

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2201-03
Bill No.: HCS for SB 500
Subject: Agriculture and Animals; Business and Commerce; Health Department
Type: Original
Date: May 6, 2015

Bill Summary: This proposal changes the laws regarding agriculture.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2022)
General Revenue	(\$37,827) to (Could exceed \$6,040,722)	(\$606,000 to Greater than \$5,396,895)	(\$606,000 to Greater than \$5,396,895)	(Could exceed \$606,000)
Total Estimated Net Effect on General Revenue	(\$37,827) to (Could exceed \$6,040,722)	(\$606,000 to Greater than \$5,396,895)	(\$606,000 to Greater than \$5,396,895)	(Could exceed \$606,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2022)
Petroleum Inspection Fund	Up to \$1,047,273	Up to \$1,375,418	Up to \$1,354,787	Up to \$2,125,518
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$1,047,273	Up to \$1,375,418	Up to \$1,354,787	Up to \$2,125,518

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2022)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2022)
Total Estimated Net Effect on FTE				

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	Fully Implemented (FY 2022)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

§142.029 - Economic Subsidies for Fuel Ethanol Producers:

In response to similar legislation (HB 854), the following agency responses are being provided:

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume the proposal would eliminate the sunset for the Missouri Qualified Producer Incentive Program. The last payment to a qualified ethanol producer occurred in FY13. It is unknown how many ethanol production facilities may be established and qualify as a qualified ethanol producers in the future. A general revenue transfer to the Missouri Qualified Fuel Ethanol Producer Incentive Fund is used to pay for these incentives.

B&P assumes an unknown cost to the General Revenue Fund from this proposal.

Officials from the **Department of Agriculture (AGR)** note all existing ethanol producers in Missouri have already qualified and received funding subsidies for the 60 month time period they were eligible under the Ethanol Producer Incentive Program. AGR state they are unaware of any plans for new construction of either traditional corn or biomass-based ethanol plants in Missouri.

AGR assumes the removal of the sunset date does allow for the possibility of additional ethanol incentives at some time in the future. AGR assumes a fiscal impact of \$0 to an unknown cost from this proposal.

AGR provided the following total Missouri Ethanol Production and Payment information from FY00 - FY13.

ASSUMPTION (continued)

<u>Fiscal Year</u>	<u>Production</u>	<u>Payments</u>
00	1,810,801	\$364,259
01	22,523,273	\$4,524,989
02	40,011,740	\$4,905,706
03	43,464,260	\$3,093,748
04	59,793,540	\$3,576,485
05	79,436,946	\$5,340,834
06	110,834,572	\$8,102,393
07	154,485,337	\$13,687,990
08	187,820,705	\$9,191,905
09	222,019,498	\$12,500,000
10	254,072,540	\$13,366,382
11	260,167,086	\$9,375,000
12	254,044,088	\$8,802,378
<u>13</u>	<u>257,623,905</u>	<u>\$4,790,895</u>
Total	1,948,208,290	\$101,622,967

Source: Department of Agriculture

Oversight notes the provisions of this proposal provide for a sunset date of December 31, 2019. Oversight assumes the proposal would permit additional appropriations from the General Revenue Fund for new construction of corn or biomass ethanol producers until December 31, 2019. For the purpose of the fiscal note, Oversight will show \$0 (no new construction) or a cost up to (\$4,790,895), the most recent ethanol incentive payment paid from general revenue in FY13, if new construction occurs and incentives are passed.

Officials from the **Department of Transportation** and the **Department of Revenue** each assumed the proposal would not fiscally impact their respective agencies.

§143.121 - Agricultural Producers Loss as a Result of a Disaster or Emergency

In response to similar legislation (HB 771), officials from the **Office of Administration - Division of Budget and Planning (B&P)** assumed these provisions would reduce Total State Revenues (TSR) by \$4.6 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

The provisions of this proposal would allow a taxpayer to deduct from Missouri adjusted gross income any payments from a federal program that provides compensation to agricultural producers who have suffered losses due to a disaster or emergency.

ASSUMPTION (continued)

Using data provided by the United States Department of Agriculture, B&P officials estimated this would exempt as much as \$76.4 million in income. Since deductions do not reduce taxes on a dollar for dollar basis, B&P officials assume this would reduce TSR by $(\$76,400,000 \times 6\%) = \4.6 million (rounded). Because the proposal would allow the deduction for 2014, the full impact in fiscal year 2016 could be as much as \$9.2 million since refund claims for 2014 as well as tax returns for 2015 would be filed in FY 2016. BAP officials also assume the revenue reduction numbers could also vary in the future due to the impact of SB 509 (2014).

