

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1495-03
Bill No.: HCS for SB 326
Subject: Corporations; Secretary of State
Type: Original
Date: May 1, 2017

Bill Summary: This proposal creates new provisions relating to low-profit limited liability corporations and extends the sunset provisions for fees to be credited to the Technology Trust Fund.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$18,125	\$26,100	\$27,188
Total Estimated Net Effect on General Revenue	\$18,125	\$26,100	\$27,188

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Technology Fund	\$1,433,146	\$3,036,988	\$3,152,704
Total Estimated Net Effect on Other State Funds	\$1,433,146	\$3,036,988	\$3,152,704

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$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.

§§347.015, 347.020, 347.023, 347.048

Officials at the **Office of the Secretary of State (SOS)** assume they will have to contract with the vendor to change the automated processes performed by their business software. The vendor would need to allow "L3C" to be a filing type for creation and amending, change the wording on certain screens throughout the online application, and update the current merge form. SOS anticipates a one-time cost of \$30,000 to change the current software operated by the Business Services Division.

It is unknown how many Low-Profit Limited Liability Companies will be created. However, each one created would need to register with the SOS at a cost of either \$100.00 (paper LLC registration fee without the technology fund) or \$45.00 (online LLC creation without the technology fund).

Because this is a new filing type, SOS estimates 25 filings per month at an average filing fee of \$72.50 each. An estimated (without the technology fund fee) of \$18,125.00 (25 filings x 10 months = 250 filings yearly * \$72.50 average filing fee) would be deposited into General Revenue (GR) in FY 2018. As this new filing type becomes more popular an estimated increase of 20% for FY 2019 and 25% increase for FY 2020 is anticipated.

FY 2018

$\$100 + \$45 = \$145/2 = \72.50 average filing fee

25 filings per month x 10 months = 250 yearly filings

250 yearly filings x \$72.50 average filing fee = \$18,125.00 GR deposit

\$5.00 Technology Fund (TF) Fee per filing x 250 yearly filings = \$1,250.00 TF deposit

ASSUMPTION (continued)

FY 2019

$\$100 + \$45 = \$145/2 = \72.50 average filing fee
25 filings per month x 12 months = 300 yearly filings
300 yearly filings x 20% increase = 60 additional yearly filings
60 additional filings + 300 yearly filings = 360 total 2019 filings
360 2019 filings * $\$72.50$ average filing fee = $\$26,100.00$ GR deposit

$\$5.00$ Tech Fund Fee per filing x 360 yearly filings = $\$1,800.00$ TF deposit

FY 2020

$\$100 + \$45 = \$145/2 = \72.50 average filing fee
25 filings per month x 12 months = 300 yearly filings
300 yearly filings x 25% increase = 75 additional yearly filings
75 additional filings + 300 yearly filings = 375 total 2020 filings
375 2020 filings * $\$72.50$ average filing fee = $\$27,187.50.00$ GR deposit

$\$5.00$ Tech Fund Fee per filing x 375 yearly filings = $\$1,875.00$ TF deposit

In response to a previous version, officials from the **Attorney General's Office** assumed that any potential costs arising from this proposal could be absorbed with existing resources.

In response to a previous version, officials from the **Department of Economic Development** assumed the proposal would have no fiscal impact on their organization.

§§347.740, 351.127, 355.023, 356.233, 359.653, 400.9-528, 417.018

Officials at the **Office of the Secretary of State (SOS)** state the Technology Trust Fund supports the SOS IT Division in supplying updated servers, computers, paying vendors for system support and providing updated technology for the office.

Since go-live of the current corporate filing system in June 2014, there has not been a year-on-year decrease in Technology Fund deposits. The monies deposited into the Technology Fund for FY 2013 through FY 2016 are as follows:

FY 2013 = $\$2,428,598$
FY 2014 = $\$2,420,388$
FY 2015 = $\$2,516,135$
FY 2016 = $\$2,713,114$

ASSUMPTION (continued)

The last three fiscal years (FY 2014, FY 2015 and FY 2016) were used to determine an increase/decrease between the years. The average was then calculated and applied to get the estimated Technology Fund deposits for FY 2018, FY 2019, and FY 2020.

