

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4757-02
Bill No.: Perfected HCS for HB 1561
Subject: Saint Louis County; Saint Louis City; Taxation and Revenue - Sales and Use
Type: Original
Date: April 19, 2016

Bill Summary: This proposal changes the laws regarding the distribution of sales taxes among certain areas of St. Louis County.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$65,510) or (\$128,844)	\$0 or \$160,000	\$0 or \$160,000
Total Estimated Net Effect on General Revenue	(\$65,510) or (\$128,844)	\$0 or \$160,000	\$0 or \$160,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Local Government*	\$0 or \$3,960,000	\$0 or \$15,840,000	\$0 or \$15,840,000

* Sales tax distributions in St. Louis County would differ, but net to zero

FISCAL ANALYSIS

ASSUMPTION

House Amendment 1 - changes from “twelve” to “thirty-six” the number of months between elections to impose the sales tax provided in section 94.860, and limits the number of elections to impose the sales tax to two.

Officials from the **Department of Revenue (DOR)** state that under Section 66.620 of this proposal, beginning January 1, 2017, the DOR must distribute to all group A cities, towns and villages in St. Louis County, a portion of sales taxes based on the location where the sales are consummated under Section 66.630 and Subsection 32.087.12 based on the formula in Subsection 66.620.5. Once the DOR distributes funds to group A entities, it must distribute funds to group B entities following the guidelines in Subsection 66.620.5

DOR officials noted the Department would be required to ensure each city receives no less than 50 percent of tax generated within that city, rather than relying solely on the distribution from the pool.

Administrative Impact

DOR officials noted that St. Louis County currently takes care of the distribution, so unless they agree to continue this action, the DOR will need to establish the distribution for group B cities.

IT Impact

DOR officials provided an estimate of the IT cost to implement this proposal including \$65,510 for changes to the current design of the Integrated Revenue System including a Distribution Credit Reallocation program, a report on the reallocation, and minimal reference table.

Oversight will include the DOR cost estimate of \$65,510 in the fiscal note.

Section 94.860

This section allows the imposition of a new local tax in St. Louis County of one-half of one percent (0.5%) to provide law enforcement services in the county.

Administrative Impact:

Sales Tax will have approximately 25,000 rate change letters to send to businesses and taxpayers.

ASSUMPTION (continued)

IT- Impact

DOR officials provided an estimate of the IT cost to implement this portion of the proposal including \$103,334 for updates to the Integrated Revenue System.

Oversight will include the DOR cost estimate of \$103,334 in the fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted this proposal alters how the DOR distributes local sales taxes to municipal governments in St. Louis County. Additionally, this proposal allows St. Louis County, upon voter approval, to implement a retail sales tax in unincorporated St. Louis County for the purpose of providing law enforcement services. The proposal will increase state revenue by an unknown amount equal to DOR's cost of collection. B&P defers to DOR for any change in programming or administrative costs for the change in distribution.

In response to the prior proposal, officials from the **Office of the Secretary of State** and the **Joint Committee on Administrative Rules** assumed this proposal would not have a fiscal impact on their respective organizations.

In response to the prior proposal, officials from **St. Louis County** noted this proposal would cost the County \$200,000 due to the programming of sales tax software to account for the new calculation. In addition, officials noted the redistribution in revenues per year due to the change in the distribution calculation would result in a loss of more than \$1.5 million per year and would continue annually.

Oversight assumes that the proposal requires the director of revenue distribute the sales taxes to the cities, towns, villages and the county and will not include cost noted by St. Louis County for programming of sales tax software to account for the new calculation.

The \$1.5 million loss per year noted above is addressed in the fiscal note under local government.

Oversight assumes the section of this proposal that deals with the distribution of existing sales tax revenues (§66.620) would have no net effect on local governments, although St. Louis County and individual cities may receive more or less revenue than is the case under current provisions.

ASSUMPTION (continued)

In response to a similar proposal (SB 834), officials from **St. Louis County** assumed that if this proposal to authorize a retail sales tax to fund law enforcement is approved by voters, it would generate \$16 million annually.