Oversight notes the B&AP estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2016 and FY 2017, and a potentially reduced rate for FY 2018. Oversight also notes the reduced rate for 2017 returns filed in FY 2018 is contingent on net general revenue collections exceeding a net general revenue collections threshold which may or may not occur. Finally, some of the payments may be received by individuals who would be taxed at a lower rate due to total taxable income less than \$9,000.

In response to a previous version of this proposal would , officials from the **Department of Revenue (DOR)** assumed Personal Tax would require programming and form changes, and two additional Revenue Processing Technicians (Range 10, Step L) for additional correspondence and error correction.

The DOR estimate of administrative costs to implement the proposal including two additional employees and the related benefits, equipment, and expense, was \$81,681 for FY 2016, \$84,086 for FY 2017, and \$84,960 for FY 2018.

Oversight notes this proposal would change a limited number of computations on a limited number of income tax returns and would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred, or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials also provided an estimate of the IT cost to implement the proposal of \$37,827 based on 504 hours of programming at the current state contract rate of \$75 to make changes to the DOR systems.

Oversight will include the DOR estimate of IT cost to implement this proposal in the fiscal note.

ASSUMPTION (continued)

In response to similar legislation (HB 771), officials from the **University of Missouri, Economic and Policy Analysis Research Center** provided a response which indicated the proposal would result in a revenue reduction up to \$850,000 per year based on a baseline simulation using the latest individual income tax data for 2013 and current provisions, and a second simulation using the same data and provisions with the exclusion of agricultural disaster program payments.

In response to similar legislation (HB 771), officials from the **Department of Agriculture**, the **Joint Committee on Administrative Rules** and the **Office of the Secretary of State** each assumed the proposal would have no fiscal impact on their organizations.

Officials from the **Department of Natural Resources (DNR)** state section 143.121.3(10) identifies payments from federal emergency programs that would reduce agricultural producers federal adjusted gross income. The DNR's Soil and Water Conservation Program also provides funds for emergency assistance under certain circumstances. It is unclear if the state emergency funds would be included under this proposal. If it were, it could impact 1099 reporting provided through the Department of Revenue.

The DNR would not anticipate a significant direct fiscal impact as a result of this legislation.

Oversight assumption

Oversight has obtained updated information from the United States Department of Agriculture which indicates the payments which would be eligible for this exemption would amount to approximately \$10.1 million per year. This would imply a revenue reduction of approximately $(\$10,100,000 \times 6\%) = \$606,000$ per year. **NOTE:** Based on current federal programs, this loss would continue on indefinitely. If federal programs are modified, changes could cause this loss to fluctuate.

Oversight notes the limited amount of federal payments which would be eligible for this exemption is due to the expiration of federal funding for certain programs for years after 2011. Individual federal programs could be re-authorized in the future and/or expanded which would increase the amount of payments eligible for this program and the resulting state revenue reduction.

Accordingly, Oversight will include the revenue reduction estimate calculated above for this proposal, and notes the revenue reduction could be more or less than the calculated amount in the future. Oversight assumes the fiscal impact in FY 2016 could include two years' refund claims since the proposal would allow the exemption for 2014 and 2015 on tax returns which would be filed in FY 2016.

ASSUMPTION (continued)

Oversight also notes the potential exists for a reduction in the personal income tax rates for 2017, which would have a fiscal impact in FY 2018 when 2017 income tax returns are filed. The rate reduction is contingent on net general revenue collections for the state of Missouri exceeding a statutory threshold, which may or may not occur.

§265.475 - Slaughter and Processing of Captive Cervids:

Officials from the **Department of Conservation (MDC)** assume an unknown fiscal impact from this proposal.

Oversight assumes this proposal is permissive and any direct fiscal impact to MDC could be absorbed.

In response to similar legislation (HB 1096), officials from the **Department of Agriculture**, the **Office of Administration, Division of Budget and Planning**, the **City of Columbia**, the **City of Independence Health Department** and the **Harrison County Public Health Department** each assumed the proposal would not fiscally impact their respective agencies.

§ 414.082 - Per Barrel Fee for Inspection of Motor Fuels:

Officials from the **Department of Agriculture (AGR)** assume this proposal allows the petroleum inspection fee to be adjusted, if needed, by the Department of Revenue so that revenues from the inspection fee equal the costs of the petroleum inspection program.

AGR notes revenues have been declining by an average of 1.5% annually for the last several years due to decreasing gasoline consumption as a result of increasing fuel economy of newer vehicles. The program would be unable to inspect fueling stations twice a year as required by state statute. Retailers and consumers could lose an estimated (\$3,000,000) per year from inaccurate dispensers if inspections are not maintained.