Percentage of Increase/Decrease between Fiscal Years

FY 2014 - FY 2013 = Increase/Decrease
 $\$2,420,388 - \$2,428,598 = -\$8,570$
 $-\$8,570 / \$2,428,598 * 100 = -.33\%$ decrease FY 2014

FY 2015 - FY 2014 = Increase/Decrease
 $\$2,516,135 - \$2,420,388 = \$95,747$
 $\$95,747 / \$2,420,388 * 100 = 3.95\%$ increase FY 2015

FY 2016 - FY 2015 = Increase/Decrease
 $\$2,713,114 - \$2,516,135 = \$196,979$
 $\$196,979 / \$2,516,135 = 7.82\%$ increase FY 2016

FY 2017 - FY 2016 = Increase/Decrease (FY 2017 is being estimated with the yearly average in order to find FY 2018's total loss)
 $\$2,713,114 * .0381 = \$103,369.64$
 $\$2,713,114 + \$103,369.64 = \$2,816,483.64$ FY 2017 estimate Technology Fund deposit

Average

Change percentages to a decimal (percentage / 100)
FY 2014 = $.33\% / 100 = -.0033$
FY 2015 = $3.95\% / 100 = .0395$
FY 2016 = $7.82\% / 100 = .0782$

$-.0033 + .0395 + .0782 / 3 = .0381$
 $.0381 * 100 = 3.81\%$ average yearly increase

FY 2018 (6 months is used for the estimated deposit for 1/2018 to 6/2018)
 $\$2,816,483.64 * 3.81\% = \$2,816,483.64 * .0381 = \$107,308.02$
 $\$2,816,483.64 + \$107,308.02 = \$2,923,791.66$
 $\$2,923,791.66 / 12 \text{ months} = \$243,649.31$ monthly deposit
 $\$243,649.31 * 6 \text{ months} = \$1,461,895.86$ estimated Technology Fund deposit FY 2018

ASSUMPTION (continued)

FY 2019

FY 2018 * 3.81% = \$2,923,791.66 * .0381 = \$111,396.46

\$2,923,791.66 + \$111,396.46 = \$3,035,188.12 estimated Technology Fund deposit FY 2019

FY 2020

FY 2019 * 3.81% = \$3,035,188.12 * .0381 = \$115,640.67

\$3,035,188.12 + \$115,640.67 = \$3,150,828.79 estimated Technology Fund deposit FY 2020

As of March 31, 2017, the Technology Trust Fund (0266) has a balance of \$4,642,618.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Income</u> - SOS - filing fees	<u>\$18,125</u>	<u>\$26,100</u>	<u>\$27,188</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$18,125</u>	<u>\$26,100</u>	<u>\$27,188</u>
TECHNOLOGY FUND			
<u>Income</u> - SOS - filing fees	\$1,250	\$1,800	\$1,875
<u>Revenue</u> - SOS - fees from extension of sunset from 12/31/17 to 12/31/25	\$1,461,896	\$3,035,188	\$3,150,829
<u>Cost</u> - SOS - one-time vendor programming cost	<u>(\$30,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE TECHNOLOGY FUND	<u>\$1,433,146</u>	<u>\$3,036,988</u>	<u>\$3,152,704</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal permits the creation of low-profit limited liability companies, or L3C's. An L3C is a limited liability company that does not have as its primary purpose the production of income or the appreciation of property. In order to be considered an L3C, the company must further the accomplishment of one or more charitable or educational purposes within the meaning of the Internal Revenue Code. Furthermore, the company must not have been formed but for the furtherance of such purposes.

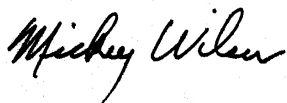
Limited liability companies seeking to establish as an L3C are required to include the word "L3C" in its name as set forth in its articles of organization. Moreover, the company is required to state in the articles that no significant purpose of the company is the production of income or the appreciation of property and that it is not the purpose to accomplish one or more political or legislative purposes.

Several provisions in current law allow the Secretary of State to collect an additional \$5 fee on fees for filings relating to business organizations, commercial transactions, and trademarks, names and private emblems to be credited to the state's technology trust fund. These provisions are set to sunset on December 31, 2017. The proposal extends the sunset to December 31, 2025.

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

Office of the Secretary of State
Attorney General's Office
Department of Economic Development



Mickey Wilson, CPA

Ross Strobe

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Director
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Assistant Director
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