

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0989-02
Bill No.: Truly Agreed To and Finally Passed HCS for HB 259
Subject: Agriculture and Animals; Agriculture Department; Higher Education
Type: Original
Date: April 21, 2015

Bill Summary: This proposal creates the Missouri Dairy Revitalization Act of 2015.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--------------------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | (Up to \$2,436,364 - \$4,699,013) | (Up to \$2,210,906 - \$4,473,555) | (Up to \$2,212,102 - \$4,474,751) |
| Total Estimated Net Effect on General Revenue | (Up to \$2,436,364 - \$4,699,013) | (Up to \$2,210,906 - \$4,473,555) | (Up to \$2,212,102 - \$4,474,751) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|-----------------------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Missouri Dairy Industry Revitalization* | \$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 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|-----------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Community Colleges* | \$0 | \$0 | \$0 |

*Revenues and expenditures net to zero

FISCAL ANALYSIS

ASSUMPTION

§§ 261.270, 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies:

Officials from the **University of Missouri (MU)** assume this provision 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.

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

MU assumes this provision 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 Management Training: | \$50,000 |
| Dairy Industry Revitalization Study: | \$750,000 |
| Total | \$825,000 |

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. Costs of the annual study would be 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 a restaurant which is taxed at the higher state sales tax rate of 4.225%.

DOR states 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.

ASSUMPTION (continued)

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 stated the following total dairy sales reported by Standard Industry Classification Codes (SIC) in 2013.

| | |
|----------------------|--------------|
| Dairy Farms | \$113,895 |
| Dairy Products | \$10,493,680 |
| Dairy Product Stores | \$64,477,720 |

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

§§ 261.270, 261.280, 261.295 - 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 from this provision.

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.

ASSUMPTION (continued)

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.

$13,294,482 \text{ cwt} \times 75\% \times .90\% \times (\$0.09 \times 70\%) \$0.063) + (13,294,482 \times 25\% \times .90\% \times (\$.29 \times 70\%) \$0.2030) = \$1,172,605.06 \times 80\% \text{ participation} = \$938,084$

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.

$13,294,482 \text{ cwt} \times 75\% \times .90\% \times (\$0.475 \times 70\%) \$0.3325) + (13,294,482 \times 25\% \times .90\% \times (\$.34 \text{ maximum reimbursement})) = \$4,000,917 \times 80\% \text{ participation} = \$3,200,733$

Oversight assumes this provision 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.

ASSUMPTION (continued)

§§ 261.270, 261.285, 261.295 - Missouri Dairy Scholars Program:

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

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.

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 provision could have a positive fiscal impact on the University in the form of encouraging increased enrollment in UCM's agriculture programs.

Officials from **Missouri State University** assume this provision may have a positive fiscal impact on the University, however the specific amount cannot be determined and quantified.

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

ASSUMPTION (continued)

Bill as a Whole:

Officials from the **Department of Agriculture (AGR)** assume every new IT project for this proposal will be bid out because current ITSD resources are at full capacity.

AGR assumes this proposal would require web development processes for two public applications, customer portal, internal workflow processes, and back office solution of low to moderate complexity to assist in the monitoring and awarding of grants and scholarships. Costs for implementation of these changes from the General Revenue Fund are estimated to be \$273,280 in FY16, \$47,822 in FY17, and \$49,018 in FY18.

Officials from the **Department of Revenue, Department of Conservation, Department of Natural Resources, Department of Transportation, Department of Higher Education, State Treasurer's Office, Office of the Attorney General, Missouri State University,** and the **University of Missouri Western** each assume the proposal would not fiscally impact their respective agencies.

| <u>FISCAL IMPACT - State Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|----------------------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Transfer Out</u> - to Missouri Dairy Revitalization Fund | | | |
| § 261.280 - Margin Insurance Program | (\$938,084 - \$3,200,733) | (\$938,084 - \$3,200,733) | (\$938,084 - \$3,200,733) |
| <u>Transfer Out</u> - to Missouri Dairy Revitalization Fund | | | |
| § 261.285 - Agriculture Scholarships | (Up to \$400,000) | (Up to \$400,000) | (Up to \$400,000) |
| <u>Transfer Out</u> - to Missouri Dairy Revitalization Fund | | | |
| § 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies: | (\$825,000) | (\$825,000) | (\$825,000) |
| <u>Costs - AGR</u> | | | |
| §§ 261.275, 261.280, 261.285 - ITSD | <u>(\$273,280)</u> | <u>(\$47,822)</u> | <u>(\$49,018)</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | (Up to \$2,436,364 - <u>\$4,699,013</u>) | (Up to \$2,210,906 - <u>\$4,473,555</u>) | (Up to \$2,212,102 - <u>\$4,474,751</u>) |

