

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3650-01
Bill No.: SB 709
Subject: Taxation and Revenue; Prisons and Jails.
Type: Original
Date: February 1, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$23,452	\$155,484	\$154,394
Total Estimated Net Effect on General Revenue Fund	\$23,452	\$155,484	\$154,394

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various State Funds	\$205,801	\$246,961	\$246,961
Total Estimated Net Effect on <u>Other</u> State Funds	\$205,801	\$246,961	\$246,961

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$252,002	\$302,402	\$302,402

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** defers to the Department of Revenue for the fiscal impact and the logistics of the allocations.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Corrections (DOC)** assume this bill specifies that sales at prison stores are subject to sales tax.

DOC canteens (prison stores) are operated in the institutions to provide a means for inmates to purchase their necessary hygiene products and items they may require to access the legal system, i.e., paper, envelopes, stamps and ink pens, etc. Funds generated from these sales that exceed the original purchase price of the item are currently turned around in the system and used for religious, educational, recreational and spiritual activities for the offenders in that same institution. Likewise these funds also provide for paying the wage of inmates and DOC staff who work in the Canteen operation.

ASSUMPTION (continued)

Inmate Canteen Committee panels (which include representation from the inmate population) meet quarterly and determine their budget and the exact items needed at that institution to best serve the needs of the incarcerated offenders during that quarter. A payment of sales tax would directly reduce the canteen amount spent for offender services by the same amount as the sales tax. The minimum state-wide sales tax is 4.225%. A differing and additional percentage rate (above the base rate) would be charged in the separate counties where institutions are located throughout the state – local/city/county rates. Reduction in spending (by at least the minimum 4.225% rate for non-food items) would directly reduce religious, educational, recreational and spiritual activities that are funded from canteen profits for the offender population. DOC is mandated to provide and maintain an up-to-date law library. This costly necessity is currently funded through canteen funds to aid in defraying GR expenditure.

Two-thirds of the 30,000-plus incarcerated offenders within DOC have a fixed monthly income of \$7.50 to \$8.50 (once they have earned their GED they are eligible for the extra \$1) to spend in the canteen as well as for repayment of debt to the state of Missouri as restitution, child support and/or for court fees. The DOC is court-ordered to provide the \$7.50 monthly stipend in order for them to have access to the court system and to purchase hygiene items. If they are paying sales tax, this monthly stipend is subject to challenge in court and a possible increase, therefore dramatically increasing the DOC's budget for wage and discharge costs.

Implementation considerations include upgrading of the institutional Canteen store Point-Of-Sales (POS) system which will have to be reconfigured to charge and capture the taxes on applicable canteen sales. At this time, the estimated cost to perform this upgrade is estimated at \$100,000 but will have to be submitted to the DOC Technology Steering Committee and would be subject to the availability of resources before such implementation could begin. A question exists as to the likelihood that individual county and municipalities wherein institutions are located would impose local taxes upon Canteen sales as well. If this were to occur, it would result in additional system modifications being necessary as well as additional DOC staff to manage and process the variety of resulting taxes charged and collected against sales.

As presented, this proposed legislation requires the addition of one FTE Accountant I (at \$27,276 per fiscal year) which would be responsible for collecting and accounting for sales tax on a daily basis. This position would collect appropriate tax amounts for each county and/or municipality in addition to the state sales tax, and for filing all monthly Department of Revenue tax reports. This proposed bill allocates a portion of the sales tax revenue to pay for the salary and benefits of this additional FTE.

ASSUMPTION (continued)

Total FY05 Canteen sales totaled nearly \$23.7 million. Net taxable sales totaled \$20.3 million. Currently the tobacco excise taxes are paid by the Canteens on tobacco sales. DOC estimates the tax revenue generated to be \$414,950 per year. DOC estimates net revenue generated to be \$263,684 in FY 07 and \$371,890 in subsequent years.

Tax Revenue Generated Calculation:

<u>Canteen Sales</u>	Sales	Rate	Sales tax
Hygiene, Legal, Other (non-taxable sales)	\$3,565,155	0.000%	\$ 0
Food & Drink (1% rate)	13,544,673	1.000%	\$135,447
Other Sales (4.225%-plus rate)	<u>6,615,453</u>	4.225%	<u>\$279,503</u>
Total	\$23,725,281		\$414,950

Oversight will assume the food and drink sales will be taxed at 1.225% instead of the 1% calculated by DOC. With this assumption, the new sales tax on Food and Drink within DOC's canteens would be \$165,922 and total sales taxes would be \$445,425. Oversight assumes the sales tax revenue would be divided among the four state funds as follows.

	General Revenue (3%)	School District Trust Fund (1%)	Conservation (.125%)	Parks and Soil (.100%)
Food & Drink	\$0	\$135,447	\$16,931	\$13,544
Other Sales	\$198,464	\$66,154	\$8,269	\$6,616
Total	\$198,464	\$201,601	\$25,200	\$20,160

Oversight assumes the sales would remain relatively constant with the limited funds available for the prisoners to spend. Therefore, **Oversight** assumes the total revenue impact for this proposal would be \$371,188 for FY06, and \$445,425 for FY07 and FY08.

Oversight will assume an average combined city and county sales tax rate of 1.5% on taxable items (1.5% x 20,160,126 = \$302,402).

Oversight has, for fiscal note purposes only, changed the starting salary for the Accountant I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight will also assume 10 months of impact in FY 2007.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Income</u> - General Revenue			
Sales tax on prison store sales	\$165,387	\$198,464	\$198,464
<u>Cost</u> - Dept. of Corrections			
Personal Service (1 FTE)	(\$21,610)	(\$27,605)	(\$28,295)
Fringe Benefits	(\$9,521)	(\$12,163)	(\$12,467)
Expense and Equipment	(\$10,804)	(\$3,212)	(\$3,308)
Programming	<u>(\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
Total cost - DOC	<u>(\$141,935)</u>	<u>(\$42,980)</u>	<u>(\$44,070)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$23,452</u>	<u>\$155,484</u>	<u>\$154,394</u>
OTHER STATE FUNDS			
<u>Income</u> - School District Trust Fund			
Sales tax on prison store sales	\$168,001	\$201,601	\$201,601
<u>Income</u> - Conservation Fund			
Sales tax on prison store sales	\$21,000	\$25,200	\$25,200
<u>Income</u> - Parks and Soil Funds			
Sales tax on prison store sales	<u>\$16,800</u>	<u>\$20,160</u>	<u>\$20,160</u>
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	<u>\$205,801</u>	<u>\$246,961</u>	<u>\$246,961</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
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CITIES AND COUNTIES

Income - Cities and Counties

Sales tax on prison store sales	<u>\$252,002</u>	<u>\$302,402</u>	<u>\$302,402</u>
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ESTIMATED NET EFFECT TO

LOCAL GOVERNMENT

	<u>\$252,002</u>	<u>\$302,402</u>	<u>\$302,402</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

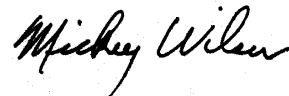
DESCRIPTION

This proposal specifies that sales of tangible personal property at prison canteens are subject to the statewide sales tax on those items, with the exception of hygiene products and items used in the preparation of legal documents. The money collected by the canteens will be remitted quarterly to the Department of Revenue, for credit to the general revenue fund. The Department of Corrections shall be allocated a portion of the funds for administration of the tax and paying a full-time employee to manage the collection of the tax.

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 Corrections
Department of Revenue
State Treasurer's Office



Mickey Wilson, CPA
Director

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