

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0293-01
Bill No.: SB 149
Subject: Taxation and Revenue - Sales and Use; Political Subdivisions; Cities, Towns and Villages; Counties
Type: Original
Date: March 8, 2019

Bill Summary: This proposal places a cap of 7.275% on the combined rate of local sales taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$2,358)	(\$4,716)	(\$4,716)
Total Estimated Net Effect on General Revenue	(\$2,358)	(\$4,716)	(\$4,716)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	(\$233,432)	(\$466,864)	(\$466,864)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal will not impact Total State Revenues as it changes an intersectional reference and imposes 7.275% cap on the combined rate of local sales taxes for all tax years effective January 1, 2020. There are 27 jurisdictions with a combined rate above the cap with one in the Kansas City area and 26 in the St. Louis region. This may impact the calculation under Article X, Section 18(e), as a cap on local tax rates could limit local tax revenues. BAP defers to the DOR for more specific estimates on any revenue impact.

Officials at the **Department of Revenue (DOR)** assume for all tax years beginning on or after January 1, 2020, this section places a cap of 7.275% on the total combined rate of local sales tax that may be imposed by a taxing jurisdiction.

Placing a cap of 7.275% on the combined rate of local sales taxes would mean that the top rate of combined state and local tax would be 11.50% (4.225% + 7.275%). Currently, twenty-seven jurisdictions impose local sales taxes above 7.275%. Twenty-six are CIDs and TDDs in St. Louis with a tax rate of 7.455%. The other is in the Kansas City Zoological District at 7.375%. In calendar year 2017, the amount of total taxable sales for the twenty-seven jurisdictions was \$263,452,586.54. At the current tax rates imposed by the jurisdictions, the taxes collected came to \$30,768,627.93.

Since the proposed legislation does not enact a grandfather clause for the jurisdictions whose combined rate of local sales tax exceeds 7.275%, the Department assumes that these jurisdictions would be required to reduce their rates accordingly. Therefore, the total amount of taxes collected for the twenty-seven jurisdictions would be \$30,297,047.80 ($\$263,452,589.54 \times 11.50\%$). This is a reduction of \$471,580.14 ($\$30,768,627.93 - \$30,297,047.80$) to Total State Revenue.

The Department retains 1% for collections costs. Therefore, there would be a negative impact to General Revenue in the amount of \$4,715.80, and a negative impact to the jurisdictions in the amount of \$466,864.34 ($\$471,580.14 - \$4,715.80$).

ASSUMPTION (continued)

DOR provided a list of the jurisdictions.

ST LOUIS 212 SOUTH GRAND TDD 212 SOUTH GRAND CID	11.68%
ST LOUIS 620 MARKET CID 620 MARKET TDD	11.68%
ST LOUIS WASHINGTON AVE TDD 1100 WASHINGTON AVE CID	11.68%
ST LOUIS WASHINGTON AVE TDD 1133 WASHINGTON AVE CID	11.68%
ST LOUIS 1225 WASHINGTON CID 1225 WASHINGTON TDD	11.68%
ST LOUIS 2017 CHOUTEAU CID 2118 CHOUTEAU TDD	11.68%
ST LOUIS BALLPARK VILLAGE CID BALLPARK VILLAGE TDD	11.68%
ST LOUIS BROADWAY HOTEL CID BROADWAY HOTEL TDD	11.68%
ST LOUIS CB5421 5975 TDD LOOP TROLLEY TDD	11.68%
ST LOUIS CHESHIRE ANNEX CID CHESHIRE TDD	11.68%
ST LOUIS CITY HOSPITAL RPA 2 PHASE 1 CID CITY HOSPITAL LAUNDRY TDD	11.68%
ST LOUIS CITY HOSPITAL POWERHOUSE CID CITY HOSPITAL POWERHOUSE TDD	11.68%

ST LOUIS CROWNE PLAZA CID CROWNE PLAZA TDD	11.68%
ST LOUIS LAUREL CID LAUREL TDD	11.68%
ST LOUIS MAGNOLIA CID MAGNOLIA TDD	11.68%
ST LOUIS NORTH BROADWAY CARRIE CID BROADWAY CARRIE TDD	11.68%
ST LOUIS RAILWAY EXCHANGE BUILDING CID RAILWAY EXCHANGE BUILDING TDD	11.68%
ST LOUIS RESIDENCE INN DOWNTOWN ST LOUIS CID RESIDENCE INN ST LOUIS DOWNTOWN TDD	11.68%
ST LOUIS ST LOUIS CONVENTION CENTER HOTEL TDD ST LOUIS CONVENTION CENTER HOTEL 3 CID	11.68%
ST LOUIS EUCLID BUCKINGHAM TDD EUCLID SOUTH CID	11.68%
ST LOUIS HAMPTON/BERTHOLD CID HAMPTON/BERTHOLD TDD	11.68%
ST LOUIS GEORGIAN SQUARE CID ST LOUIS FOOD HUB TDD	11.68%
ST LOUIS 705 OLIVE CID 705 OLIVE TDD	11.68%
ST LOUIS 1831/2000 SIDNEY STREET CID 1831/2000 SIDNEY STREET TDD	11.68%
ST LOUIS UNION STATION CID UNION STATION TDD	11.68%

ST LOUIS 501 OLIVE CID 501 OLIVE TDD	11.68%
KANSAS CITY JACKSON COUNTY KANSAS CITY ZOOLOGICAL DISTRICT PERFORMING ARTS CID KANSAS CITY DOWNTOWN STREETCAR TDD KANSAS CITY CONVENTION CENTER HEADQUARTERS HOTEL CID	11.60%

