

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5021-02
Bill No.: Perfected HCS for HB 1326
Subject: Agriculture and Animals; Agriculture Department; Department of Higher Education; Taxation and Revenue - Sales and Use
Type: Original
Date: March 27, 2014

Bill Summary: This proposal establishes the Missouri Dairy Industry Revitalization Act of 2014.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$2,163,084 - \$4,425,733)	(\$2,163,084 - \$4,425,733)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$2,163,084 - \$4,425,733)	(\$2,163,084 - \$4,425,733)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Missouri Dairy Industry Revitalization Fund*	\$0	\$0	\$0
Colleges & Universities**	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Transfers in from General Revenue equal transfers out

**Revenues and expenditures net to zero

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

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
Community Colleges*	\$0	\$0	\$0

*Revenues and expenditures net to zero

FISCAL ANALYSIS

ASSUMPTION

§§ 261.270, 261.272 - Dairy Producer Margin Insurance Program:

Officials from the **Department of Agriculture (AGR)** assume that operational cost of the program will be covered by application fees. If not, MASBDA would need \$20,000 for expense and equipment to administer the program.

AGR assumes current staffing would be able to handle any additional workload form this proposal.

AGR assumes the continued operation of dairies in Missouri will have a positive impact on revenues generated for the program and there will be adequate revenue from the sale of dairy products as defined in Section 196.525 and 196.931 RSMo.

AGR assumes Dairy Margin Insurance Program Reimbursement costs would be \$938,084, however maximum participation costs could reach \$3,200,733.

AGR assumes program costs are based on the following criteria.

- 2013 Missouri Milk production totaled 13,294,482 cwt (over 13.2 billion lbs.)
- 75% of the milk produced comes from herds producing less than 4 million lbs.
- 25% of the milk produced comes from herds producing more than 4 million lbs.
- 90% of production will be insured by Missouri dairy farmers.
- A margin of \$6.50 for the cost of premiums.
- Less than 4 million lbs of milk, the premium is \$0.09/cwt at \$6.50 margin.
- More than 4 million lbs of milk, the premium is \$0.29/cwt at \$6.50 margin.
- 80% of Missouri dairies will participate in the program.

AGR has provided the following formula as a basis for program costs at \$6.50 margin.

$13,294,482 \text{ cwt} \times 75\% \times .90\% \times (\$0.09 \times 70\%) \$.063) + (13,294,482 \times 25\% \times .90\% \times (\$.29 \times 70\%) \$.2030) = \$1,172,605.06 \times 80\% \text{ participation} = \$938,084$

ASSUMPTION (continued)

AGR has provided the following formula as a basis for program costs at \$8.00 margin.

- Less than 4 million lbs of milk, the premium is \$0.475/cwt at \$8.00 margin.
- More than 4 million lbs of milk, the premium is \$1.36/cwt at \$8.00 margin.
- 80% of Missouri dairies will participate in the program.

$13,294,482 \text{ cwt} \times 75\% \times .90\% \times (\$0.475 \times 70\%) \$.3325) + (13,294,482 \times 25\% \times .90\% \times (\$.34 \text{ maximum reimbursement}) = \$4,000,917 \times 80\% \text{ participation} = \$3,200,733$

Oversight assumes this proposal will provide additional assistance to Missouri dairy farmers enrolled in the Federal Dairy Margin Insurance Program. The state will pay additional dairy margin insurance premiums of dairy farmers for the purpose of guaranteeing certain income margins for milk produced.

Oversight assumes state premium payments will be paid based on the number of dairy farmers who enroll in the insurance program and at what level of insurance they enroll.

Oversight will show a cost to General Revenue, transferred to the Missouri Dairy Industry Revitalization fund, between \$938,084 and \$3,200,733 dependent upon program participation.

For the purpose of the fiscal note, **Oversight** will assume any expense and equipment costs to AGR could be absorbed by the department if it is not permitted to collect an application fee.

§§ 261.270, 261.273 - Missouri Agriculture Education Scholarship Program:

Officials from the **Department of Agriculture (AGR)** assumes 80 - \$5,000 annual scholarships would be awarded.

AGR makes no assumptions in regards to those students who might not maintain eligibility.

AGR has not included any provision for payback of scholarship funds if the student does not work in Missouri for the required number of years.

AGR has provided the following list of Missouri 2 year and 4 year colleges/universities with agriculture degrees qualifying for this scholarship.

