

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1654-04
Bill No.: CCS for HCS for SCS for SB 300
Subject: Kansas City; Retirement - Local Government; Law Enforcement Officers and Agencies
Type: Original
Date: May 7, 2015

Bill Summary: This proposal modifies provisions relating to retirement and would authorize certain cities to impose, upon voter approval, a sales tax of up to .5% for the purpose of improving the public safety of the city.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 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
Local Government*	\$0 or (Less than \$130,000)	\$0	\$0

* Potential sales tax revenue and offsetting expenditures of approximately \$3,965,000 million annually if approved by the voters.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Public Retirement** stated that the legislation would not create a substantial proposed change in future plan benefits as defined in Section 105.660(10).

However, the provisions included in sections 86.1110 and 86.1500, could result in a savings to both plans through the new requirement in member contributions and limitations on granted service.

Officials from the **Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City** state that every five years the Internal Revenue Service requires a review and reapplication for qualified plan status for the Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City. The most recent application was submitted in January 2014. The IRS has granted continued qualified plan status with the understanding that the plans would submit legislation to include certain language in the plan documents (state statutes).

Currently the IRS allows the non-spouse beneficiary, who receives a distribution from the retirement system (a refund of member contributions in the absence of an eligible spouse or child under age 18) to elect to directly roll over the distribution to an IRA or Roth IRA. The retirement systems comply with IRS roll over rules for distributions to a non-spouse beneficiary but our statutes do not specifically reference the roll over provisions. Proposed legislation would amend section 86.1270.9 RSMo, in the Police plan and section 86.1630.9 RSMo, in the Civilian Employees' plan.

Military leave provisions under the federal Uniformed Services Employment and Reemployment Rights Act (USERRA) requires the Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City to restore creditable service in the retirement systems, for time missed due to a military leave of absence, by paying their member contributions for such time to the retirement system. Members are not required to restore such service, instead they may choose to extend their career and work the amount of time they were on leave for military service.

As a result of involuntary military assignments following the events of September 11, 2001, legislation was submitted to the General Assembly allowing the Retirement Systems to grant a benefit to members of the military that went beyond the requirements of USERRA. That legislation, which became law in 2005, waived the required member contributions and granted creditable service to members returning from a military leave of absence.

ASSUMPTION (continued)

The original language included provisions that we anticipated would prevent granting creditable service for voluntary military assignments.

Nine years later, voluntary military assignments are the norm rather than the exception. The two plans have waived a total of \$1.5 million in member and employer contributions for military leaves of absence for the 75 members serving in the military. Five of those members have been on military leave for more than five years. The Retirement Board recognizes the importance of military service by our members but in light of recent pension reforms, approved by the General Assembly and increases in member contribution rates, it is time to make changes to our military leave provisions.

The proposed legislation puts a process in place that more closely follows the requirements of USERRA but still provides a benefit to military members that is above and beyond the USERRA. Members returning from active duty military leave would be eligible to restore their leave time by paying the member contribution rate. For members with orders under Title 10 or Title 32 U.S. Code and discharged from active duty with documentation in the form of a DD214 or NGB23, the member contributions could be waived for up to three years of military leave (current statutes allow for waiving contributions for up to five years). Should a member be on military leave for more than three years, but no more than five years, the member would be eligible, under USERRA, to restore creditable service by paying the amount of member contributions for the leave period.

There would be no fiscal impact to the Police Retirement System of Kansas City or the Civilian Employees' Retirement System of the Police Department of Kansas City.

In response to a previous version of this proposal, officials from the **Missouri Local Government Employees Retirement System** and the **City of Kansas City** each assumed the proposal would not fiscally impact their respective organizations.

Officials from the **County Employees Retirement Fund**, the **Police Retirement System of St. Louis**, the **Missouri State Employees Retirement System**, the **Office of Administration**, the **MoDOT and Patrol Employees Retirement System**, the **Department of Transportation** and the **Missouri Consolidated Health Care Plan** assume the current proposal would not fiscally impact their respective agencies.

ASSUMPTION (continued)

In response to a similar proposal, HB 1085, which contains Sections 169.560 and 169.715, officials from the **Public School and Education Employees Retirement System (PSRS)** stated this proposal will have no measurable fiscal impact to the system. This proposal creates a suspension of a member's retirement allowance when they return to work, which results in a temporary savings for the system. The accrual of a second retirement allowance during the suspension period can result in a small cost or savings to the system. Historically, a very small percentage of retirees return to work in a capacity that exceeds the limitations noted above. As of June 30, 2014, 106 of 49,707 PSRS service retirees, or .2%, have returned to work and had their retirement allowance suspended. As of June 30, 2014, 87 of 22,756 Public Education Employee Retirement System service retirees, or .4%, have returned to work and had their retirement allowance suspended.

Section 94.902:

In response to a similar proposal, HB 566, officials from the **City of Liberty** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,700,000 per year and the election cost would be approximately \$30,000. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. Oversight will include the city's estimated municipal election cost in this fiscal note.

In response to a similar proposal, HB 566, officials from the **City of North Kansas City** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,575,000 each year if the entire half-cent sales tax was levied. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. The city did not provide an estimate of election costs for this proposal, and Oversight will include an unknown but less than \$100,000 estimated election cost in this fiscal note for the city.

