

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1539-01
Bill No.: SJR 26
Subject: Appropriations; Emergencies; Department of Public Safety; Taxation and Revenue - Sales and Use; Political Subdivisions; Constitutional Amendments
Type: Original
Date: April 8, 2019

Bill Summary: This proposal modifies provisions relating to providing funds for emergencies in this state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
General Revenue	\$0 or (\$7,800,000)	\$0	\$0	\$0 or \$69,600,000
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000)	\$0	\$0	\$0 or \$69,600,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
State Disaster & Emergency	\$0 or \$34,800,000	\$0 or \$69,600,000	\$0 or \$69,600,000	\$0 or \$69,600,000
Local Disaster & Emergency	\$0 or \$8,700,000	\$0 or \$17,400,000	\$0 or \$17,400,000	\$0 or \$17,400,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or \$43,500,000	\$0 or \$87,000,000	\$0 or \$87,000,000	\$0 or \$87,000,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
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 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2027)
Local Government*	\$0	\$0	\$0	\$0

* Transfers in and expenditures net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal requires voter approval; therefore, neither Total State Revenue nor the calculation under 18(e) would be impacted.

This proposal would go to a vote at the general election in November 2020. For the purpose of this fiscal note, B&P assumes that this proposal would become effective January 1, 2021 if approved.

Article IV, Section 27(a)

This section would change the name of the Budget Reserve Fund to the Cash Balance Fund. This section would also remove the language allowing the fund to be used when expenditures are below their appropriations or when there is a budget need due to a disaster.

Article IV, Section 27 (c)

Subsections 1 and 2 would create the "State Disaster and Emergency Fund" which could be used, upon appropriation, when expenditures are below their appropriations or when there is a budget need due to a disaster declared either by proclamation by the Governor or upon a two-thirds vote of members of the House and Senate.

Subsections 3 and 4 would create the "Local Disaster and Emergency Fund" which could be used in local municipalities upon the declaration of a state emergency as defined under subsection 2. Local municipalities would be required to apply with the Department of Public Safety for a grant. Grants less than either \$10 million or 5% of the local disaster and emergency fund balance may be issued with the approval of the Governor. Grants greater than either \$10 million or 5% of the local disaster and emergency fund balance must be appropriated by the legislature.

Subsection 5 would levy an additional 0.1% sales and use tax, with 80% of revenues deposited into the State Disaster and Emergency Fund and 20% of revenues deposited into the Local Disaster and Emergency Fund. Based on information provided by DOR, there were \$87.0 billion in taxable sales within Missouri during calendar year 2017. Therefore, B&P estimates that a 0.1% sales and use tax would generate \$87.0 million in revenue once fully implemented. Table 1 shows the impact to each fund.

ASSUMPTION (continued)

Table 1: Impact to Disaster Funds by Fiscal Year

Fund	% of New Revenue	FY 2021	FY 2022	FY 2023
State Disaster & Emergency Fund	80%	\$34.8	\$69.6	\$69.6
Local Disaster & Emergency Fund	20%	\$8.7	\$17.4	\$17.4
Total Revenue Generated	100%	\$43.5	\$87.0	\$87.0

Subsection 6 states that any balance in the Local Disaster and Emergency Fund in excess of \$100 million shall be transferred to the State Disaster and Emergency Fund. Any balance in the State Disaster and Emergency Fund in excess of \$400 million shall be transferred into General Revenue. B&P is unable to predict the extent to which the State Disaster and Emergency Fund will be used and how much, if any, would be transferred to General Revenue.

Officials at the **Department of Revenue (DOR)** assume DOR has used data published within the Taxable Sales Reports published at dor.mo.gov. The Department used the last two quarters data from Calendar Year 2017 Taxable Sales Report and the first two quarters data from Calendar Year 2018 Taxable Sales Report; combining the amounts together to determine Fiscal Year 2018's taxable sales. DOR determined that the total taxable sales for Fiscal Year 2018, per the two reports mentioned above, equaled \$81,163,054,137.

If an additional sales tax of one-tenth of one percent is levied and imposed upon all sellers for the privilege of selling tangible personal property or rendering taxable services at retail, the Department estimates Total State Revenue to increase by \$81,163,054 each fiscal year.

The Department estimates that the Local Disaster and Emergency Fund would increase by \$16,232,611 each fiscal year (\$81,163,054 x 20%).

The Department estimates that the State Disaster and Emergency Fund would increase by \$64,930,443 (\$81,163,054 x 80%).

ASSUMPTION (continued)

Assuming the voters approve this proposal in November 2020, the Department has shown half a fiscal year, beginning January 1, 2021, impact for FY 2021.

	FY20	FY21	FY22	FY23
State Disaster and Emergency	\$0	\$32,465,222	\$64,930,443	\$64,930,443
Local Disaster and Emergency	\$0	\$8,116,306	\$16,232,611	\$16,232,611

Officials at the **Office of the Governor** assume that Section A, Section 27 (c) article IV, Constitution of Missouri this section establishes within the state treasury a fund to be known as the "State Disaster and Emergency Fund" which shall consist of moneys collected under subsection 5 of this section (additional sales and compensating use taxes).

In any fiscal year in which the Governor reduces the expenditures of the state or any agencies below their appropriations in accordance with section 27 of this article, or in which there is a budget need due to disaster, the general assembly may appropriate funds from this fund to fulfill the expenditures authorized by any of the existing appropriations which were affected by the governor's decision to reduce expenditures or to meet budget needs due to the disaster.