ASSUMPTION (continued)

4 year programs:

University of Missouri - Columbia
Missouri State University
Lincoln University
Missouri Western State University
Northwest Missouri State University
Southeast Missouri State University
Truman State University
University of Central Missouri
College of the Ozarks
Missouri Valley College
William Woods University
Missouri Baptist University
University of Missouri - St. Louis
Washington University
Stephens College

2 year programs:

Crowder College
East Central College
Missouri State University - West Plains
North Central Missouri College
State Fair Community College
Three Rivers Community College
St. Louis Community College
Ozark Technical College
Metropolitan Community College
Mineral Area College
Jefferson College
Linn State Technical College
Sanford-Brown College
Hickey College
Anthem College
Brown Mackie College

ASSUMPTION (continued)

Oversight assumes funding will be made available by AGR to award 80 - \$5,000 scholarships to assist with tuition and fees at two or four year universities, within Missouri, for eligible students.

Oversight assumes it is unknown how many students will apply and meet eligibility requirements for the scholarship program.

Oversight will show a cost to General Revenue, transferred to the Missouri Dairy Industry Revitalization fund, up to \$400,000. If all scholarships are used (80 x \$5,000) = \$400,000

Officials from the **University of Central Missouri (UCM)** estimate this proposal would have a positive fiscal impact on the University in the form of encouraging increased enrollment in UCM's agriculture programs.

UCM assumes increased revenues in student tuition could be as high as one fourth of the annual total scholarships, or \$100,000 per year in increased revenue.

Oversight assumes any increase in enrollment at 2 year and 4 year Missouri colleges and universities from this proposal would be an indirect impact and will not be reflected in the fiscal note.

§ 261.275 - University of Missouri Commercial Agriculture Program Annual Study:

Oversight assumes this section of the proposal requires the University of Missouri Commercial Agriculture Program to conduct an annual study of the dairy industry for how to grow and enhance the dairy and dairy processing industries in Missouri paid from the Missouri Dairy Industry Revitalization fund.

Bill as a Whole:

Officials from the **University of Missouri (MU)** assume this proposal would require MU to determine annually an estimated revenue stream from the dairy product sales tax revenue. MU would purchase scanner data related to the Kansas City and St. Louis metro areas and then scale that information to a Missouri estimate. MU estimates dairy industry sales tax research would cost \$25,000 annually.

ASSUMPTION (continued)

MU assumes this proposal requires MU to work with the Missouri Agricultural Small Business Development Authority (MASBDA) to do annual risk management training. MU estimates risk training to cost \$50,000 annually.

MU assumes this proposal requires the University to conduct an annual study of the dairy industry to work on dairy industry revitalization. MU estimates the dairy industry revitalization study to cost \$750,000 annually.

University of Missouri Annual Expenses from this proposal:

Dairy Industry Sales Tax Study:	\$25,000
Risk Training:	\$50,000
Dairy Industry Revitalization Study:	\$750,000
Total	\$825,000

Oversight assumes MU would receive annual funding to reimburse University costs, related to this proposal, paid from the Missouri Dairy Industry Revitalization Fund.

Officials from the **Department of Revenue (DOR)** state dairy products are sold at a reduced sales tax rate of 1.225% unless the dairy product is sold at restaurant which is taxed at the higher state sales tax rate of 4.225%.

DOR notes sales tax revenues from the sale of dairy products at the reduced sales tax rate of 1.225% from grocery and convenience stores is dedicated to the following funds.

Dairy Sales Tax Distribution:

School District Trust Fund:	1%
Conservation Fund:	0.125%
<u>Soil, Parks, and Water Fund:</u>	<u>0.100%</u>
Total	1.225%

DOR notes the following total dairy sales reported by Standard Industry Classification Codes (SIC) in 2012.

Dairy Farms	\$259,727
Dairy Products	\$9,994,473
Dairy Product Stores	\$63,969,130

ASSUMPTION (continued)

Oversight assumes all programs in this proposal would be paid from General Revenue transferred to the Missouri Dairy Industry Revitalization fund beginning in FY16.

Officials from the **Department of Revenue**, the **Department of Higher Education**, the **State Treasurer's Office**, and **Northwest Missouri State University** each assume the proposal would not fiscally impact their respective agencies.

In response to the previous version of this proposal, **Missouri State University** assumed the proposal would not fiscally impact their agency.

Officials from the **Southeast Missouri State University** did not respond to **Oversight's** request for fiscal impact.

