

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4581-01
Bill No.: SJR 26
Subject: Appropriations; Constitutional Amendments; General Assembly; Governor and Lieutenant Governor; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: February 19, 2014

Bill Summary: This proposal would submit to the voters a proposition to amend the Constitution to limit general revenue appropriations and mandate state income tax rate reductions in certain situations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 or (More than \$7,100,000)	\$0	\$0 or (\$104,049,662)
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$7,100,000)	\$0	\$0 or (\$104,049,662)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Budget Reserve		\$0 or (\$338,030,965)	\$0 or \$70,690,627
Cash Operating Reserve		\$0 or \$338,030,965	\$0 or \$33,359,035
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or \$104,049,662

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government *	\$0	\$0	\$0

*Net of election costs and state reimbursements.

FISCAL ANALYSIS

ASSUMPTION

Officials from the Office of the **Secretary of State (SOS)** provided the following response.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. The Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, state law requires the state to pay the costs. The cost of the special election has been estimated at \$7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by the Missouri Constitution and state law. The SOS is provided with core funding for a certain amount of normal activity resulting from each year's legislative session. This funding is adjusted each year depending upon the election cycle, with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years.

ASSUMPTION (continued)

The funding has historically been an estimated appropriation because the final cost is dependent on the number of ballot measures approved by the General Assembly, and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue). Therefore, the SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these publications are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

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 SOS for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize many such bills may be passed by the General Assembly in a given year and 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.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials assume they would need to contract for certain current functions of the OA Economist to allow time to complete the resolution requirements. Contract costs are estimated to be about \$50,000.

Oversight assumes these responsibilities could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposal are implemented that increase the OA workload, resources could be requested through the budget process.

ASSUMPTION (continued)

BAP officials also assume the General Revenue Fund would be negatively impacted by \$387 million because of the change in the percentage requirements for the newly created Cash Operating and Budget Reserve funds as shown in the following table.

Cash Operating Fund	Budget Reserve Fund	Total	Explanation
\$371,390,000	\$519,946,000	\$891,336,000	Amount required to be in the funds for FY 2015 (5% and 7%)
\$338,030,965	\$166,492,863	\$504,523,828	Budget Reserve Fund balance to be split between the two funds as of July 1, 2013
\$33,359,035	\$353,453,137	\$386,812,172	Amount required to be transferred from the General Revenue Fund to the Budget Reserve Fund
\$33,359,035	\$70,690,627	\$104,049,662	Amount required to be transferred in the first year
\$0	\$70,690,627	\$70,690,627	Amount required to be transferred in the second through fifth years

Amounts in excess of the required balances would be transferred to the General Revenue Fund until a sufficient balance exists to require a temporary reduction of at least one quarter of one percent for all state individual income tax rates. Each one quarter of one percent reduction in income tax rates would reduce Total State Revenues by an estimated \$230 million based on tax year 2011 data.

The proposal could have an impact on the level of state services that can be provided as a result of the caps it would impose on General Revenue Fund appropriations and net general revenue collections.

ASSUMPTION (continued)

BAP officials also noted the following:

- * The inflation and population factors used to calculate the limit on General Revenue Fund appropriations and net general revenue collections are based on data for the most recent calendar year. This is a large gap in determining inflationary costs for a particular year; for example, when calculating the cap for FY 2015, calendar year 2013 data would be used.
- * The limit would apply only to General Revenue Fund appropriations and not to appropriations made from other dedicated funds; this could lead to the creation of numerous dedicated funds to circumvent the legislation's intent.
- * Separating the Budget Reserve Fund into two funds may create cash flow problems for the state. For example, in FY 2010, state funds borrowed in excess of \$550 million.

Officials from the **Office of the Governor** assume this proposal would not result in added cost to their organization.

Officials from the **Office of the Lieutenant Governor** did not respond to our request for fiscal information.

Officials from the **Office of the State Treasurer (STO)** assume this proposal would have no fiscal impact to their organization. STO officials deferred to the Office of Administration for an estimate of the fiscal impact to the state.