AGR assumes that there will continue to be a one month lag between the fees assessed and the Department of Revenue's actual collection and deposit of revenues into the petroleum inspection fund (e.g. fees assessed in January 2016 are not deposited into the inspection fee fund until February 2016).

AGR estimates a 3.5 cent per 50-gallon barrel inspection fee may be necessary (effective 1-1-16) in order to maintain the current level of services provided by the program.

ASSUMPTION (continued)

AGR assumes if the adjustment allowed by this proposal is needed, the revenue estimates would be as follows: See Table 1 for current fee revenue and Table 2 for fee revenue from this proposal.

Table 1: Current Per Barrel Fees for Inspection of Motor Fuels

Current	FY15 Revenue	Projected FY16 Revenue	Projected FY17 Revenue	Projected FY18 Revenue
Annual	\$2,362,714	\$2,327,273	\$2,292,364	\$2,257,978
Per Month	\$196,893	\$193,939	\$191,030	\$188,165

Source: Department of Agriculture

Table 2: Per Barrel Fees for Inspection of Motor Fuels from SCS for SB 520 - Effective 01/01/16

Under SCS for SB 520	FY15 Revenue	Projected FY16 Revenue	Projected FY17 Revenue	Projected FY18 Revenue
Annual	Not applicable	Not applicable	\$2,674,425	\$3,161,170
Difference	Not applicable	Not applicable	\$382,061	\$903,191

Oversight assumes currently, the fee for the inspection of certain motor fuels for the Department of Agriculture is used for expenses to administer the program. The fee cannot be less than 1.5 cents per barrel and cannot exceed 2.5 cents per barrel. The Department of Revenue (DOR) sets the per barrel fee, after receiving an expense report from AGR, for the ensuing calendar year. DOR sets the fee to not yield revenue greater than the costs of administering the program.

Oversight notes, according to the State Treasurer's Office, the balance of the Petroleum Inspection Fund (0662) was \$1,359,777.62 on March 31, 2015. March receipts to the fund totaled \$203,620.67 and disbursements totaled (\$133,622.36).

Utilizing AGR's estimate of 1.5% reduction in utilization, **Oversight** assumes the following potential impact of the proposal:

ASSUMPTION (continued)

Year	Projected Revenue at current 2.5 cents rate	Projected Barrels (assuming 1.5% decline)	Maximum Charge per barrel allowed in the proposal	Potential new revenue estimates	Projected possible additional Revenue
FY 2015	\$2,362,714	94,508,550	.025		
FY 2016	\$2,327,273	93,090,922	.04 (at 8/28/2015)	\$3,723,637	\$1,396,364
FY 2017	\$2,292,364	91,694,558	.04	\$3,667,782	\$1,375,418
FY 2018	\$2,257,978	90,319,139	.04	\$3,612,766	\$1,354,787
FY 2019	\$2,224,109	88,964,352	.04	\$3,558,574	\$1,334,465
FY 2020	\$2,190,747	87,629,887	.04	\$3,505,195	\$1,314,448
FY 2021	\$2,157,886	86,315,439	.05 (at 1/1/2021)	\$3,884,195	\$1,726,309
FY 2020	\$2,125,518	85,020,707	.05	\$4,251,035	\$2,125,518

Oversight will range the fiscal impact of this proposal as "Up To" the amounts reflected above. The Department of Revenue has the ability charge a fee up to the new maximums.

Oversight will reflect 9 months of potential impact in FY 2016, or \$1,047,273 (\$1,396,365 * 9/12).

In response to similar legislation (SB 520), officials from the **Department of Revenue (DOR)** assumed this proposal allows the rate charged to be adjusted annually, requiring updates to forms, rate notification to approximately 490 licensed suppliers and distributors, and minor programming changes to the motor fuel tax system.

DOR assumes the rate charged for inspections until December 31, 2015 is two and one-half cent (\$0.025) per barrel. Between January 1, 2015 and December 31, 2020, the rate charged for the inspection of gasoline, blended fuels, kerosene, etc., cannot exceed four cents (\$0.04) per barrel. The maximum amount after that is set at five cents per barrel.

DOR assumes this proposal would require 80 IT contractor hours for system updates at a cost of (\$5,994). Mailings for each rate adjustment will cost (\$272).

DOR assumes a total cost of (\$6,266) to implement this proposal.

ASSUMPTION (continued)

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal.

In response to similar legislation (SB 520), officials from the **Office of Administration, Division of Budget and Planning (B&P)** assumed this proposal will affect both Total State Revenue and the 18e tax and fee calculations by changing the current statutory limits on petroleum inspection fees. B&P defers to the Department of Agriculture for an estimate of the potential fiscal impact of this proposal.

