

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4853-01
Bill No.: HB 1393
Subject: Taxation and Revenue - Sales and Use; Cities, Towns and Villages
Type: Original
Date: February 1, 2016

Bill Summary: This proposal authorizes the cities of Liberty and North Kansas City to impose, upon voter approval, a sales tax of up to .5% for the purposes of improving public safety of the city.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0 or (Less than \$130,000)	\$0*	\$0*

* Estimated Net Effect on Local Funds net to zero.

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal from 2015 (HB 566), officials from the **City of Liberty** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,700,000 per year and the election cost would be approximately \$30,000. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. Oversight will include the city's estimated municipal election cost in this fiscal note.

Officials from the **City of North Kansas City** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,600,000 each year if the entire half-cent sales tax was levied. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. The city did not provide an estimate of election costs for this proposal, and Oversight will include an unknown but less than \$100,000 estimated election cost in this fiscal note for the city.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted the proposal would allow voters in certain cities to approve a sales tax up to $\frac{1}{2}$ of one percent to improve public safety of the city.

B&P officials provided information indicating taxable sales in Liberty totaled \$404.8 million in FY 2015. Therefore, B&P officials estimated the proposed sales tax could generate up to \$1 million for FY 2017 and \$2 million annually thereafter. B&P noted the Department of Revenue can keep up to 1% of collections to offset costs, and therefore B&P estimates Total State Revenue and General Revenue increases could be as much as \$10,000 in FY2017 and \$20,000 per year thereafter if the sales tax is approved.

B&P officials provided information indicating taxable sales in the City of North Kansas City totaled \$320 million in FY 2015. Therefore, B&P officials estimated the proposed sales tax could generate up to \$800,000 for FY 2017 and \$1.6 million annually thereafter. B&P noted the Department of Revenue can keep up to 1% of collections to offset costs, and therefore B&P estimates Total State Revenue and General Revenue increases could be as much as \$8,000 in FY2017 and \$16,000 per year thereafter if the sales tax is approved.

For simplicity, **Oversight** will not include the one percent additional collection deduction in this fiscal note.

ASSUMPTION (continued)

Oversight assumes the B&P revenue estimates for this proposal are the best estimates available and will use those estimates for this fiscal note. Oversight assumes the additional revenues would be spent for public safety purposes and will also include additional cost for local governments equal to the additional revenue in this fiscal note.

Oversight also assumes the proposals could be submitted to the voters as early as the April, 2017 (FY 2017) municipal elections. If a sales tax is approved by the voters, it would become effective on the first day of the second calendar quarter after the election. The proposed sales tax could therefore become effective as early as October 1, 2017 (FY 2018).

For fiscal note purposes, **Oversight** will assume the election would be held with the April, 2017 municipal elections and sales tax could be collected from October 1, 2017 to June 30, 2018 (FY 2018). Oversight is also aware there is some delay in collecting, reporting, accounting, and remitting sales tax to local governments; however, we will indicate revenue up to nine months (75%) of the annual estimate for FY 2018.

For the City of Liberty, the estimate would be $(\$2,024,000 \times .75) = \$1,518,000$, and for FY 2019 and following years, the sales tax revenue estimate would be \$2,024,000.

For the City of North Kansas City, the estimate would be $(\$1,600,000 \times .75) = \$1,200,000$ (rounded) and for FY 2019 and following years, the sales tax revenue estimate would be \$1,600,000.

Finally, **Oversight** notes this proposal would allow, but not require, the cities to propose a public safety sales tax to the voters, and the fiscal impact will be presented as \$0 (no election held) or the estimated election costs above and \$0 (no election or voters do not approve the sales tax) or the estimated sales tax revenue above.

Officials from the **Department of Revenue (DOR)** stated this proposal would authorize these cities to impose a one-half percent sales tax for improving public safety but would have no impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal of \$5,200 based on 40 hours of programming at \$130 per hour to make changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year, and assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the budget process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
LOCAL GOVERNMENTS			
<u>Additional revenue - City of Liberty</u>			
Sales tax	\$0	\$0 or Up to \$1,518,000	\$0 or \$2,040,000
<u>Cost - City of Liberty</u>			
Public Safety	\$0	\$0 or (Up to \$1,518,000)	\$0 or (\$2,040,000)
<u>Cost - City of Liberty</u>			
Election	\$0 or (\$30,000)	\$0	\$0
<u>Additional revenue - City of North Kansas City</u>			
Sales tax	\$0	\$0 or Up to \$1,200,000	\$0 or \$1,600,000
<u>Cost - City of North Kansas City</u>			
Public Safety	\$0	\$0 or (Up to \$1,200,000)	\$0 or (\$1,600,000)
<u>Cost - City of North Kansas City</u>			
Election	\$0 or (Less than <u>\$100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0 or (Less than \$130,000)</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

If the proposed sales tax is approved by the voters, this proposal would have a direct fiscal impact to a business in the designated cities which purchases taxable goods or services.

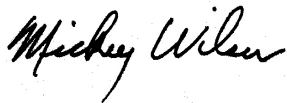
FISCAL DESCRIPTION

This legislation would authorize certain cities to submit to the voters a proposal to impose a sales tax of up to .5% for the purpose of improving the public safety of the city.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
City of Liberty
City of North Kansas City



Mickey Wilson, CPA
Director
February 1, 2016

Ross Strobe
Assistant Director
February 1, 2016