CITY OF DES PERES
Report on Fiscal Impact
of
Multi-Family Developments

Prepared by Office of the City Administrator - July 11, 2022

This report was prepared by staff at the request of the Planning & Zoning Commission as a part of an analysis of a proposed change to the Des Peres Comprehensive Land Use Plan to allow multi-family developments as a land use within the commercial corridor of Des Peres under certain limited conditions. The question was to identify the general fiscal impact of multi-family land uses on city revenues and expenses.

The challenge in such a report prepared in a generic vacuum is that specific projections are dependent on the type of multi-family development, its location for sales tax purposes and the overall size and scale of the development:

- The nature of an apartment development or multi-story development is more akin to a commercial use than a residential use in terms of fiscal impact on both revenues and expenses. Such property is typically assessed for property tax purposes at 32.0% of market value as a commercial land use.

- The nature of a multi-family development featuring town-homes or garden style condominiums is more akin to a residential use in terms of fiscal impact on both revenues and expenses. Such property is typically assessed for property tax purposes at 19.0% of market value as a residential use.

INCREASE IN REAL ESTATE TAXES PAID TO SCHOOLS IS PRIMARY BENEFIT TO THE COMMUNITY BENEFIT OF MULTI-FAMILY DEVELOPMENT

The attached report on Real Estate Taxes (Page 3 of this report) illustrates the tax benefit of an apartment complex to the Parkway School District, Special School District and Community College District all of which are supported by a property tax with a 2021 Tax Rate of $7.3580 per $100 of assessed value.

TAXES ON A MULTI-FAMILY APARTMENT COMPLEX = $472,056

The above illustration is based on the Alenia Apartments just north of the Des Peres city limits which is assumed to be illustrative of the size and quality of any apartments that might be constructed in Des Peres with high end amenities. Alenia consists of 254 units in a 4 story building comprised of a mixture of one, two and three bedroom units and a rental range from $1,500 to $3,200 per month. Such developments are generally aimed at seniors and young professionals and are expected to have little impact on the school district student census or costs.

In contrast, multi-family developments composed of townhomes are taxed as residential property and can contribute some students to the local school district census.

IMPACT OF MULTI-FAMILY DEVELOPMENTS ON DES PERES REVENUES

The bulk of this report outlines what revenue sources for the City of Des Peres are impacted by multi-family residential developments. Much of the analysis assumes that a department development in Des Peres would be similar to The Alenia in Town & Country complex located in the Des Peres quarry site. See the contents of the report for the detailed analysis summarized as follows:

	On Development	Post 2030 Census	Potential
Property Taxes			
Road & Bridge Tax	7,088		7,088
Des Peres Property Tax - Current	-	0	0
Sales & Use Tax			
1.0% Shared Sales Tax(1)		46,100	46,100
OR Reduction in Sales Tax Sharing(2)			
Sales Tax on Motor Vehicles	20,100		20,100
Sales Tax on Utility Bills	9,200		9,200
Use Tax	Unknown		Unknown
Utility Taxes	23,200		23,200
Intergovernmental Revenues (3)		27,840	27,840
TOTAL	59,588	73,940	133,528
POTENTIAL PROPERTY TAXES			
Authorized Levy 2023	*15,091*		
Maximum Future Levy	*76,219*		

Footnotes

(1) Distribution of the 1.0% Sales Tax ASSUMES the Magnolia property is within an area annexed after 1985 and the 1.0% sales tax for that area is distributed on a population basis after the next census

(2) If Magnolia Ridge is within the 1985 boundaries of the city, the 1.0% sales tax is distributed of a Point-of-Sale Basis. The primary benefit of a POS designation is the resulting population is included in the per-capita analysis of total sales tax and would likely reduce our sharing percentage of the 1.0% by $24,500

(3) Intergovernmental Revenues shared by state and county with cities are population based on the most recent census delaying

IMPACT OF MULTI-FAMILY DEVELOPMENTS ON DES PERES EXPENSES

The impact of a development on operational and capital expenses is dependent on the type of multi-family development focused primarily on public safety and streets.

Public Safety - there is always on operational impact of any residential development on public safety services focused in areas of police patrol & calls for service; fire exposure and EMS calls for service. There is no evidence to suggest that a multi-family development creates a greater police or EMS response than a similarly sized single family development. The incremental increase in public safety services and costs are not anticipated to be significant. The absence or presence of publicly maintained streets would be the primary driving factor in any public works costs along with trash collection if the homes are single-family in nature with curbside collection from cans versus shared dumpsters.