| <u>FISCAL IMPACT - State Government</u> (continued) | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|----------------------------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|
| MISSOURI DAIRY INDUSTRY REVITALIZATION FUND | | | |
| <u>Transfer In</u> - from General Revenue | | | |
| § 261.280 - Margin Insurance Program | \$938,084 - \$3,200,733 | \$938,084 - \$3,200,733 | \$938,084 - \$3,200,733 |
| <u>Costs</u> - Dairy Producers | | | |
| § 261.280 - Margin Insurance Program | (\$938,084 - \$3,200,733) | (\$938,084 - \$3,200,733) | (\$938,084 - \$3,200,733) |
| <u>Transfer In</u> - from General Revenue | | | |
| § 261.285 - Scholarships | Up to \$400,000 | Up to \$400,000 | Up to \$400,000 |
| <u>Transfer Out</u> - Colleges/Universities | | | |
| § 261.285 - Scholarships | (Up to \$400,000) | (Up to \$400,000) | (Up to \$400,000) |
| <u>Transfer In</u> - from General Revenue | | | |
| §§ 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies | \$825,000 | \$825,000 | \$825,000 |
| <u>Transfer Out</u> - University of Missouri | | | |
| §§ 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies | <u>(\$825,000)</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> |

FISCAL IMPACT - State Government FY 2016 FY 2017 FY 2018
(continued) (10 Mo.)

COLLEGES & UNIVERSITIES

Transfer In - from Missouri Dairy Industry Revitalization Fund
§ 261.285 - Agriculture Scholarships Up to \$400,000 Up to \$400,000 Up to \$400,000

Costs - Colleges/Universities
§ 261.285 - Agriculture Scholarships (Up to \$400,000) (Up to \$400,000) (Up to \$400,000)

Transfer In - from Missouri Dairy Industry Revitalization Fund
§§ 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies Reimbursement \$825,000 \$825,000 \$825,000

Costs - University of Missouri
§§ 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies (\$825,000) (\$825,000) (\$825,000)

ESTIMATED NET EFFECT ON COLLEGES & UNIVERSITIES **\$0** **\$0** **\$0**

FISCAL IMPACT - Local Government FY 2016 FY 2017 FY 2018
(10 Mo.)

COMMUNITY COLLEGES

Transfer In - from Missouri Dairy Industry Revitalization Fund
§ 261.285 - Agriculture Scholarships Up to \$400,000 Up to \$400,000 Up to \$400,000

Costs - Eligible Students
§ 261.285 - Agriculture Scholarships (Up to \$400,000) (Up to \$400,000) (Up to \$400,000)

ESTIMATED NET EFFECT ON COMMUNITY COLLEGES **\$0** **\$0** **\$0**

FISCAL IMPACT - Small Business

§§ 261.270, 261.280 - 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 provision.

FISCAL DESCRIPTION

§§ 261.270, 261.280 - 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.

§§ 261.270, 261.285, 261.295 - Missouri Dairy Scholars 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.

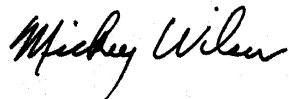
§§ 261.275, 261.290 - Dairy Industry Revitalization and Sales Tax Annual Studies:

This section of the proposal requires the University of Missouri's Commercial Agriculture Program to conduct research annually on the estimated state sales tax revenue generated from dairy products. Such estimated sales tax revenue shall be provided to the Department of Agriculture. Additionally, Commercial Agriculture Program will conduct an annual study of the dairy industry and develop a plan for how to grow dairy industries in Missouri. The plan will be delivered to certain members of the General Assembly

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
Office of the Attorney General
Office of Administration -
 Division of Budget and Planning
Department of Transportation
Department of Natural Resources
Department of Conservation
Department of Higher Education
State Treasurer's Office
University of Missouri
Missouri State University
University of Central Missouri
University of Missouri Western



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