

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5396-02
Bill No.: HCS for SB 727
Subject: Agriculture and Animals; Taxation and Revenue - Sales and Use
Type: Original
Date: April 28, 2014

Bill Summary: This proposal would create a sales and use tax exemption for specified farm products sold at farmers' markets, and a SNAP benefits pilot program for fresh food products.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(Unknown to More than \$100,000)	(Unknown to More than \$100,000)	(Unknown to More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(Unknown to More than \$100,000)	(Unknown to More than \$100,000)	(Unknown to More than \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Conservation Commission	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Parks, and Soil and Water	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
School District Trust	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

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	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Section 144.527, RSMo. - Sales Tax Exemption for Food Items Sold at Farmers' Markets

Officials from the **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

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 this proposal would provide a tax exemption on sales at farmers markets, except for those farmers with over \$25,000 in annual sales at farmers' markets.

ASSUMPTION (continued)

BAP officials noted that according to information on the USDA website, Missouri has about 141 of the 7,175 national farmers markets, or about 2.0%. The same source estimates national sales at over \$1.2 billion annually. BAP officials noted that using these figures would suggest Missouri sales of about \$24 million annually. Some of those sales are probably already exempt, but the amount is unknown. A state sales tax exemption on those sales would reduce total state revenues by the following amounts.

<u>Fund</u>	<u>Amount</u>
General Revenue	\$720,000
School District Trust	\$240,000
Conservation Commission	\$30,000
Parks, and Soil and Water	\$20,000

Officials from the **Department of Revenue (DOR)** assume this proposal would exempt all sales of farm products sold at a farmers' market from state and local sales and use taxes. DOR officials assume this proposal would have no fiscal impact on their organization but could reduce state revenues.

Fiscal impact

In response to similar language in HB 1435, LR 5439-01, DOR officials cited a study by the Missouri Department of Agriculture, which provided an estimate of annual sales at Missouri farmers' markets of \$14.5 million. The report stated most of the sales are food related and currently taxed at the reduced food sales tax rate. DOR officials estimated the state sales tax loss at \$228,000, and noted that local governments would also have a negative impact.

Officials from the **City of Columbia** assume this proposal would not have a major impact to their organization.

Officials from the **City of Kansas City** assume the potential loss to their organization would be negligible.

ASSUMPTION (continued)

Officials from the **Francis Howell School District** stated they were not able to provide an estimate of the fiscal impact.

Officials from the **Johnson County R-VII School District**, and the **St. Louis County Directors of Elections** assume the proposal would have no fiscal impact on their organizations.

In response to similar language in HB 1435, LR 5439-01, officials from **Cole County** and the **City of Maryland Heights** assumed the proposal would have no fiscal impact on their organizations.

Officials from the following counties: Andrew, Audrain, Barry, Bates, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cooper, DeKalb, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lebanon, Lee Summit, Liberty, Louisiana, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following school districts: Blue Springs, Branson, Charleston R-I, Cole R-I, Columbia, Fair Grove, Harrison R-IX, Independence, Jefferson City, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-III, and Waynesville did not respond to our request for information.

ASSUMPTION (continued)

Oversight assumptions

Oversight assumes the fiscal impact of this proposal on \$14.5 million annual sales as estimated by the Department of Agriculture study above, could be calculated as follows.

<u>Fund or entity</u>	<u>Sales Tax Rate</u>	<u>Revenue Reduction</u>	
		<u>Annual</u>	<u>Ten Months</u>
School District Trust	1.000%	\$145,000	\$120,833
Conservation Commission	0.125%	\$18,125	\$15,104
Parks, and Soil and Water	0.100%	\$14,500	\$12,083
Local Governments *	3.700%	\$536,500	\$447,083

* The 3.7% average rate for local governments was computed by Oversight based on collections reported by the Department of Revenue.

For fiscal note purposes, **Oversight** will include an unknown revenue reduction for the General Revenue Fund since a substantial but unknown part of the reported sales are food and related items and are exempt from the state sales tax that is deposited into the General Revenue Fund.

Oversight will include a revenue reduction less than \$100,000 per year for the Conservation Commission Fund and the Parks, and Soil and Water Fund. Oversight notes the revenue reduction for the School District Trust Fund would result in reduced transfers to local school districts in addition to the direct revenue reduction greater than \$100,000 per year for local governments, but will not include those transfers in this fiscal note.

ASSUMPTION (continued)

Section 208.018, RSMo. - SNAP Program Pilot Project

Officials from the **Department of Social Services (DSS) - Family Support Division (FSD)** provided the following response.

Subject to federal approval, these provisions would create a Supplemental Nutrition Assistance Program (SNAP) pilot project to encourage purchases of fresh fruit and vegetables at farmer's markets. This program would allow for a dollar-for-dollar match with SNAP benefits for every SNAP dollar spent at participating farmers markets in an amount up to ten dollars per week. FSD officials assume the fiscal impact to their organization would be (\$0 to Unknown greater than \$100,000).

In response to similar language in HB 1879 LR 6085-01, FSD officials provided the following.

The use of food stamp benefits at farmer's markets is currently supported by the federal government, and Missouri follows that policy. Establishing a pilot program within the DSS would require appropriations for that purpose. The food stamp program is entirely federally funded. This legislation proposes a dollar for dollar match with SNAP benefits for every SNAP dollar spent up to ten dollars per week.

