

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5606-05
Bill No.: Truly Agreed To and Finally Passed CCS for HCS for SB 867
Subject: Political Subdivisions; Fire Protection
Type: Original
Date: June 14, 2016

Bill Summary: This proposal contains provisions relating to political subdivisions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	Up to \$1,043,506	Up to \$1,031,026	Up to \$1,031,026
Total Estimated Net Effect on General Revenue	Up to \$1,043,506	Up to \$1,031,026	Up to \$1,031,026

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Highway Fund	Less than \$629,550 or (Unknown)	Less than \$755,460 or (Unknown)	Less than \$755,460 or (Unknown)
Total Estimated Net Effect on Other State Funds	Less than \$629,550 or (Unknown)	Less than \$755,460 or (Unknown)	Less than \$755,460 or (Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 16 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	Less than \$325,350 or (Unknown)	Less than \$713,820 or (Unknown)	Less than \$713,820 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 66.620

Officials at the **Department of Revenue (DOR)** assume that beginning January 1, 2017, the DOR distributes to the cities, towns, and villages in group A and the cities, towns, villages, and the county in group B, the amounts required to be distributed under the formula described in this section. If the county sales tax is greater than revenues collected in calendar year 2014, the DOR must distribute to all group A cities, towns, and villages a portion of 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 Department distributes funds to Group A entities, it must distribute funds to Group B entities following guidelines in Subsection 66.620.5.

DOR's Sales Tax Division will require change in the distribution to Group B cities in St. Louis County to ensure each city receives no less than 50 percent of the tax generated within that city, rather than relying solely on the distribution from the pool. Currently, St. Louis County takes care of the distribution, so unless they agree to continue to perform this action, the Department will need to completely establish the distribution for Group B cities.

DOR's Integrated Tax System would need changes resulting in a cost of \$65,510.

In response to similar legislation this year, HCS for SS for SB 937, officials at the **St. Louis County** assumed this proposal would cost the county \$200,000. The cost would be due to computer reprogramming. Additionally, this would result in a loss of \$1.5 million annually due to the redistribution of the tax.

Oversight assumes this proposal would have no **net** effect on local governments although individual cities may receive more or less revenue than is the case under current provisions.

Oversight assumes this proposal requires the DOR to distribute sales tax collections, therefore the cost cited by St. Louis County has not been included in this fiscal note, and the computer programming cost cited by the DOR is included in this fiscal note.

Section 99.845

Oversight assumes this proposal, notwithstanding any other provision of the law to the contrary, prohibits the adoption of any tax increment financing from superceding, altering, or reducing sheltered workshop property tax levies. Oversight assumes there might be limitations on where tax increment financing occurs indirectly within §205.971, but there would be no direct fiscal impact from this legislation.

ASSUMPTION (continued)

In response to a previous version, SB 869, officials at the **City of Kansas City** and the **City of Columbia** each assumed no fiscal impact to their respective entities from this proposal.

Section 136.055

Officials at the **Department of Revenue (DOR)** state this provision authorizes license offices and the DOR to charge \$2 for processing electronic transmissions, electronic lookups, and notary services. In FY 2015 there were 167,880 registration renewals performed online. It is assumed an additional \$6.00 could be charged for each renewal performed due to the look-up of personal property tax, motor vehicle inspection, and insurance documentation, resulting in an additional \$1,007,280 each year. In calendar year 2015, there were 778,013 record lookups completed in the on-line Notice of Lien system by financial institutions and motor vehicle dealers resulting in an additional \$1,556,026 each year to general revenue.

The fiscal impact to license offices regularly performing look-ups and receiving electronic transmissions is unknown. There are additional potential "look-ups" and electronic transmissions received by license offices and the DOR which could be potentially considered under this language which have not been considered for purposes of this fiscal response. Any fees collected under these new provisions by the DOR on any highway user fee transaction would be distributed as follows: 75 percent state, 15 percent counties, 10 percent cities. Other fees collected would be distributed to the general revenue fund.