§§ 578.005, 578.007, 578.040 - Animal Trespass:

In response to similar legislation (HB 258), the following agency responses were provided:

Officials from the **Office of State Public Defender (SPD)** cannot assume that existing staff will provide effective representation for any new cases arising where indigent clients are faced with the enhanced penalties for repeated offenses of animal or livestock trespassing.

SPD assumes while the number of new cases may be too few or uncertain to request additional funding for this specific bill, the SPD will continue to request sufficient appropriations to provide effective representation.

Oversight assumes the SPD can absorb the additional caseload that may result from this proposal.

Officials from the **Department of Agriculture, the Department of Corrections, the Department of Public Safety, Missouri State Highway Patrol, the Office of State Courts Administrator** and the **Missouri Office of Prosecution Services** each assumed the proposal would not fiscally impact their respective agencies.

Bill as a Whole:

Officials from the **Department of Health and Senior Services, the Department of Corrections, the Joint Committee on Administrative Rules, the Office of State Courts Administrator** and the **Office of State Treasurer** each assume the proposal would not fiscally impact their respective agencies.

<u>FISCAL IMPACT - State</u> <u>Government</u>	FY 2016 (10 months)	FY 2017	FY 2018	Fully Implemented (FY 2022)
GENERAL REVENUE				
<u>Costs - AGR (\$142.029)</u>				
Ethanol Producer				
Incentives	\$0 or (Up to \$4,790,895)	\$0 or (Up to \$4,790,895)	\$0 or (Up to \$4,790,895)	\$0
<u>Cost - DOR (\$143.121)</u>				
Computer programming	(\$37,827)	\$0	\$0	\$0
<u>Loss - DOR (\$143.121)</u>				
Tax exemption	<u>(Could exceed \$1,212,000)</u>	<u>(Could exceed \$606,000)</u>	<u>(Could exceed \$606,000)</u>	<u>(Could exceed \$606,000)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND				
	<u>(\$37,827) to (Could exceed \$6,040,722)</u>	<u>(\$606,000 to Greater than \$5,396,895)</u>	<u>(\$606,000 to Greater than \$5,396,895)</u>	<u>(Could exceed \$606,000)</u>
PETROLEUM INSPECTION FUND				
<u>Income - AGR</u>				
§414.082 - Increase in maximum per barrel fees for motor fuel inspections	Up to <u>\$1,047,273</u>	Up to <u>\$1,375,418</u>	Up to <u>\$1,354,787</u>	Up to <u>\$2,125,518</u>
ESTIMATED NET EFFECT TO PETROLEUM INSPECTION FUND				
	<u>Up to \$1,047,273</u>	<u>Up to \$1,375,418</u>	<u>Up to \$1,354,787</u>	<u>Up to \$2,125,518</u>

FISCAL IMPACT - Local
Government

FY 2016 (10 months)	FY 2017	FY 2018	Fully Implemented (FY 2022)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact on businesses involved in agriculture which have received eligible disaster payments. (§143.121)

Small businesses engaged in the practice of raising captive cervids to be slaughtered and processed for human consumption may be able to have these services performed at facilities inspected by the USDA or Department of Agriculture as a result of this proposal. (§265.475)

Small business suppliers and distributors engaged in the sale of certain motor fuels could be impacted annually by an update of the per barrel fee for the inspection of certain motor fuels from this proposal. (§414.082)

FISCAL DESCRIPTION

Currently, the economic subsidies that are available to Missouri qualified fuel ethanol producers will expire on December 31, 2015. This proposal repeals this expiration date, and sets the expiration date for such subsidies to expire December 31, 2019. (§142.029)

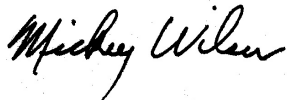
This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2014 for income received as payment from any program which compensates agricultural producers who have received certain federal agricultural disaster or emergency payments. (§143.121)

Currently, the fee for the inspection of certain motor fuels shall not be less than 1.5 cents per barrel and shall not exceed 2.5 cents per barrel. Under this proposal, the per barrel fee shall not exceed 4 cents from 2016 to 2020, and shall not exceed 5 cents from 2021 and thereafter. (§414.082)

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 Health and Senior Services
Department of Natural Resources
Department of Corrections
Department of Revenue
Department of Public Safety -
 Missouri State Highway Patrol
Joint Committee on Administrative Rules
Missouri Department of Conservation
Missouri Department of Transportation
Missouri Office of Prosecution Services
Office of Administration -
 Division of Budget and Planning
Office of State Courts Administrator
Office of Secretary of State
Office of State Public Defender
University of Missouri -
 Economic and Policy Analysis Research Center
City of Columbia
City of Independence Health Department
Harrison County Public Health Department



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