*None of these jurisdictions impose a use tax that exceeds the proposed cap.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

Officials at the **City of St. Louis** assume that based on the language of this bill stating that the combined tax rate includes both the state sales tax and all local sales taxes that this proposed legislation would place a cap on the total combined rate of sales taxes for any given taxing jurisdiction of 7.275% beginning January 1, 2020. The current combined sales tax rate in the City of St. Louis (excluding the School Board which is a separate taxing jurisdiction) is 9.013%. Thus the proposed legislation would result in a serious reduction in the sales tax rate already in effect in the City. The legislation does not specify how this rate reduction is to occur nor to which of the dedicated sales tax rates the reduction will be applied. Based on an FY 2019 estimate of \$39.4 million for each 1 cent in sales tax, the prescribed reduction of 1.738 cents would reduce sales tax revenue by \$68.5 million on an annual basis. The reduction would also reduce local use tax receipts by an estimated \$13.7 million annually. This would bring the total estimated loss of City revenue to over \$82 million per year or over 36% of current estimated sales and use tax receipts. With an effective date of January 1, 2020 approximately ½ of this loss would be incurred beginning in FY 2020 with the first full year impact beginning in

ASSUMPTION (continued)

FY 2021. A loss of revenue of this magnitude would seriously impact the ability of the City to provide public safety services, capital improvements and other services funded with current sales and use tax receipts. (Note: These estimates do not include special business districts or TIF allocations which may also be negatively impacted by the proposed legislation.)

	Rate	FY17	FY18	FY19
City Sales Taxes				
General Fund	1.375	52,096,987	53,950,019	53,880,000
Capital Fund	0.500	18,926,900	19,595,595	19,694,000
Transportation ST	1.000	39,051,774	40,380,061	39,388,000
Public Safety ST	0.500	18,847,918	19,502,494	19,492,000
Public Safety ST	0.500	0	0	19,492,000
Local Parks Fund	0.125	4,689,330	4,859,164	4,856,000
Regional Parks Fund	0.288	11,246,911	11,303,000	11,360,000
Economic Dev	<u>0.500</u>	<u>0</u>	<u>11,056,983</u>	<u>20,760,000</u>
	4.788	144,859,820	160,647,316	188,922,000
Local Use Tax				
Local Use Tax	4.788	<u>28,442,936</u>	<u>33,888,367</u>	<u>37,620,000</u>
		28,442,936	33,888,367	37,620,000
Total Sales and Use Taxes		\$173,302,756	\$194,535,683	\$226,542,000
City Rate		4.788		
State Rate		<u>4.225</u>		
Total Combined Rate		9.013		
SB149 Proposed Rate Cap		<u>7.275</u>		
Loss of City Rate Currently Over Cap		1.738		
Potential Impact of Rate Reduction on City Sales Tax Revenue				(\$68,456,000)
Potential Impact of Rate Reduction on City Use Tax Revenue				<u>(\$13,656,000)</u>
Total Potential Loss of Revenue				(\$82,112,000)

Oversight assumes the proposal limits the combined local sales tax rates only (not state and local rates combined), to 7.275%. Therefore, since the City of St. Louis' stated local rate is 4.788%, Oversight will not utilize their revenue loss estimates.

ASSUMPTION (continued)

Officials at the **Kirksville R-III** and the **Wellsville-Middleton R-I School Districts** each assume this would have a negative fiscal impact .

Officials at the **Francis Howell School District** responded to Oversight’s request but did not indicate a fiscal impact.

Officials at the **Springfield Public School District** assume no current fiscal impact to the district.

Officials at the **Jackson County Board of Election Commissioners**, the **Metropolitan Zoological Park** and the **St. Louis County Board of Election Commissioners** each assume there is no fiscal impact from this proposal.

Oversight will show the estimate provided by DOR. Oversight notes this proposal becomes effective January 1, 2020 and will only show six months of impact in FY 2020.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other Cities, Counties and School Districts were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR §32.087 cap on local sales tax would reduce sales tax collections, and therefore, reduce the 1% collection fee DOR keeps for administration	<u>(\$2,358)</u>	<u>(\$4,716)</u>	<u>(\$4,716)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$2,358)</u>	<u>(\$4,716)</u>	<u>(\$4,716)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> - DOR §32.087 cap on local sales tax to 7.275% - represents the sales taxes currently collected over that aggregate rate	<u>(\$233,432)</u>	<u>(\$466,864)</u>	<u>(\$466,864)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$233,432)</u>	<u>(\$466,864)</u>	<u>(\$466,864)</u>

FISCAL IMPACT - Small Business

This legislation will have an impact on small businesses by placing a cap on the amount of local sales tax that may be imposed. The amount of local sales tax imposed shall not exceed 7.275%. Businesses located within a jurisdiction with a total combined local sales tax rate that exceeds 7.275% will have to make the necessary system updates and adjustments in order to comply with the provisions of this legislation.

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2020, this act places a cap of 7.275% on the combined rate of local sales taxes for any given taxing jurisdiction, provided that transient guest taxes shall not be considered local sales taxes.

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

City of St. Louis
Department of Revenue
Francis Howell School District
Jackson County Board of Election Commissioners
Kirksville R-III School District
Metropolitan Zoological Park
Office of Administration Division of Budget and Planning
Springfield Public School District
St. Louis County Board of Election Commissioners
Wellsville-Middleton R-I School District



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