In summary, the DOR could receive up to \$1,296,688 in FY 17 and up to \$1,556,026 in FY 18 and FY 19 in additional revenue to GR from record lookups fees. The DOR could also receive 75% on highway user fee transactions or up to \$629,550 for the first 10 months in FY 2017 and up to \$755,460 in FY 18 and FY 19 in additional revenue to the Highway Fund on record lookups. The other 25% on highway user fee transactions would be distributed to the local political subdivisions at up to \$209,850 in FY 17 and up to \$251,820 in FY 18 and FY 19.

DOR's Integrated Tax System would need changes resulting in a cost of \$155,520.

Officials from the **Department of Transportation** defers to DOR to estimate the fiscal impact of the proposed legislation on their respective organization.

Section 137.016

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this section will reduce total state revenue by a minimal unknown amount and will impact the calculation under article X, section 18(e). With this change, assessors may assess qualifying bed and breakfast inns at the residential rate instead of the commercial property rate. If this change

ASSUMPTION (continued)

results in lower property taxes, Blind Pension Fund contributions would decrease and correspondingly decrease Total State Revenues. House hearing testimony last year indicated there may be only one assessor currently assessing bed and breakfast inns at the commercial rate. Therefore, the anticipated change would be minimal.

Oversight assumes the proposal provides for a property tax reduction for certain owners of bed and breakfast establishments. Oversight notes that the proposal will not affect sales tax liability.

Oversight is providing an example of how the real estate taxes will be impacted by this proposal. Assuming the appraised value of a bed and breakfast which qualifies (owner resides and six or fewer rooms to rent) with an appraised value of \$500,000 would have an assessed value as commercial property (32% rate) of \$160,000 and using the average Missouri tax levy of \$5.48 would yield real estate property taxes of \$8,768. The same property reclassified as residential property (19% rate) would have an assessed value of \$95,000 and using the average Missouri tax levy of \$5.48 would yield real estate property taxes of \$5,206 (a reduction of \$3,562). Oversight notes the reclassification from commercial real estate to residential real estate will reduce real estate taxes on that parcel by 40.625%. **Oversight** will assume the impact to the State's Blind Pension Trust Fund (\$0.03 levy) would be immaterial (\$19.50 in example above), and will not be reflected in the fiscal note.

In response to a previous version, officials at the **City of Columbia** assumed an unknown loss in property tax revenue from this proposal.

Section 137.100

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this provision will allow certain privately owned land, which is subject to railroad easement upon which a railroad right-of-way exists and a state, political subdivision, or qualified organization to be exempt from property taxes. This could have an unknown decrease to local revenue and the state blind pension fund.

Oversight assumes, due to the negligible values, minimal property taxes, and the small amount of effect to the State's Blind Pension Trust Fund (\$.03 levy), Oversight will show no state fiscal impact in the fiscal note.

Section 137.115

In response to a previous version, officials from **St. Louis County** and **Kansas City** assumed no impact to their organizations.

ASSUMPTION (continued)

Oversight is unable to determine how many mining properties would be reclassified and assessed based upon how the real estate property is currently being used. Oversight assumes only local revenues at an immaterial amount would be affected by this proposal.

Sections 137.565, 233.180, 233.295

In response to a previous version, officials at **St. Louis County** and the **Callaway County Commission** each assumed no fiscal impact to their respective entities from this proposal.

Section 143.112

Officials from the **Department of Public Safety's Division of Fire Safety (DPS)** state this proposal would provide an income tax deduction for volunteer fire fighters who meet specific training requirements. The legislation provides for a tax deduction of \$500 annually for volunteers who complete 12 hours of training approved by the Division of Fire Safety, and a deduction of \$1,000 for volunteer fire fighters who complete the Basic Fire Fighter course, or Fire Fighter 1 or 2 certification, for a minimum of 36 hours of fire fighter training in the tax year the credit is claimed.

The proposal would make DPS responsible for developing procedures for this process, promulgating rules, administering the training programs, verifying the fire fighter is in good standing with a registered fire department, and verifying the training hours for individuals applying for the credit.