Oversight assumes House Amendment 1 is a technical amendment and would not have a direct fiscal impact on the proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Costs - AGR</u>			
§§ 261.270, 261.272 - Margin Insurance Program	\$0	(\$938,084 - \$3,200,733)	(\$938,084 - \$3,200,733)
<u>Costs - AGR</u>			
§ 261.273 - Agriculture Scholarships	\$0	(\$400,000)	(\$400,000)
<u>Costs - AGR</u>			
§ 261.275 - Commercial Agriculture Program Annual Study	<u>\$0</u>	<u>(\$825,000)</u>	<u>(\$825,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$2,163,084 - \$4,425,733)</u>	<u>(\$2,163,084 - \$4,425,733)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
MISSOURI DAIRY INDUSTRY REVITALIZATION FUND			
<u>Transfer In</u> - from General Revenue §§ 261.270, 261.272 - Margin Insurance Program	\$0	\$938,084 - \$3,200,733	\$938,084 - \$3,200,733
<u>Transfer Out</u> - Dairy Producers §§ 261.270, 261.272 - Margin Insurance Program	\$0	(\$938,084 - \$3,200,733)	(\$938,084 - \$3,200,733)
<u>Transfer In</u> - from General Revenue § 261.273 - Scholarships	\$0	Up to \$400,000	Up to \$400,000
<u>Transfer Out</u> - Colleges/Universities § 261.273 - Scholarships	\$0	(Up to \$400,000)	(Up to \$400,000)
<u>Transfer In</u> - from General Revenue § 261.275 - Commercial Agriculture Program Annual Study	\$0	\$825,000	\$825,000
<u>Transfer Out</u> - University of Missouri § 261.275 - Commercial Agriculture Program Annual Study	<u>\$0</u>	<u>(\$825,000)</u>	<u>(\$825,000)</u>
ESTIMATED NET EFFECT TO THE MISSOURI DAIRY INDUSTRY REVITALIZATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2015 (10 Mo.)	FY 2016	FY 2017
COLLEGES & UNIVERSITIES			
<u>Revenue</u> - from Missouri Dairy Industry Revitalization Fund			
§ 261.273 - Agriculture Scholarships	\$0	Up to \$400,000	Up to \$400,000
<u>Costs</u> - Eligible Students			
§ 261.273 - Agriculture Scholarships	\$0	(Up to \$400,000)	(Up to \$400,000)
<u>Revenue</u> - from Missouri Dairy Industry Revitalization Fund			
§ 261.275 - University of Missouri Commercial Agriculture Program Annual Study Reimbursement	\$0	\$825,000	\$825,000
<u>Costs</u> - University of Missouri			
§ 261.275 - Commercial Agriculture Program Annual Study	<u>\$0</u>	<u>(\$825,000)</u>	<u>(\$825,000)</u>
ESTIMATED NET EFFECT ON COLLEGES & UNIVERSITIES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
COMMUNITY COLLEGES			
<u>Revenue</u> - from Missouri Dairy Industry Revitalization Fund			
§ 261.273 - Agriculture Scholarships	\$0	Up to \$400,000	Up to \$400,000
<u>Costs</u> - Eligible Students			
§ 261.273 - Agriculture Scholarships	<u>\$0</u>	<u>(Up to \$400,000)</u>	<u>(Up to \$400,000)</u>
ESTIMATED NET EFFECT ON COMMUNITY COLLEGES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

§§ 261.270, 261.272 - Dairy Producer Margin Insurance Program:

Direct fiscal impact to small business dairy farmers by ensuring some amount of margin on production costs would be expected as a result of this proposal.

FISCAL DESCRIPTION

§§ 261.270, 261.272 - Dairy Producer Margin Insurance Program:

This section of the proposal establishes the Missouri Dairy and Agriculture Education Act that requires the Department of Agriculture to administer, through the Missouri Agricultural and Small Business Development Authority, a dairy producer margin insurance program for the purpose of protecting dairy producer income by paying participating dairy producers margin insurance payments when actual dairy producer margins are less than the threshold levels for payments.

All dairy producers in the state must be eligible to participate in the program, and any participating dairy producer may annually purchase margin insurance.

§ 261.273 - Missouri Agriculture Education Scholarship Program:

This section of the proposal establishes upon appropriation, scholarships for eligible students who enter an agriculture education program and make a commitment to work in the agriculture industry in Missouri as a condition of receiving the scholarship.

Subject to appropriation, each year the department must make available up to 100 two-year or four-year Missouri agriculture education scholarships in an amount set by the department to assist with the cost of tuition and fees at a two-year or four-year Missouri college or university.

§ 261.275 - University of Missouri Commercial Agriculture Program Annual Study:

This section of the proposal requires the University of Missouri's Commercial Agriculture Program to conduct an annual study of the dairy industry, develop a dairy-specific plan for how to grow and enhance the dairy and dairy processing industries in Missouri, and report the results of the study to the Department and all agriculture-related legislative committee chairpersons by January 1 of each year.

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 Agriculture
Department of Revenue
Department of Higher Education
State Treasurer's Office
University of Missouri
University of Central Missouri
Missouri State University
Northwest Missouri State University

Not Responding:

Southeast Missouri State University

Mickey Wilson, CPA
Director
March 27, 2014



Ross Strobe
Assistant Director
March 27, 2014