REAL ESTATE TAXES

The financial impact of a multi-family commercial development on Des Peres property tax revenues is minimal since Des Peres has chosen to roll-back its authorized real estate tax levy to $0.00 for since 1995 and its personal property tax levy to $0.00 since 1973. The city retains the right to levy a real estate tax without a public vote in a limited amount ($0.198 for commercial) but has authority to levy a real estate tax of up to $1.00 with voter approval. Re-imposition of the Personal Property Tax to any level requires voter approval and can be levied up to a $1.00 rate.
The only "real estate" tax levied in Des Peres which flows to the city is the County Road & Bridge Tax which is based on a $0.0930 levy on real and personal property and is remitted to cities based on taxes collected on properties in the City.

The property at 13431 Manchester (Subject of the Multi-Family Zoning Petition) paid only $11,437 in total real estate taxes in 2021 of which Des Peres received $117.00 from the Road & Bridge Tax. Using the Alenia Apartments as a proxy for comparison purposes, their real estate tax for Road& Bridges for 2021 was $7,088 that would flow to Des Peres if it were in the city.

2021 RE TAXES		**Current (1)**	**Developed (2)**		
108XD Rate Code	Tax Rate	$ 126,270	$ 7,621,940	Assessed Value	**Difference**
State of Missouri	0.0300	38	2,287	State	
County RE Taxes(3)	0.3740	472	28,506	and County	
Road & Bridge(4)	0.0930	117	7,088	37,881	***37,253***
Parkway School	4.8988	6,186	373,384		
Special School	1.0158	1,283	77,424	SCHOOLS	
Community College	0.2788	352	21,248	472,056	***464,235***
County Library	0.2340	295	17,835		
Zoo-Museum District	0.2455	310	18,712	Other Taxing	
MSD	0.1041	131	7,934	Jurisdictions	
Productive Living	0.0840	106	6,402	50,884	***50,041***
City of Des Peres	0.0000	-	-		
	7.3580	9,291	560,821		
Actual Paid 2021 (5)		11,437	583,390		

Footnotes

1. Assessed Value of 13431 Manchester (2021) #22P620342
2. Assessed Value of Alinea Apartments (2021) #22O440262
3. Combined County General, Health, Parks & Debt Service
4. County Road & Bridge Tax Passed Thru to Des Peres
5. Actual Paid includes "Commercial Surcharge" By County

The primary beneficiary of a commercial multi-family development are the school districts which collectively receive $464,235 in additional property taxes from the developed property assuming its assessed value is similar to the 254 unit Alenia Apartments built in 2016. I would expect the development likely does not contribute students to the districts for education.

That revenue stream to both the Community College and Special District indirectly benefit all Des Peres property residents and the funding to Parkway those residents living west of Des Peres Road in the Parkway District.

LONG TERM POTENTIAL BENEFIT TO CITY OF DES PERES

While Des Peres has chosen to rollback its real estate tax levy to $0.00 since 1995, the city retains the right to levy a commercial real estate tax rate up to $ 0.198 per $100 of assessed value without voter approval in non-reassessment (odd) years. We also have statutory authority to levy a tax of up to $1.00 per $100 of assessed value with voter approval.

RE Tax to Des Peres	Tax Rate	Current as Vacant	As Multi-Family
Assessed Value 2021		126,270	7,621,940
Road & Bridge Tax	$0.093	117	7,088
Des Peres - Allowable	$0.198	250	15,091
Des Peres - Maximum	$1.000	1,263	76,219

While the city does not anticipate any need to do so in the near term, the real estate tax is one option available under state law for any significant additional revenue source available to Des Peres.

As a part of the 2016 Strategic Plan the city explored the issue of what options were available to the city if sales tax revenues decline precipitously due to the economy, changes in state law relative to sharing or closure of West Count Center. Four options were identified for generating additional revenue:

1. Imposition of a Real Estate Tax on either or both residential and commercial properties. The city could levy a partial rate without a public vote that would generate an estimated $1,000,000 per year. This was seriously debated as an alternative in 2020 to offset sales tax losses during the pandemic. An increase above the authorized levy of $0.23 would require voter approval.