Farmers' markets are not uniquely identifiable in the FSD Fidelity Information Services (FIS) ebtEDGE system; all retailers are reported on the same basis. FSD cannot identify what cardholder bought at a farmers' market. Location and amount are captured in the EBT system, but there is no mechanism to capture individual items purchased. Receipts would need to be submitted by participants. DFS staff would review the receipts and determine the dollar match. Once approved, the FSD would notify FIS of the match; however, to automatically trigger a match, DFS would need funding up front.

DFS would have to identify the authorized markets, and FIS would need to monitor the transactions at those specific markets, and determine the amount of funds the cardholders should receive as a reimbursement, move the funds to the cardholder, and collect that amount from the state. In addition, system updates would be needed to add a new fund code to accept the state dollar for dollar match.

ASSUMPTION (continued)

The FSD anticipates additional costs associated with FIS, similar to the Summer Electronic Benefit Transfer for Children (SEBTC) program. Initial start up costs for the SEBTC program were \$34,785. Benefit authorizations would need to be manually entered through the FIS administrative terminal system by FSD staff during the pilot program. If the program is fully implemented, batch processes to transmit to FIS, would need to be created for the Family Assistance Management Information System (FAMIS) very similar to what is currently used for Food Stamps (SNAP) and Temporary Assistance (TA).

FSD officials stated in December 2013, there were 413,953 households in Missouri receiving food stamps. Assuming this program would run for 20 weeks at ten dollars per week for each household, even if only 327 households took advantage of the pilot program, appropriations greater than \$100,000 would be required. DOS officials noted that $327 \text{ households} \times \$10 \times 20 \text{ weeks} = \$65,400$ in benefits, and $\$65,400 \text{ benefits} + \$34,785 \text{ in start up costs} = \$100,185$.

Oversight notes from discussions with DSS staff, that FSD assumed there is approximately a 20-week growing season in Missouri each year in which farmers' markets would be open and recipients could purchase fresh fruits and vegetables. Oversight will include an estimated cost to the General Revenue Fund for the pilot program greater than \$100,000.

Officials from the **Office of Administration - Division of Budget and Planning** noted this proposal would direct the Department of Social Services (DSS) to create a pilot program whereby SNAP participants that purchase certain fresh foods from farmers markets with an EBT card would receive a dollar-for-dollar match up to \$10 per week.

BAP officials also noted the proposal would be subject to appropriation, and assume this would not directly impact Total State Revenues, but could reduce funds otherwise available for other purposes. BAP officials deferred to DSS for a more precise estimate of the needed appropriation.

ASSUMPTION (continued)

Bill as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS 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.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated the legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

Officials from the **Department of Agriculture** assumed the proposal would have no fiscal impact on their agency.

Officials from **St. Louis County** assume this proposal would have no fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption Section 144.527	(Unknown)	(Unknown)	(Unknown)
<u>Cost - FSD</u>			
Start up and pilot project costs Section 208.018	\$0 to (More than <u>\$100,000</u>)	\$0 to (More than <u>\$100,000</u>)	\$0 to (More than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Unknown to More than <u>\$100,000</u>)	(Unknown to More than <u>\$100,000</u>)	(Unknown to More than <u>\$100,000</u>)
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption Section 144.527	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption Section 144.527	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)

<u>FISCAL IMPACT - State Government</u>	FY 2015	FY 2016	FY 2017
(Continued)	(10 Mo.)		

SCHOOL DISTRICT TRUST FUND

<u>Revenue reduction - DOR</u>			
Sales Tax exemption	(More than	(More than	(More than
Section 144.527	\$100,000)	\$100,000)	\$100,000)

ESTIMATED NET EFFECT ON	(More than	(More than	(More than
SCHOOL DISTRICT TRUST FUND	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015	FY 2016	FY 2017
	(10 Mo.)		

LOCAL GOVERNMENTS

<u>Revenue reduction - DOR</u>			
Sales Tax exemption	(More than	(More than	(More than
Section 144.527	<u>\$100,000</u>)	<u>\$100,000</u>)	<u>\$100,000</u>)

ESTIMATED NET EFFECT ON	(More than	(More than	(More than
LOCAL GOVERNMENTS	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which operate farmers' markets or sell specified items at farmers' markets.

FISCAL DESCRIPTION

This proposal would create an exemption from state and local sales and use taxes for specific farm products sold at farmers' markets. In addition, the proposal would create a SNAP food stamps pilot project to encourage purchases of fresh fruit and vegetables.

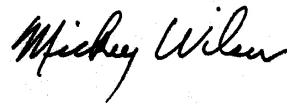
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the Attorney General
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Agriculture
Department of Revenue
Department of Social Services
 Family Support Division

SOURCES OF INFORMATION (continued)

Cole County
St. Louis County
City of Columbia
City of Kansas City
City of Maryland heights
Francis Howell School District
Fulton Public Schools
Johnson County R-VII School District
St. Louis County Directors of Elections



Mickey Wilson, CPA
Director
April 28, 2014

Ross Strobe
Assistant Director
April 28, 2014