In response to a similar proposal, HB 566, officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted the proposal would allow voters in certain cities to approve a sales tax up to ½ of one percent to improve public safety of the city.

BAP officials provided information from the Department of Revenue (DOR) 2014 sales tax report which indicated taxable sales in Liberty totaled \$428.8 million in fiscal year 2014. Therefore, BAP officials estimated the proposed sales tax could generate up to $(\$428,800,000 \times .005) = \2.14 million (rounded) annually for the city beginning as early as two weeks after the 2016 August primary election, unless a special election is called before such date. BAP officials assume up to \$1.79 million would be collected for FY 2017.

ASSUMPTION (continued)

BAP officials also provided information from the Department of Revenue (DOR) 2014 sales tax report which indicated taxable sales in North Kansas City totaled \$365 million in fiscal year 2014. Therefore, BAP officials estimated the proposed sales tax could generate up to $(\$365,000,000 \times .005) = \1.825 million (rounded) annually for the city beginning as early as two weeks after the 2016 August primary election, unless a special election is called before such date. BAP officials assume up to \$1.544 million would be collected for FY 2017.

BAP officials also noted the revenues collected would have no direct impact on Total State Revenues; however 1% would be retained to offset DOR collection costs, and Total State Revenues could be increased by \$39,650 if the sales tax proposals are approved.

For simplicity, **Oversight** will not include the one percent additional collection deduction in this fiscal note.

Oversight assumes the BAP revenue estimates for this proposal are the best estimates available and will use those estimates for this fiscal note. Oversight assumes the additional revenues would be spent for public safety purposes and will also include additional cost for local governments equal to the additional revenue in this fiscal note.

Oversight also assumes the proposals could be submitted to the voters as early as the April, 2016 (FY 2016) municipal elections. If a sales tax is approved by the voters, it would become effective on the first day of the second calendar quarter after the election. The proposed sales tax could therefore become effective as early as October 1, 2016 (FY 2017).

For fiscal note purposes, **Oversight** will assume the election would be held with the April, 2016 municipal elections and sales tax could be collected from October 1, 2016 to June 30, 2017 (FY 2017). Oversight is also aware there is some delay in collecting, reporting, accounting, and remitting sales tax to local governments; however, we will indicate revenue up to nine months (75%) of the annual estimate for FY 2017.

For the City of Liberty, the estimate would be $(\$2,140,000 \times .75) = \$1,605,000$, and for FY 2018 and following years, the sales tax revenue estimate would be \$2,140,000.

For the City of North Kansas City, the estimate would be $(\$1,825,000 \times .75) = \$1,369,000$ (rounded) and for FY 2018 and following years, the sales tax revenue estimate would be \$1,825,000.

Finally, **Oversight** notes this proposal would allow but not require the cities to propose a public safety sales tax to the voters, and the fiscal impact will be presented as \$0 (no election held) or the estimated election costs above and \$0 (no election or voters do not approve the sales tax) or the estimated sales tax revenue above.

ASSUMPTION (continued)

In response to a similar proposal, HB 566, officials from the **Department of Revenue (DOR)** stated this proposal would authorize these cities to impose a one-half percent sales tax for improving public safety but would have no impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal of \$3,000 based on 40 hours of programming at \$75 per hour to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year, and assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the budget process.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2016 (10 Mo.)	 FY 2017	 FY 2018
LOCAL GOVERNMENTS			
<u>Additional revenue - City of Liberty</u>			
Sales tax	\$0	\$0 or Up to \$1,605,000	\$0 or \$2,140,000
<u>Cost - City of Liberty</u>			
Public Safety	\$0	\$0 or (Up to \$1,605,000)	\$0 or (\$2,140,000)
<u>Cost - City of Liberty</u>			
Election	\$0 or (\$30,000)	\$0	\$0
<u>Additional revenue - City of North Kansas City</u>			
Sales tax	\$0	\$0 or Up to \$1,369,000	\$0 or \$1,825,000
<u>Cost - City of Liberty</u>			
Public Safety	\$0	\$0 or (Up to \$1,369,000)	\$0 or (\$1,825,000)
<u>Cost - City of North Kansas City</u>			
Election	\$0 or (Less than <u>\$100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0 or (Less than \$130,000)</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

If the proposed sales tax is approved by the voters, this proposal would have a direct fiscal impact to a business in the designated cities which purchases taxable goods or services.

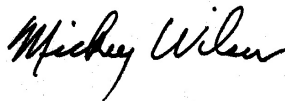
FISCAL DESCRIPTION

This legislation would authorize certain cities to submit to the voters a proposal to impose a sales tax of up to .5% for the purpose of improving the public safety of the city.

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

Joint Committee on Public Retirement
Kansas City Police Retirement System
Police Retirement System of St. Louis
County Employees Retirement Fund
Missouri Local Government Employees Retirement System
City of Kansas City
Missouri State Employees Retirement System
Missouri Consolidated Health Care Plan
Department of Transportation
Office of Administration
MoDOT and Patrol Employees Retirement System
Department of Revenue
City of Liberty
City of North Kansas City



Mickey Wilson, CPA
Director
May 7, 2015

Ross Strope
Assistant Director
May 7, 2015