

CITY OF ARNOLD — AUDIT FAQ

SECTION 1: BACKGROUND & BASICS

Q1. What is a Transportation Development District (TDD)?

A TDD is a special taxing district created under Missouri law to fund specific transportation improvement projects such as road construction, intersections, parking lots, landscaping enhancements, and traffic signals. Businesses within the district collect an additional sales tax (in this case 1%) which goes toward paying for those projects. TDDs are temporary by design. Once their projects are complete and their debts are paid, they dissolve. Missouri law requires that city officials be represented on TDD boards because the city ultimately owns and maintains the infrastructure a TDD builds.

Q2. Why was there no vote to create the TDD?

TDDs are not created by a city-wide vote. TDDs are formed by filing a petition in circuit court, initiated by registered voters, property owners or transportation authorities. If approved by the court, the TDD is approved by registered voters within the district. If there are no registered voters within the district, the TDD is voted on by property owners within the district.

Q3. If TDDs are temporary, why is this one still around?

Three of the eight court-approved ARC TDD projects remain incomplete: the connector road between Highway 141 and Michigan Avenue, landscaping and beautification at the I-55/Highway 141 intersection, and a broad category of roadway, parking, and access improvements benefiting the district. These projects were put on hold while all available TDD revenue was used to pay off the initial bond debt from the previously completed projects. Once those bonds were paid, the TDD began actively pursuing the connector road. Missouri law imposes no deadline for project completion, and the TDD is authorized to operate “for a period of not longer than 40 years” (March 31, 2048).

Q4. Has the TDD been beneficial to Arnold?

TDD-funded infrastructure improvements include the relocation of Church Road and Old Lemay Ferry Road, construction of Arnold Commons Drive, new intersections, traffic signals, turn lanes, and parking lots. Shoppers from across the region frequent numerous commercial businesses that directly benefit from the aforementioned projects including, but not limited to: Sybergs, Wal-Mart, Dierbergs, Lowes, Aldi, Kohls, Texas Roadhouse. Taxable sales within the ARC TDD area - most of which are from non-Arnold residents - grew from \$128.9 million in 2005 to \$349.4 million in 2022, an increase of over \$220 million.

Q5. Has the connector road project been cancelled?

The expanded "Arnold Parkway" version of the project, which would have extended a road south to Richardson Road, has been canceled. The original connector road between Highway 141 and Michigan Avenue is still being actively developed. The connector road project originated from a 1996 study aimed at funneling traffic from Interstate 55 into the shopping districts to alleviate traffic congestion at the intersection and Highway 141 and Jeffco Boulevard. The project has been included on the TDD's project list since 2007.

Q6. Why were there so many negative findings in the audit?

The audit's negative findings relate to governance practices, transparency, and legal interpretation. The city takes these concerns seriously and will review all policies and procedures and make changes to ensure financial transparency and best governance practices.

Q7. What happens next, and what is the city doing in response?

The city will take several constructive steps including, but not limited to, the following: bring TIF status reports current, review TDD board oversight procedures, review TDD Board composition, remind retailers within the TDD boundary of their obligation to display the TDD sales tax rate, and recommend to the TDD Board that all financial transactional processing and bookkeeping for the TDD should be performed by an independent finance firm, which would create an additional separation between the city and the TDD.

SECTION 2: FINDING 1 — CONFLICTS OF INTEREST & TDD TAXES

Q8. What is a Tax Increment Financing district (TIF)?

A TIF district is another tool cities use to encourage economic development. When a TIF is created, the increased property tax revenue and a portion of sales tax revenue generated by new development in the area (called Economic Activity Taxes, or EATs) are redirected to pay off bonds that funded the development. The ARC TDD and the city's TIF districts overlap geographically, which is central to several of the auditor's findings.

Q9. Did the TDD improperly use tax money to pay city TIF debt?

Under Missouri TIF law, a portion of TDD sales tax is classified as an Economic Activity Tax (EAT) and is required by law to flow to the TIF fund. The ARC TDD's additional \$200,000 annual payment toward TIF bond debt was approved by bond counsel and structured into the original financing agreement. The TDD and TIF districts are financially interdependent. TDD-funded road improvements made the retail corridor commercially viable, which in turn generated the TIF revenue.

