

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4366-01
Bill No.: SB 1062
Subject: Secretary of State: Business Services, Corporations
Type: Original
Date: March 7, 2008

Bill Summary: Changes law relating to corporate filings.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------------|--------------------|--------------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| General Revenue | \$240,606 | (\$126,769) | (\$767,573) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$240,606 | (\$126,769) | (\$767,573) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|-----------------|------------------|----------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| Technology | \$58,625 | \$166,750 | \$0 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$58,625 | \$166,750 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of the Secretary of State - Rules Division** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials of the **Office of the Secretary of State - Business Services** stated this proposal would increase total state revenues in FY 09 because of corporations electing to pay an additional fee to change the due date of their corporate registration report and electing to file their report biennially rather than annually. Officials estimate the increase in revenue to the General Revenue Fund for FY 2009 at \$240,606. Officials stated that this increase will offset the decrease in revenue associated with a reduction in the online filing fee for LLC's. In FY 10 and FY 11 there will be a decrease in total state revenue because of the reduction in filing fees for LLC's will exceed the increase in fees associated with biennial filing and the change of the corporate registration report due date. Officials estimate the decrease in revenue for FY 2010 at (\$142,056) and at (\$783,400) in FY 2011.

FY 10 and FY 11 cost avoidance is in reduced postage and printing because of biennial filing. Officials estimate savings from postage and printing at \$15,287 in FY 2010, and at \$15,827 in FY 2011. These savings would be to the General Revenue Fund.

ASSUMPTION (continued)

This bill allows the Secretary of State to charge an additional fee for expedited filings; and allows corporations to change the due date of their corporate registration report; it allows corporations to elect to file their corporate registration report biennially; and it will reduce the fee for LLC's organizing online.

Revenue would be generated as follows:

Expedited fees: Estimated 2 expedited requests per week at \$200 per filing.

Reduction of online filing fees for LLC's: It is assumed that 50% of the 30,000 LLC's formed each year will file online (15,000 x \$55)

Option to change the due date of the corporate registration report: It is assumed that 30% of the 115,200 general business corporations will opt to change their due date; of those, 50% will change in FY 09 and 50% will change in FY 10.

Option for a biennial corporate registration report: It is assumed that 50% of the 115,200 general business and 50% of the 36,000 non-profit corporations will elect to file biennially. Corporations formed in odd numbered years can opt in an odd numbered filing year; corporations formed in an even numbered year can opt in an even numbered filing year. It is assumed that 50% will opt to file biennially, with 75% of the general business and 55% of the non-profit filing online; the remainder will file paper reports. The change will occur over two fiscal years, with 76% of the general business corporations that change changing in FY 09 and 24% changing in FY 10. For non-profits, the first year change will occur in FY 10.

Officials estimate expense to the Technology Fund of \$137,500 in FY 2009 for one time contract programming costs, and estimate income from fees in FY 2009 at \$196,125; and \$166,750 in FY 2010. The total net effect to the Technology Fund in FY 2009 is a positive \$58,625, and in FY 2010 \$166,750. There is no impact estimated for FY 2011.

In response to identical legislation of this session, in fiscal note 4536-01, HB 1923, officials of the **Department of Insurance, Financial Institutions, and Professional Registration** assume no fiscal impact to their department.

| <u>FISCAL IMPACT - State Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|--|-------------------------|---------------------------|---------------------------|
| GENERAL REVENUE FUND | | | |
| Revenue - SOS changes in LLC and Corporate Filing Fees. | \$240,606 | (\$142,056) | (\$783,400) |
| Savings - SOS, from Postage and Printing | <u>\$0</u> | <u>\$15,287</u> | <u>\$15,827</u> |
| ESTIMATED NET EFFECT TO GENERAL REVENUE FUND | <u>\$240,606</u> | <u>(\$126,769)</u> | <u>(\$767,573)</u> |
| TECHNOLOGY FUND | | | |
| Income - From fees | \$196,125 | \$166,750 | \$0 |
| Cost - one-time programming change. | <u>(\$137,500)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT TO TECHNOLOGY FUND | <u>\$58,625</u> | <u>\$166,750</u> | <u>\$0</u> |
| FISCAL IMPACT - Local Government | | | |
| | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

A small business organizing as a limited liability company and filing online will save \$55 per business. There will be a fee of \$20 for each corporation that opts to change the month its corporate registration report is due; it is assumed that this cost will be more than offset in cost savings/avoidance by completing this requirement at the same time other business and tax filings are completed.

FISCAL IMPACT - Small Business (continued)

A corporation electing to file its corporate registration report biennially rather than annually will presumably, over a two year period, expend one half the cost of preparing the report. A typical business will spend approximately 15 minutes each year preparing and filing its registration report; biennial filing would save an estimated 8,000 hours by business filers every year.

FISCAL DESCRIPTION

Beginning January 1, 2009, this bill allows a corporation to file a corporate registration report on a biennial basis and to change the month of its corporate registration report by designating the desired month and paying an additional \$20 fee. Corporations incorporated in an even-numbered year may only file a report in an even-numbered year, and corporations incorporated in an odd-numbered year may only file a report in odd-numbered years.

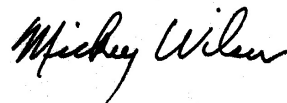
The fee for filing the biennial report will be \$80 if filed in a written format and \$30 if in an electronic format. Any corporation filing a biennial report must maintain the registration for two years, but may choose to file an annual registration in subsequent years.

The Secretary of State is authorized to charge a \$45 fee for a corporate filing of the original articles of organization in an electronic format.

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

Office of the Secretary of State - Business Services,
and Rulemaking
Department of Insurance and Financial Institutions,
and Professional Services



Mickey Wilson, CPA
Director
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