

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0166-05
Bill No.: HCS No. 2 for HB Nos. 48, 69, 495 and 589
Subject: Political Subdivisions; Taxation and Revenue - Sales and Use; Prisons and Jails; Cities, Towns, and Villages; Law Enforcement Officers and Agencies, Fire Protection
Type: Original
Date: April 3, 2017

Bill Summary: This proposal authorizes, upon voter approval, certain sales taxes in certain political subdivisions.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|------------------------------------------------------|------------|-------------------------------|-------------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| General Revenue | \$0 | \$0 or Up to \$183,612 | \$0 or Up to \$244,825 |
| Total Estimated Net Effect on General Revenue | \$0 | \$0 or Up to \$183,612 | \$0 or Up to \$244,825 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---------------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---------------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|-----------------------------------------------------------|----------|----------|----------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| 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 2018 | FY 2019 | FY 2020 |
| Local Government | \$0 | \$0 or Up to \$18,361,881 | \$0 or Up to \$24,482,508 |

FISCAL ANALYSIS

ASSUMPTION

§§94.900, 94.902, 94.903 - ½% Sales Tax increase on certain cities

In response to a previous version, officials at the **Department of Public Safety's Office of the Director** assumed no fiscal impact from this proposal.

In response to similar legislation from this year, HB 867, officials from the **Office of the Secretary of State** assumed no fiscal impact from this proposal.

Oversight assumes this proposal is enabling legislation and would have no fiscal impact unless the governing body would request the voters of their city to approve the imposition of a sales tax. Should the voters approve the imposition of a sales tax, the city could expect revenue to be generated and there would be costs for improving the public safety of the city. Oversight assumes the Department of Revenue would collect the sales tax and retain a 1% collection fee which would be deposited into the State's General Revenue Fund.

Oversight notes that sections 94.902.1 and 94.903.1 appear to achieve the same purpose. This analysis assumes that the impacted cities in each section will each levy a 0.5% public safety sales tax.

Oversight assumes the amounts collected would be spent for public safety purposes but will not include those expenditures in this fiscal note.

Oversight notes, according to the bill description, 28 cities would now qualify to put the ½% sales tax for public safety purposes on the ballot. Page 4 of the note lists the cities and the potential sales tax proceeds if the ballot question is approved.

ASSUMPTION (continued)

According to information found on the Tax and Fee Distribution Summary for Cities from the Department of Revenue's Financial and Statistical Report, the following are the local sales tax revenues for FY16, FY15 and FY14. The additional ½ tax rate would yield \$23,994,349 in additional tax revenue.