Officials from the **Department of Revenue (DOR)** provided a response but did not indicate whether the proposal would have a direct fiscal impact on their organization. DOR officials deferred to the Office of Administration - Division of Budget and Planning for an estimate of the fiscal impact to the state.

Oversight assumes any impact to DOR would be minimal and could be absorbed with existing resources.

ASSUMPTION (continued)

Officials from the **Missouri Senate** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Missouri House of Representatives** and the **Office of Administration - Division of Accounting** assume this proposal would have no fiscal impact on their organizations.

Oversight has reflected in this fiscal note, the potential cost to the state of reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2014 (FY 2015). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2014.

Oversight will reflect the potential transfer from the Budget Reserve Fund to the new Cash Operating Reserve Fund in FY 2016. If the proposal is approved by voters at the next general election (FY 2015), then “sixty seven percent of the balance in the budget reserve fund on July first following the adoption of this section shall be transferred to the Cash Operating Reserve Fund.” Oversight will use BAP’s response regarding the balance of the Budget Reserve Fund. Oversight will also use BAP’s response as to the amounts of transfers required from the General Revenue Fund to the Budget Reserve Fund and the Cash Operating Reserve Fund for FY 2017.

Oversight assumes other provisions and changes in Section 27(a) regarding the balance of the budget reserve fund and the cash operating reserve fund would be outside the scope of this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Transfer Out - SOS</u>			
Reimbursement of local election authority election costs if a special election is called by the Governor	\$0 or (More than \$7,100,000)	\$0	\$0
<u>Transfer out - to the Budget Reserve Fund</u> Section 27(c) 6 - if approved by voters	\$0	\$0	\$0 or (\$70,690,627)
<u>Transfer out - to the Cash Operating Reserve Fund</u> Section 27(c) 6 - if approved by voters	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(\$33,359,035)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (More than \$7,100,000)</u>	<u>\$0</u>	<u>\$0 or (\$104,049,662)</u>
BUDGET RESERVE FUND			
<u>Transfer Out - to the Cash Operating Reserve Fund</u> Section 27(a) 1 - if approved by voters	<u>\$0</u>	\$0 or <u>(\$338,030,965)</u>	\$0 or <u>\$70,690,627</u>
ESTIMATED NET EFFECT ON BUDGET RESERVE FUND	<u>\$0</u>	<u>\$0 or (\$338,030,965)</u>	<u>\$0 or \$70,690,627</u>
CASH OPERATING RESERVE FUND			
<u>Transfer In - from the Budget Reserve Fund</u> Section 27(a) 1 - if approved by voters	<u>\$0</u>	\$0 or <u>\$338,030,965</u>	\$0 or <u>\$33,359,035</u>
ESTIMATED NET EFFECT ON CASH OPERATING RESERVE FUND	<u>\$0</u>	<u>\$0 or \$338,030,965</u>	<u>\$0 or \$33,359,035</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
LOCAL GOVERNMENTS			
<u>Transfer In</u> - Local Election Authorities - reimbursement of special election costs by the State for a special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Cost</u> - Local Election Authorities - cost of the special election	\$0 or (More than \$7,100,000)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This constitutional amendment, if approved by voters, would limit state General Revenue Fund appropriations to the amount of appropriations made in the previous fiscal year increased by an inflationary growth factor. For any fiscal year in which General Revenue Fund collections exceed General Revenue Fund appropriations by more than one percent of appropriations, the excess would be transferred to the newly created Cash Operating Reserve Fund and used to reduce state income tax rates. The proposed amendment would provide procedures for appropriating revenues in excess of the appropriation limitation and restoring certain expenditures in case of emergency.

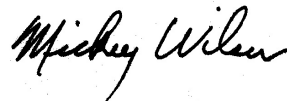
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Governor
Office of the Secretary of State
Office of the State Treasurer
Missouri House of Representatives
Missouri Senate
Office of Administration
 Office of the Commissioner
 Division of Budget and planning
Department of Revenue

Not responding:

Office of the Lieutenant Governor



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February 19, 2014

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February 19, 2014