicated there appears to be no fiscal impact on their organization as a result of this initiative petition.

Metropolitan Community Colleges indicated this petition would have no significant direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **State Treasurer's Office**, **Cole County**,

Greene County, Jackson County, St. Louis County, the City of Columbia, the City of Gladstone, the City of Kansas City, the City of Kirkwood, Cape Girardeau 63 School District, the University of Missouri, and St. Louis Community College.

Fiscal Note Summary

The total cost or savings to state or local governmental entities is unknown. Most state governmental entities estimate no costs, however, some state governmental entities may have indirect costs or unknown costs that may exceed \$100,000. Estimated costs, if any, to local governmental entities could be significant.