| | <u>Tax Rate</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>3 Year Average</u> | <u>Tax Sales Base</u> | <u>Adding ½ tax rate</u> |
|----------------|-----------------|-------------|-------------|-------------|---------------------------|-----------------------|--------------------------|
| Bolivar | 2.500% | 4,855,996 | 4,609,123 | 4,367,389 | 4,610,836 | 194,239,840 | 971,199 |
| Branson | 1.500% | 17,149,452 | 16,440,333 | 15,453,917 | 16,347,901 | 1,143,296,800 | 5,716,484 |
| Carl Junction | 2.500% | 717,051 | 708,644 | 621,382 | 682,359 | 28,682,040 | 143,410 |
| Dexter | 1.875% | 3,003,459 | 3,134,157 | 2,931,613 | 3,023,076 | 160,184,480 | 800,922 |
| Eldon | 2.900% | 1,887,669 | 1,955,081 | 1,902,211 | 1,914,987 | 65,092,034 | 325,460 |
| Eureka | 1.000% | 2,547,485 | 2,416,480 | 2,233,936 | 2,399,300 | 254,748,500 | 1,273,743 |
| Harrisonville | 1.875% | 4,088,704 | 3,985,818 | 3,840,645 | 3,971,722 | 218,064,213 | 1,090,321 |
| Higginsville | 2.250% | 1,426,309 | 1,374,066 | 1,329,781 | 1,376,719 | 63,391,511 | 316,958 |
| Jackson | 2.000% | 4,413,152 | 4,364,016 | 4,087,896 | 4,288,355 | 220,657,600 | 1,103,288 |
| Jennings | 1.250% | 1,628,854 | 1,786,042 | 1,735,602 | 1,716,833 | 130,308,320 | 651,542 |
| Lake St. Louis | 2.000% | 6,587,036 | 6,155,522 | 4,548,428 | 5,763,662 | 329,351,800 | 1,646,759 |
| Lamar | 2.000% | 1,469,486 | 1,392,778 | 1,357,856 | 1,406,707 | 73,474,300 | 367,372 |
| Lebanon | 2.000% | 7,144,879 | 6,691,768 | 6,280,483 | 6,705,710 | 357,243,950 | 1,786,220 |
| Lexington | 2.500% | 920,148 | 939,668 | 847,497 | 902,438 | 36,805,920 | 184,030 |
| Mountain Grove | 2.000% | 2,000,811 | 1,982,157 | 1,786,109 | 1,923,026 | 100,040,550 | 500,203 |
| Mount Vernon | 2.000% | 1,614,123 | 1,361,809 | 1,064,555 | 1,346,829 | 80,706,150 | 403,531 |
| Oak Grove | 3.000% | 2,216,456 | 2,118,668 | 1,998,803 | 2,111,309 | 73,881,867 | 369,409 |
| Pacific | 2.000% | 1,293,369 | 1,319,327 | 1,135,241 | 1,249,312 | 64,668,450 | 323,342 |
| Peculiar | 2.500% | 1,068,950 | 1,065,027 | 973,010 | 1,035,662 | 42,758,000 | 213,790 |
| Platte City | 2.375% | 2,399,263 | 2,373,673 | 2,122,575 | 2,298,504 | 101,021,600 | 505,108 |
| Republic | 2.375% | 5,604,326 | 4,998,885 | 4,435,397 | 5,012,869 | 235,971,621 | 1,179,858 |
| Rock Hill | 1.500% | 1,167,572 | 1,060,899 | 940,831 | 1,056,434 | 77,838,133 | 389,191 |
| St. Clair | 3.000% | 1,160,572 | 1,107,268 | 1,009,203 | 1,092,348 | 38,685,733 | 193,429 |
| Salem | 1.875% | 1,909,659 | 1,683,183 | 1,691,993 | 1,761,612 | 101,848,480 | 509,242 |
| Sullivan | 2.500% | 3,144,341 | 3,002,303 | 2,873,392 | 3,006,679 | 125,773,640 | 628,868 |
| Troy | 2.000% | 5,172,685 | 4,870,470 | 4,377,057 | 4,806,737 | 258,634,250 | 1,293,171 |
| Union | 3.000% | 3,772,282 | 3,675,993 | 3,410,325 | 3,619,533 | 125,742,733 | 628,714 |
| Warrenton | 2.750% | 2,633,327 | 2,395,897 | 2,419,628 | 2,482,951 | 95,757,345 | 478,787 |
| | | 92,997,416 | 88,969,055 | 81,776,755 | 87,914,409 | 4,798,869,862 | 23,994,349 |

Therefore, **Oversight** will assume \$0 (not approved) or up to \$23,994,349 for a fiscal impact for this proposal. Oversight also assumes a municipal election in April 2018. If the new tax rate for the cities is approved by the majority of voters, the additional tax would begin October 1, 2018 (FY 2019).

ASSUMPTION (continued)

§§321.242, 321.246 - Additional Sales Tax for Ripley County Rural Fire Protection District

In response to similar legislation from the 2017 session, HB 69, officials from **Ripley County** advised us there was not currently an organized Rural Fire Protection District in Ripley County.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** provided the following information.

This proposal would authorize the Ripley County Rural Fire Protection District to submit a proposal for a sales tax to the voters for up to one-half of one percent.