Additionally, if voted on during the August or November election there would be no additional cost to the county. However, if placed on the April ballot then the cost would be \$176,300 and if a special election is called then the cost would be \$268,750.

Oversight assumes the vote would occur during an August or November election date and there would be no additional cost to the county for the election.

Oversight notes that DOR will realize a 1% collection fee on the law enforcement sales tax collected and will show the collection fee in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (3 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Revenue-DOR</u>			
Collection fee of 1%	\$0 or \$40,000	\$0 or \$160,000	\$0 or \$160,000
<u>Cost-DOR</u>			
Sales tax redistribution - Computer programming	(\$65,510)	\$0	\$0
<u>Cost - DOR - Computer programming changes for the Law enforcement sales tax</u>	\$0 or <u>(\$103,334)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$65,510) or <u>(\$128,844)</u>	<u>\$0 or \$160,000</u>	<u>\$0 or \$160,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (3 Mo.)	FY 2018	FY 2019
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**ST. LOUIS COUNTY AND ST.
 LOUIS COUNTY POLITICAL
 SUBDIVISIONS**

Additional revenue

St. Louis County Law Enforcement sales tax (\$94.860)	\$0 or \$4,000,000	\$0 or \$16,000,000	\$0 or \$16,000,000
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St. Louis County and some political subdivisions within St. Louis County may receive additional sales tax revenues (\$66.620)	Unknown	Unknown	Unknown
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Revenue reduction

Cost-DOR

Collection fee of 1%	\$0 or (\$40,000)	\$0 or (\$160,000)	\$0 or (\$160,000)
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St. Louis County and some political subdivisions within St. Louis County may receive less sales tax revenues (\$66.620)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ST. LOUIS COUNTY AND ST.
 LOUIS COUNTY POLITICAL
 SUBDIVISIONS**

	<u>\$0 or \$3,960,000</u>	<u>\$0 or \$15,840,000</u>	<u>\$0 or \$15,840,000</u>
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FISCAL IMPACT - Small Business

This proposal may require businesses within St. Louis County to collect and pay increased sales taxes for the purpose of law enforcement services.

FISCAL DESCRIPTION

Currently, under Section 66.620, RSMo, cities in St. Louis County are divided into two groups, Group A and Group B, for the purpose of distributing the county sales tax imposed under Sections 66.600 to 66.630 and the special municipal sales tax imposed by cities in St. Louis County under Section 94.850. Beginning January 1, 2017, this bill changes the distribution formula so that municipalities in Group B must receive at least 50% of the amount of taxes generated within the municipalities based on location where the sales were deemed consummated. The Director of the Department of Revenue will make adjustments for each municipality in Group B located wholly or partly within the taxing county that would receive a distribution that is less than 50% of the amount of taxes generated within the municipality based on the location in which the sales were deemed consummated if no adjustment were made and calculate the difference between the amount that the distribution to each municipality would have been without any adjustment and the amount that equals 50% of the amount of taxes generated within the municipality based on the location in which the sales were deemed consummated. When a municipality is partly in Group A and partly in Group B, the director must calculate 50% of the amount of taxes generated within the municipality based on the location in which the sales were deemed consummated by multiplying 50% by the amount of all county sales taxes collected by the director under Sections 66.600 to 66.630, less 1% for the cost of collection, that are generated within the municipality based on the location in which the sales were deemed consummated, regardless of whether the taxes are deemed consummated in Group A or Group B.

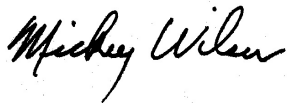
The amendment clarifies, in subdivision (1) of subsection 5 of Section 66.620, that Group A excludes St. Louis County while Group B includes St. Louis County. Provides that if the county and Group B cities receive more than 50% of the sales tax revenue they generate such that some of the revenue should be given to Group B cities that receive less than 50% of their generated sales tax revenue, in no event will the contributing city or county receive less than the amount they received in 2014. This amendment adds language also found in HB 2299 that authorizes St. Louis County to impose upon voter approval, a countywide public safety sales tax of up to 0.5%.

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

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SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
St. Louis County



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Director
April 19, 2016

Ross Strobe
Assistant Director
April 19, 2016