The Division of Fire Safety has administered and maintained a training and certification program for fire fighters for nearly 25 years. More than 25,000 fire fighters and emergency responders have been trained with more than 60,000 certifications issued by the Division. Adding this requirement would increase the workload of the current training and certification program.

DPS officials assume the Division would request a one-thousand hour clerical position to process and evaluate the applications for tax credit eligibility, along with supporting expense funding to administer these additional duties.

DPS officials provided an estimate of the cost to implement this proposal of \$15,233 for FY 2017, \$17,480 for FY 2018, and \$17,766 for FY 2019.

Oversight will assume for fiscal note purposes, the additional responsibilities involved in implementing this proposal would not result in a significant increase in the DPS workload and could be absorbed with existing resources. If unanticipated additional costs are incurred or if

ASSUMPTION (continued)

multiple proposals are implemented that significantly increase DPS costs or the workload for DPS employees, resources could be requested through the budget process.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would reduce Total State Revenues (TSR) by an estimated \$525,000 and would impact the calculation required under Article X, Section 18(e) of the state constitution.

B&P officials noted that beginning in 2017 this proposal would create a deduction for volunteer fire fighters who meet certain criteria. Volunteer fire fighters who complete at least 12 hours of training would be allowed a deduction of \$500 per year and those who either complete the Basic Fire Fighter program or become certified after completing the Fire Fighter I and II program would be allowed a deduction of \$1,000. B&P officials state that information provided by the Department of Public Safety indicate there are 15,000 volunteer firefighters who complete 12 or more hours of training in a year, an average of 298 who complete Basic Fire Fighter Training, and an average of 947 who complete the Fire Fighter I and II program. B&P officials note that deductions do not reduce taxes on a dollar for dollar basis, B&P estimates that this deduction will decrease TSR and GR by \$525,000 per year beginning in FY 18. The numbers may vary in the future due to the impact of SB 509 (2014).

Oversight will use the B&P estimate of eligible firefighters and notes this proposal could reduce Missouri personal income tax revenues as follows:

	Number of firefighters		Total Deductions
Volunteers who complete twelve hours of training per year	15,000	\$500	\$7,500,000
Volunteers who complete Basic Firefighter Training	298	\$1,000	\$298,000
Volunteers who complete Firefighter I and II Training	947	\$1,000	\$947,000
Totals	<u>16,245</u>		<u>\$8,745,000</u>
Revenue reduction			<u>\$525,000</u>

Oversight notes the latest B&P estimate is based upon a marginal tax rate of 6%, and in the prior estimate B&P used a marginal tax rate of 5.9%.

ASSUMPTION (continued)

Oversight assumes the amount calculated above would be the maximum revenue reduction for this proposal, since some eligible firefighters may not file a tax return, may not be able to use the deduction, or may not pay state income tax at the maximum individual rate. Oversight also notes the potential exists for a reduction in the personal income tax rates for 2018, which would have a fiscal impact in FY 2019 when 2018 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. Accordingly, Oversight will include a revenue reduction estimate up to the amount calculated above for this proposal.

Officials from the **Department of Revenue (DOR)** assume beginning January 1, 2017, a taxpayer may subtract \$500 from the federal adjusted gross income when determining Missouri adjusted gross income if the taxpayer completed at least 12 hours of a firefighter training program. Additionally, a taxpayer may subtract \$1,000 for completing the Basic Fire Fighter program or by getting certified upon completion of the Fire Fighter I or Fire Fighter II program by the Division of Fire Safety.

Administratively, DOR's Personal Tax section would require two Revenue Processing Technicians I (Range 10, Step L) for correspondence and error corrections and the Collections and Tax Assistance (CATA) section would require two additional Tax Collection Technicians I for contacts on the delinquent and non-delinquent tax lines. Each technician would require CARES equipment and license.

DOR officials provided an estimate of the administrative cost to implement the proposal including four additional employees; the total including additional employees, benefits, equipment, and expense, was \$179,985 for FY 2017, \$181,985 for FY 2018, and \$183,470 for FY 2019.

DOR officials also assume there would be IT cost totaling \$253,182 to implement the proposal. This includes 2,074 contractor hours and 751 hours on integrated system changes.