The Ripley County sales tax base has averaged \$98,130,757 over the last three years. Should a new one-half percent sales tax be implemented throughout Ripley County causing the after-tax price for all goods to increase by one-half percent, we estimate an approximate one-half percent decline in the demand for all goods reducing the tax base to \$97,642,544.

EPARC officials assumed the sales tax on this base would yield new collections of \$488,213; \$483,331 for Ripley County for a rural fire protection district and \$4,882 to General Revenue for the state collection fee of 1%.

EPARC officials assume a reduction in the sales tax base by approximately ½ % would reduce all other sales tax collections within Ripley County by approximately ½ %, an aggregate reduction of \$12,710 of which \$254 represents the decrease in the 2% General Revenue Collection Fee. The reduction in the Ripley County sales tax base would reduce the 3% General Revenue Sales Tax collection from \$2,943,923 to \$2,929,276, a reduction of \$14,646.

Oversight will not include any potential secondary impacts from this proposal in this fiscal note.

In response to similar legislation, HB 69, officials from the **Office of the Secretary of State** assumed no fiscal impact from this proposal.

Oversight reviewed information available from Department of Revenue reports and noted that sales tax collections for Ripley County for the years ended June 30, 2014, 2015, and 2016 were \$1,386,463, \$1,542,970, and \$1,463,995, respectively. Therefore, average annual collections would be $((\$1,386,463 + \$1,542,970 + \$1,463,995) = \$4,393,428 / 3) = \$1,464,476$ with a tax rate of 1.5%.

ASSUMPTION (continued)

Oversight assumes a one-half percent sales tax rate would generate $(\$1,464,476/3) = \$488,159$ if the proposition is approved by the voters and will include an impact of \$0 or that amount for fiscal note purposes. Oversight assumes a municipal election in April 2018. If the new tax rate for the cities is approved by the majority of voters, the additional tax would begin October 1, 2018 (FY 2019). Therefore, Oversight will assume the following:

FY18 - \$0
FY19 - \$366,119 (9 months)
FY20 - \$488,159

Oversight assumes the amounts collected for a Fire Protection District would be spent for fire safety purposes but will not include those expenditures in this fiscal note. For simplicity, Oversight will not include the 1% withholding for Department of Revenue collection costs in this fiscal note.

Bill as a whole

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume using the most recent available data (FY16), the B&P estimates that the affected cities and counties had total taxable sales and use revenues of \$4,434,754,344. All of the proposed taxes in this bill are capped at 0.5%. This means that the taxes included in the bill could yield \$21,952,034 per fiscal year after DOR retains \$221,738.

The earliest possible effective date for any of these taxes is the final quarter of FY18, so the first full fiscal year impact would not occur until FY19. The B&P notes this legislation could also impact other cities and counties.

B&P notes that sections 94.902.1 and 94.903.1 appear to achieve the same purpose. This analysis assumes that the impacted cities in each section will each levy a 0.5% public safety sales tax.

In summary, the B&P will assume the following additional revenues for this proposal:

FY18 - \$55,434
FY19 - \$221,738
FY20 - \$221,738

Oversight assumes a municipal election in April 2018. If the new tax rate for the cities is approved by the majority of voters, the additional tax would begin October 1, 2018 (FY 2019). Therefore, Oversight will assume the following for the general revenue fund:

FY18 - \$0
FY19 - \$166,304 (9 months)
FY20 - \$221,738

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume businesses in multiple cities in Missouri may need to collect and remit an additional sales tax of one-half of one percent for public safety issues in the city. If sales taxes are enacted, the integrated tax system incurs additional costs of \$65,520 to implement the provisions of this legislation.