2. Impose a user fee for sanitation services estimated at $250 per household per year to cover the $800,000 cost of residential solid waste services. This was seriously debated during the 2020 pandemic to offset sales tax losses.

3. Increase in the sales tax dedicated to fire-ems services from 0.25% op 0.50%. This would require voter approval and would generated $1,250,000 per year. This option was approved by votes in August 2020.

4. Increase in the utility tax rate on utilities from an average of 4.0% for the right to use city street rights-of-way for their distribution systems. That tax is passed thru to consumers and paid indirectly by residents and would require voter approval.

SALES & USE TAX

The financial impact of a multi-family commercial development on Sales and Use Tax is difficult to project for residential development - whether single family and multi-family due to a large number of variables relating to each tax and the location of the property being developed.

Des Peres is a "Point-of-Sale" (POS) city for sale tax purposes meaning - the imposition and collection of the tax is based on the retail location in which the transaction occurred. Consequently, there will be some element of sales taxes generated from sales at any non-residential uses included in a mixed use project.

The only exception to POS allocation of sales taxes are the purchase of a motor vehicle and sales tax on utility consumption which are collected and distributed based on the billing address of the buyer (motor vehicles) or physical location of the property (Utilities).
Des Peres levies five (5) separate sales taxes each with a different rate; some which apply city wide and some only within pre-1985 city boundaries; and some which by state law are shared with the St Louis County Sales Tax pool members:

FUND	General	Fire	Parks	Capital
Tax Rate	1.25%	0.50%	0.50%	0.50%
Sharing Rate	-29.11%	0.00%	0.00%	-0.15%
Net Rate	0.8863%	0.500%	0.500%	0.4725%
2021 Net Revenues	4,930,557	2,875,466	2,962,084	2,514,773

Footnote: Des Peres Sales Tax Rates is 2.75% but our net rate after sharing is 2.3113%:

IMPACT OF RESIDENTIAL GROWTH ON SALES TAX REVENUES

The value of a residential development in terms of sales tax revenues is largely tied to a number of issues:

1. Multiplier Effect - the addition of new residents, whether in a traditional single family or a multi-family development, will have a multiplier effect as those residents shop and dine within the city limits. The city has made no attempt to identify any prospective multiplier effect on general sales tax revenues caused by local business activity of new residents.

2. Location determines the distribution of the 1.0% sales taxes:

   - If the development within the city boundaries that existed in 1985, the 1.0% local sales taxes generated within the project are point-of-sale revenues and are retained by the city less county sharing - currently shared at a 29.1% rate.

     All other sales taxes imposed by the city (0.25% general, 0.50% fire, 0.50% parks, and 0.5% capital) are collected from sales within the project area and

retained by the city. The 0.25% general sales tax is shared at -14.32% and the capital tax at
-15.0%.

- If the development is in an area annexed after 1985, the 1.0% sales tax is assigned to the County Pool and then distributed to the city based on population in the development area as identified in the most recent federal census (2020).

The tract of land proposed for the Magnolia Ridge Apartments at 13431 Manchester may be located in whole or in part in an annexed area. Further analysis would be required of the exact boundaries of the property compared to the annexation plan that included the Sam's development and all or part of the Cochran properties.

Assuming the land is within the annexation area, sale tax would be subject to pooling and distribution on a population basis after the 2030 census. The 2021 Per Capita Sales Tax distribution for the pool was $162.356 per capita. Based on 284 residents, the revenue impact in 2032 is projected at $46,100 in 2021 dollars.

3. Residential growth within the city inside the pre-1985 boundaries impacts the sharing formula. As a Point-of-Sale Area, the amount to be shared is based on a formula which measures the per capita sales taxes generated in a city against the per capita county wide average and uses a logarithmic formula calculated monthly:

Sharing = 25.5 LOG10 ((0.35 * City per Capita Avg - County per Capita Average)

Our population change in the 2020 census illustrates the potential impact of population changes on sharing percentages:

	St Louis County	City of Des Peres
Population 2020	1,004,954	9,193
Population 2010	998,954	8,373
Percentage Change	0.60%	9.79%
Sales Taxes Generated 2021	180,716,509	4,957,499
Per Capita 2020 Census	179.83	539.27
Per Capita 2010 Census	180.91	592.08
Sharing Percentage		
Using 2020 Census		-31.31%
		(1,552,193)
Using 2010 Census		-32.74%
		(1,623,085)
Additional Retained Revenue		70,892

If the Magnolia Ridge project is not in an annexation area, impact on sharing is projected based on the number of units (189) and an assumed occupancy rate (1.5 per unit) to generate an estimated population count of 284 residents. An increase of 284 residents would be expected to decrease our 1.0% sales tax sharing by $24,800.