Oversight notes this proposal would change a limited number of computations on individual income tax returns and would not be expected to have an 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.

ASSUMPTION (continued)

Section 182.802

Officials at the **Department of Revenue (DOR)** assume this provision adds Cedar County to the list of counties authorized to impose a tax within a public library district. Administratively, the Integrated Tax System could incur additional costs of \$32,152 to implement the provisions of this legislation.

Oversight assumes this proposal allows the voters in Cedar County to impose a sales tax up to .5% for library funding purposes. According to information published by the Department of Revenue, taxable sales in Cedar County totaled \$92.3 million in FY 2015. Therefore, this sales tax could generate \$462,000 annually. Oversight assumes an effective date of April 1, 2017, for the effective date of the proposal, assuming voter approval on a November 2016 election date. Therefore, Oversight will use a range of \$0 (rejected by voters) or up to \$115,500 in FY 2017 (voters could decide to adopt a .25% or .5% local sales tax).

Section 190.335

Oversight assumes this section adds a third class county with a township to the proposal and will have no direct fiscal impact.

Sections 227.432, 227.446

Oversight assumes these sections of the proposal specify that costs for erecting and maintaining of appropriate signage that designate parts of a highway be paid by private donations. Therefore, Oversight assumes no fiscal impact from this proposal.

Section 304.190

Officials at the **Missouri Department of Transportation** assume an unknown negative fiscal impact from this proposal because increased weights could cause wear and tear on lettered routes.

Oversight assumes this proposal creates a new commercial zone in Jackson County and will reflect a fiscal impact to the Road Funds.

Section 347.048

In response to similar legislation this year, HB 1708, officials at **St. Louis County** and the **City of Kansas City** each assumed no fiscal impact to their respective entities from this proposal.

ASSUMPTION (continued)

Bill as a whole

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

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

Officials at the **Missouri Department of Transportation** assume no fiscal impact to all other sections of this proposal not noted in the above sections.

Officials at the **Office of the State Courts Administrator**, the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **Department of Public Safety's Missouri Highway Patrol**, the **Office of Prosecution Services**, the **Department of Conservation**, the **Department of Agriculture**, the **Joint Committee on Administrative Rules**, the **Office of the State Public Defender**, the **Department of Corrections**, the **Department of Economic Development**, the **Department of Social Services**, the **Office of State Auditor**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Office of the State Treasurer** and the **State Tax Commission** each assumed no fiscal impact to their respective agencies from this proposal.

Officials at the **Jackson County Board of Election Commissioners**, the **Platte County Board of Election Commissioners**, the **City of Kansas City**, the **Cole County Sheriff's Department** and **St. Louis County Justice Services** each assume no fiscal impact to their respective entities from this proposal.

ASSUMPTION (continued)