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

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal.

| | | | |
|-----------------------------------------|---------|--------------------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2018 | FY 2019 (9 Mo.) | FY 2020 |
|-----------------------------------------|---------|--------------------|---------|

GENERAL REVENUE FUND

| | | | |
|---------------------------------------------------------|-------------------|------------------------------------------|------------------------------------------|
| <u>Additional Revenue - B&P</u> | | \$0 or Up to | \$0 or Up to |
| Collection charges on sales tax | <u>\$0</u> | <u>\$183,612</u> | <u>\$244,825</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>\$0</u> | <u>\$0 or Up to \$183,612</u> | <u>\$0 or Up to \$244,825</u> |

| | | | |
|-----------------------------------------|---------|--------------------|---------|
| <u>FISCAL IMPACT - Local Government</u> | FY 2018 | FY 2019 (9 Mo.) | FY 2020 |
|-----------------------------------------|---------|--------------------|---------|

LOCAL POLITICAL SUBDIVISIONS

| | | | |
|---------------------------------------------------------------------------------------------|-------------------|---------------------------------------------|---------------------------------------------|
| <u>Additional Revenue - Ripley County Fire Protection District (§§321.242, 321.246)</u> | \$0 | \$0 or \$366,119 | \$0 or \$488,159 |
| <u>Revenue - from additional sales tax increase (§§94.900, 94.902, 94.903)</u> | <u>\$0</u> | <u>\$0 or Up to \$17,995,762</u> | <u>\$0 or Up to \$23,994,349</u> |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | <u>\$0</u> | <u>\$0 or Up to \$18,361,881</u> | <u>\$0 or Up to \$24,482,508</u> |

FISCAL IMPACT - Small Business

There could be a direct fiscal impact to small businesses as a result of this proposal.

FISCAL DESCRIPTION

This bill adds certain cities to the list of cities authorized to impose, upon voter approval, a retail sales tax of up to 0.5% for improving public safety including compensation, pension programs, health care, and additional equipment and facilities for police, fire, and emergency medical providers (Sections 94.900, 94.902, and 94.903, RSMo).

The additional cities include Peculiar, Lamar, Salem, St. Clair, Higginsville, Lexington, Mount Vernon, Eldon, Platte City, Rock Hill, and Mountain Grove, (Section 94.900.1(1)(b)); Jackson, Republic, and Lake St. Louis, (Section 94.900.1(1)(f)); Carl Junction, Sullivan, Pacific, Oak Grove, Dexter, and Warrenton, (Section 94.900.1(1)(g)); and Eureka, Harrisonville, Union, Bolivar, Branson, and Troy (Section 94.902.1(6))

In certain of the additional cities, the sales tax will expire in 10 years unless approved again by the voters, and if the sales tax fails on the first ballot, the cities cannot put the issue on the ballot again without new statutory authorization. The cities to which the 10 year duration and the one-time vote opportunity applies include Peculiar, Lamar, Salem, St. Clair, Higginsville, Lexington, Mount Vernon, Eldon, Platte City, Rock Hill, and Mountain Grove (Section 94.900.1(1)(b)).

In certain of the additional cities, regardless of when the tax is imposed, it will expire on December 31, 2038. The specific tax expiration date provision currently applies to the cities of Eureka, Harrisonville, Union, Bolivar, Branson, and Troy.

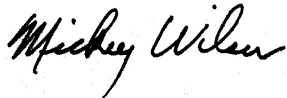
In certain of the additional cities, the sales tax will expire in 15 years, and then every 10 years thereafter, unless approved again by the voters. If the sales tax fails on the first ballot, those cities cannot put the issue on the ballot again for at least 12 months. If the sales tax fails on a second ballot, then the authorization for the sales tax for those cities is repealed. Currently, this provision only applies to the cities of Branson, Eureka, Harrisonville, Union, Bolivar, and Troy (Section 94.903).

The bill also adds certain fire protection districts to the list of fire protection districts authorized to impose, upon voter approval, a sales tax not to exceed 0.5% for the purpose of providing revenues for the operation of the fire protection district. The additional fire protection districts currently include those located in Ripley and Mississippi counties (Section 321.246).

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 Public Safety
Office of the Director
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State
Ripley County
University of Missouri
Economic and Policy Analysis Research Center



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