4. Sales taxes not including the 1.0% General Sales Tax - (0.25% General, 0.50% Fire, 0.50% Parks and 0.50% Capital) would be charged based on business activity in the development. The largest component of sales taxes generated in residential developments is from the purchase of motor vehicles by residents in that area and from utility bills the property with a combined local tax rate of 1.75% less any sharing

   Assuming a housing unit count of 189 units and assuming the rate of motor vehicle purchases per household would be similar to the purchase of vehicles in single family households in 2021 based on dollar sales tax volumes provided by the State Department of Revenues, the anticipated revenue per household would be $140.31 for all sales taxes or $26,520 from a 189 unit apartment complex.

IMPACT OF RESIDENTIAL GROWTH ON USE TAX REVENUES

The Use Tax is applied at the same rate as the sales tax to out-of-state purchases. However, collection of the use tax is voluntary on the part of the merchant and voluntary for payment by residents as a declaration on their state income tax forms. Missouri was one of the last states to mandate collection of use taxes with legislation (Wayfair) adopted in August 2021 with an effective date of January 1, 2023. However, while mandated collection is not required in Missouri until 2023, we suspect merchants began doing so their own accord since 2018:

USE TAX	2018	2019	2020	2021
Tax Rate (1)	1.50%	1.50%	1.50%	1.75% (2)
Sharing Rate	-15.0%	-15.0%	-0.15%	-0.15% (3)
Net Rate	1.275%	1.275%	1.275%	1.4875%
2021 Net Revenues	921,890	950,389	928,723	1,557,406

Footnotes: (1) the 1.0% General Fund Sales Tax is not subject to the use tax. Legally, this local tax was usurped by County in 1985 and attempts by the county to impose a use tax based on their sales tax rates has been defeated by county voters on 3 occasions;(2) the Des Peres Fire Sales Tax Rate increased from 0.25% to 0.50% on January 1, 2021 also increasing the use tax rate; (3) Sharing of the use tax ended September 1, 2021 as a part of the Wayfair legislation.

There is insufficient information available on the source of use tax revenues to determine with any level of confidence what percentage of the use tax received is from business-to-business transactions and what percentage is from internet purchases by residents.

IMPACT OF SALES TAX ON MOTOR VEHICLES AND UTILITIES DUE TO RESIDENTIAL PROPERTY

As noted in the General Sales Tax segment of this memo, the local sales tax is also applied to the purchase off utilities and motor vehicles but those taxes are generally distributed based on the home address of the buyer. Based on 2021 collections, sales taxes on utilities and commodities were distributed to Des Peres by the Missouri Department of Revenue as follows:

2021 DOR Reports on Sales Tax	**Motor Vehicles**	**Utilities**
Based on 1.0% Tax	191,219	87,370
Total Sales Tax Rate Des Peres	2.3113	2.3113
Gross Sales Taxes	441,964	201,939
Percent assumed Residential	100.00%	60.00% (1)
Net Value Residential	441,964	121,194
Number of Households	3,150	3,150
Avg Per Household	$ 140.31	$ 38.47
Based on 189 Residential Units	**$ 26,517**	**$ 12,116**

Footnote: (1) The city has not done an analysis in over a decade of the source of utility taxes measuring how much was paid from residential users versus commercial users. The 60.0% residential allocation is an assumption based on a cursory review of receipts for 2021 from electric and natural gas utility tax reports.

IMPACT - MULTI-FAMILY DEVELOPMENT ON SALES TAX REVENUES FROM MOTOR VEHICLE AND UTILITY SALES TAXES

Motor Vehicles: It is virtually impossible to predict with any degree of confidence what the level of motor vehicle purchases will be made based on a generic residential development - whether single family or multiple family. Much of the projection is based on economic capacity of the tenants and personal choices of those tenants for frequency of upgrading their vehicles.