Q10. Is it legal for the TDD to purchase property outside its boundaries?

Missouri law and the court-approved project documents allow TDD funds to be used to acquire property outside district boundaries when necessary to complete an approved project. The connector road could not be built without acquiring residential parcels adjacent to the TDD boundary.

Q11. Why are city officials on the TDD board? Isn't that a conflict of interest?

Missouri law requires city officials to serve on TDD boards for districts like the ARC TDD. The city ultimately owns and maintains the roads and infrastructure the TDD builds, city representation ensures accountability and long-term stewardship. The ARC TDD was set up as a "regional TDD" under a provision that specifically calls for representation from local transportation authorities, in this case the city and the TDD.

SECTION 3: FINDING 2 — TRANSPARENCY

Q12. Why were residents near the connector road excluded from the TDD boundaries?

The ARC TDD boundary was drawn around the commercial retail corridor, which is the area that generates sales tax revenue and benefits directly from transportation improvements. Residential areas were excluded because they do not generate TDD revenue and are not part of the commercial project footprint. This approach is standard practice for retail corridor TDDs across Missouri.

Q13. What were the "show votes" mentioned in the audit?

In October 2024, the Arnold City Council voted on resolutions related to the Arnold Parkway project and the future of the ARC TDD even though the city has no authority to abolish the TDD. Because TDD projects ultimately require city authorization and the city must maintain all infrastructure the TDD builds, the council used these votes to communicate publicly where it stood on these projects.

Q14. Why did the TDD use a private company to buy homes without telling sellers who the buyer was?

The ARC TDD contracted with the Arnold Acquisition Company (AAC) to purchase properties on the open market for the connector road project. This was done because if sellers knew the buyer was a government entity pursuing a commercial project, they might demand inflated prices, which would increase costs to taxpayers. Using a third-party acquisition company for this purpose is a recognized and legal practice in public infrastructure projects. All property purchases were made at fair market value based on independent appraisals.

Q15. Did the city illegally hold closed-session meetings about the TDD?

Missouri's Sunshine Law explicitly permits closed sessions for real estate acquisition and litigation matters, both of which were directly relevant to the connector road project. The city

had an additional reason to discuss certain matters privately. Because TDDs lack eminent domain authority, the city needed to discuss the potential use of its eminent domain power in a closed setting to avoid telegraphing negotiating positions to property owners and driving up acquisition costs. Although eminent domain was discussed in closed session, no votes were taken during the parkway project to authorize its use.

SECTION 4: FINDING 3 — OVERSIGHT & TIF REPORTING

Q16. Was TDD revenue being handled without oversight?

The ARC TDD undergoes annual independent financial audits, and those audits have never identified any discrepancies or negative findings. The city's finance staff process TDD sales tax revenue on the district's behalf, an arrangement that existed because the TDD has no staff of its own. The city acknowledges that the TDD board's formal review procedures and separation processes should be improved. The city will recommend to the TDD Board that all financial transactional processing and bookkeeping for the TDD should be performed by an independent finance firm, which would create an additional separation between the city and the TDD.

Q17. Why haven't TIF status reports been filed with the state?

The city acknowledges this lapse and takes responsibility for it. When the city's Finance Director position was vacant for four months in 2018, the incoming Finance Director was not informed of the annual TIF reporting requirement. The lapse was not intentional. The city received no notices from the state during this period alerting it to the missed filings. The TDD's independent finance firm will be charged with submitting all TDD status reports.

SECTION 5: FINDINGS 4 & 5 — STATE LAW & THE CITY ATTORNEY

Q18. The auditor said state law is "ambiguous and allows for abuse." What does that mean for Arnold residents?

Finding 4 is directed at the Missouri General Assembly. The auditor is recommending that state legislators clarify TDD law, for example by requiring TDD board members to act in a fiduciary capacity toward the district and by tightening the definition of what constitutes a "regional TDD."

Q19. Did the city attorney provide misrepresentations to auditors?

The auditor alleged that the city attorney intentionally misled auditors by initially stating he served as legal counsel for the ARC TDD, then later clarifying he was never formally appointed as TDD counsel and had always acted on behalf of the city. The city attorney states there was no attempt to mislead. The matter has been referred to the Jefferson County Prosecuting Attorney, who will determine whether any further action is warranted.