In response to a previous version, the **Callaway County Commission** and the **St. Louis County Board of Elections** each assumed no fiscal impact to their respective entities from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Revenue</u> - DOR - additional revenue done on record lookups, processing electronic transmissions, and notary services (Section 136.055)	Up to \$1,296,688	Up to \$1,556,026	Up to \$1,556,026
<u>Cost</u> - DOR - Computer programming (Section 66.620)	(\$65,510)	\$0	\$0
<u>Cost</u> - DOR - Computer programming (Section 136.055)	(\$155,520)	\$0	\$0
<u>Revenue reduction</u> - B&P - Tax deduction for firefighters who have completed training (Section 143.112)	\$0	(Up to \$525,000)	(Up to \$525,000)
<u>Cost</u> - DOR - Computer programming (Section 182.802)	(\$32,152)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Up to <u>\$1,043,506</u>	Up to <u>\$1,031,026</u>	Up to <u>\$1,031,026</u>
STATE HIGHWAY FUND			
<u>Revenue</u> - additional revenue on highway user fee transactions on record lookups (Section 136.055)	Up to \$629,550	Up to \$755,460	Up to \$755,460
<u>Cost</u> - MoDOT - creation of commercial zone in Jackson County - increased weight limits increases the wear and tear on roadway (Section 304.190)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON STATE HIGHWAY FUND	Less than \$629,550 or <u>(Unknown)</u>	Less than \$755,460 or <u>(Unknown)</u>	Less than \$755,460 or <u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
LOCAL POLITICAL SUBDIVISIONS			
<u>Additional Revenue</u> - some cities in St. Louis County may receive additional sales tax revenue - (Section 66.620)	Unknown	Unknown	Unknown
<u>Revenue Reduction</u> - some cities in St. Louis County and St. Louis County may receive less sales tax revenue (Section 66.620)	(Unknown)	(Unknown)	(Unknown)
<u>Revenue</u> - Cedar county Library sales tax (Section 182.802)	\$0 or up to \$115,500	\$0 or up to \$462,000	\$0 or up to \$462,000
<u>Revenue</u> - additional revenue from record lookup fees (Section 136.055)	Up to \$209,850	Up to \$251,820	Up to \$251,820
<u>Revenue Reduction</u> - Property Tax Revenue (Sections 137.016, 137.100 & 137.115)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Less than \$325,350 or <u>(Unknown)</u>	Less than \$713,820 or <u>(Unknown)</u>	Less than \$713,820 or <u>(Unknown)</u>

FISCAL IMPACT - Small Business

There could be a direct fiscal impact to small businesses as a result of this proposal.

FISCAL DESCRIPTION

Section 66.620

Currently, the revenues from a 1% sales tax in St. Louis County are distributed to unincorporated areas of the county as well as municipalities based on a formula. What are commonly called "Group B" entities pool their revenue from the tax. After a diversion to account for incorporation of previously unincorporated areas, revenues are generally split amongst the municipalities and unincorporated areas of the county in Group B by population, regardless of where the tax was collected.

Beginning January 1, 2017, municipalities and the unincorporated areas of the county in Group B receive at least 50% of the tax revenue generated in such municipality or unincorporated area of the county. However, such new formula shall not apply in any year where the total amount of sales taxes collected in the county is less than the amount collected in calendar year 2014 and any adjustment to provide a Group B entity with 50% of the tax revenue generated in that area shall not result in another Group B entity receiving less revenue than it received in 2014.

Section 136.055

This act allows license offices to charge a \$2 fee for each electronic look-up and a \$2 notary fee.

Section 143.112

Under this act, beginning on January 1, 2017, a taxpayer may deduct \$500 from the taxpayer's federal adjusted gross income to determine the taxpayer's Missouri adjusted gross income for any year in which the taxpayer completed 12 hours of an approved firefighter training program. Alternatively, if a firefighter completes at least 36 hours of training by completing the basic fire fighter program or completing the division's fire fighter I or fire fighter II program, the firefighter may claim a \$1,000 deduction.

Section 182.802

This act authorizes Cedar County to impose a local sales tax, if approved by voters, for the purpose of funding public libraries.

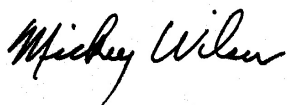
Section 304.190

The act extends a commercial zone to include the cities of Lone Jack and Strasburg.

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

Missouri Department of Transportation
Department of Economic Development
Office of the Secretary of State
Department of Natural Resources
Department of Insurance, Financial Institutions and Professional Registration
Office of the State Courts Administrator
Department of Elementary and Secondary Education
Department of Revenue
Office of the State Treasurer
State Tax Commission
Department of Public Safety
 Missouri Highway Patrol
 Division of Fire Safety
Office of Prosecution Services
Department of Conservation
Department of Agriculture
Joint Committee on Administrative Rules
Office of the State Public Defender
Department of Corrections
Department of Social Services
Office of State Auditor
Department of Health and Senior Services
Department of Mental Health
Platte County Board of Election Commission
Cole County Sheriff's Department
St. Louis County Justice Services
City of Kansas City
City of Columbia
Jackson County Board of Election Commission
St. Louis County Board of Election Commission
St. Louis County
Callaway County Commission
Office of Administration
 Division of Budget and Planning



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