IF YOU ASSUME that the tenants in a multi-family development will purchase vehicles at the same frequency as single family homeowners, a 189 unit multi-family development would be expected to generate around $26,500 per year in motor vehicle sales taxes.

Utilities: While the city can make some fairly valid assumptions about utility usage for single family homes since we can develop data based on current utility tax receipts and generate an average per household over time. Obviously, utility usage is also a function of weather and costs vary by utility rates which are not static rates. The only real constant is our sales rate on utilities of 2.3113%

IF YOU ASSUME that 60.0% of our sales tax on utilities is generated from residential properties in Des Peres, the average home pays $38.47 per year in utility based sales taxes to Des Peres. Applied to 189 units in a multi-family development, the increased revenues might approach $12,116. One would suspect that the impact from a multi-family development would be lower than the average single family home due to square footage and energy efficiency of newer construction.

UTILITY TAX REVENUES

The city levies a tax on the gross receipts of utilities based on their billings and collection for electric, natural gas, water, phone service and cable television services. The current rate are :

2022 Rates	Electric	Natural Gas	Phone	Water	Cable
	3.37%	4.0%	5.0%	5.0%	3.0%
2021 Revenues	460,286	154,942	118,485	163,500	38,337

The tax is listed as a line item on the customer's utility bill and is passed through to the city in full. State law limits the rate to 10.0% except for cable which is currently capped at 5.0% and is to be reduced to 2.0% in the next 5 years. (The cable tax does not currently apply to streaming services).Utility tax revenues can fluctuate widely from year-to-year based on changing variables primarily weather and utility rates. The only constant is the city's utility tax rate.

Both AmerenUE and Spire have focused campaigns on residential energy efficiency offering rebates for upgrades of HVAC systems and appliances to more energy efficient units as a part of an overall strategy to control demand in lieu of building more generation facilities. City staff does not currently have data on what portions of utility taxes are generated from residential user and from non-residential users. We can make some assumptions based on a cursory review of gross receipts tax payments from utilities and decade old studies done when the city was pricing various annexations in the 1990's:

2022 Rates	Electric	Natural Gas	Phone	Water	Cable
	3.37%	4.00%	5.00%	5.00%	3.00%
2021 Revenues	460,286	154,942	118,485	163,500	38,337
Assumed Residential	60.0%	80.0%	80.0%	90.0%	95.0%
Residential Tax	276,172	123,954	94,788	147,150	36,420
Number Households	3,150	3,150	3,150	3,150	3,150
Avg Revenue Per Home	87.67	39.35	30.09	46.71	11.56
Apartment % of Single Family Home	50.0%	50.0%	100.0%	50.0%	50.0%
	43.84	19.67	30.09	23.36	5.78

The total value from the gross receipts tax per home is $ 215.39 and apply assumptions about reductions for apartments based on lower unit sizes, we would assume that each unit would generate an average of $215.39 per year. Assuming reduction for apartment units vs single family homes by 50.0% of usage, the average unit would generate $122.74 per year representing potential revenue based on 189 units of $ of use only 50.0% of the $23,290.

INTERGOVERNMENTAL REVENUES TIED TO POPULATION

There are a number of intergovernmental revenues shared with cities on a population basis. However, the population distribution is based on the most recent census and is not adjusted for growth except following the federal census:

	FROM STATE OF MISSOURI			FROM ST LOUIS COUNTY	
	Gas Tax	**MV Fees**	**MV Sales**	**Cigarette Tax**	**PROP P**
2021 Revenues	229,511	41,233	91,313	14,491	444,263
Population (2010)	8,373	8,373	8,373	8,373	8,373
Per Capita Revenues	27.41	4.92	10.91	1.73	53.06
	$		43.24	$	54.79

FOOTNOTE; Distribution in 2021 was based on 2010 Census for Des Peres of 8,373. The 2020 Census reflects 9,193 residents in Des Peres and will be used for per capita distributions after February 1, 2022. The city estimates that population increases from 2010 to 2020 is due almost equally to the addition of The Quarters, new home construction; and growth in average household size due to housing turnover in established neighborhoods.

Any impact on shared revenues due to new housing construction will not be reflected in shared revenue distributions until 2032 following the next census. Assuming 1.5 person per household in a multi-family development would add ±284 to the city population with a revenue benefit in 2032 and thereafter of $27,841.00.