A disaster may be declared for the purposes of authorizing an appropriation from the state disaster and emergency fund solely by a proclamation from the Governor, or a 2/3 vote of the members of each house of the general assembly.

There should be no added cost to the Governor's Office as a result of this measure.

Officials at the **Office of the Secretary of State (SOS)** assume each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

ASSUMPTION (continued)

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2019. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2020 and the next scheduled general election is in November 2020 (both FY 2021). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2020.

Officials at the **Office of the State Treasurer** assume there is no fiscal impact from this proposal.

Officials at the **State Emergency Management Agency** assume a decision would need to be made on how the distribution of funds would be evaluated and managed and by which division. It appears that a minimum of two FTE would be needed to accomplish this resulting in the need for additional ITSD hardware and services.

Oversight notes this proposal changes the name of the Budget Reserve Fund to the Cash Balance Fund. Oversight assumes this name change would not have a fiscal impact.

ASSUMPTION (continued)

Oversight notes this proposal would create the State Disaster & Emergency Fund as well as the Local Disaster & Emergency Fund. These funds are funded from an additional one-tenth of one percent tax sales and use tax added in this proposal. Oversight will use the estimates provided by B&P for the amount of money received by the funds.

Oversight notes this proposal caps the fund balance in the Local Disaster & Emergency Fund at \$100 million. Should the fund retain more than the limit, the excess from the Local Disaster & Emergency Fund is transferred to the State Disaster Fund each year. This proposal establishes a grant program within the Department of Public Safety, upon approval of the Governor, to distribute funds to cities and counties which have had a declaration of disaster by either the Governor or the General Assembly. Oversight is unable to determine if or when such disaster declarations would occur and if the Department of Public Safety would grant any money for the fund. Therefore, Oversight will not show any distribution from this fund or any transfer to the State Disaster Fund. Since the Department of Public Safety is unsure how this grant program would be implemented, Oversight will not show any program costs. If adopted by the voters, the Department could request funds through the appropriation process if needed.

Oversight notes this proposal caps the fund balance in the State Disaster & Emergency Fund at \$400 million and should the fund retain more than the limit the excess from the State Disaster & Emergency Fund is to be transferred to General Revenue. This proposal establishes that the General Assembly may appropriate funds out of the State Disaster & Emergency Fund if the Governor reduces expenditures of the state or if there is a disaster declared by the Governor or General Assembly.

Oversight notes that should the Governor not reduce expenditures and there is not a disaster declared, the fund could receive the following monies and have the following fund balance:

Fiscal Year	Received Yearly	Cumulative Total in Fund
FY 2020	\$34.8 million	\$34.8 million
FY 2021	\$69.6 million	\$104.4 million
FY 2022	\$69.6 million	\$174.0 million
FY 2023	\$69.6 million	\$243.6 million
FY 2024	\$69.6 million	\$313.2 million
FY 2025	\$69.6 million	\$382.8 million
FY 2026	<u>\$69.6 million</u>	<u>\$452.4 million</u>
FY 2027	\$69.6 million would be transferred to General Revenue	

ASSUMPTION (continued)

Oversight notes the first possible year a transfer back to General Revenue could occur would be partially \$52 million in FY 2026 with the total \$69.6 million in FY 2027. Oversight will show the potential transfer to General Revenue as \$0 to \$69.6 million.

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.

FISCAL IMPACT -
State Government

	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2027)
GENERAL REVENUE				
<u>Transfer Out</u> - Local Election Authorities the cost of the special election if called for by the Governor	\$0 or (\$7,800,000)	\$0	\$0	<u>\$0</u>
<u>Transfer In</u> - §27c from the State Disaster & Emergency Fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0 or</u> <u>\$69,600,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0 or</u> <u>\$69,600,000</u>

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2027)
STATE DISASTER & EMERGENCY FUND				
<u>Revenue</u> - B&P §27c increase in sales tax for state disasters (80%) if approved by voters	\$0 or \$34,800,000	\$0 or \$69,600,000	\$0 or \$69,600,000	\$0 or \$69,600,000
<u>Transfer Out</u> - 27c to General Revenue of amount over \$400 million in this fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(\$69,600,000)</u>
ESTIMATED NET EFFECT ON STATE DISASTER & EMERGENCY FUND	<u>\$0 or \$34,800,000</u>	<u>\$0 or \$69,600,000</u>	<u>\$0 or \$69,600,000</u>	<u>\$0 or \$69,600,000</u>

FISCAL IMPACT -
State Government
 (continued)

FY 2020
 (10 Mo.)

FY 2021

FY 2022

Fully
 Implemented
 (FY 2027)

**LOCAL
 DISASTER &
 EMERGENCY
 FUND**

Revenue - B&P 27c
 increase in sales tax
 for local disasters
 (20%) if approved
 by voters

\$0 or \$8,700,000

\$0 or
\$17,400,000

\$0 or
\$17,400,000

\$0 or
\$17,400,000

**ESTIMATED NET
 EFFECT ON THE
 LOCAL
 DISASTER &
 EMERGENCY
 FUND**

\$0 or \$8,700,000

\$0 or
\$17,400,000

\$0 or
\$17,400,000

\$0 or
\$17,400,000

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2027)
LOCAL POLITICAL SUBDIVISIONS				
<u>Transfer In - to</u> Local Election Authorities the cost of a special election	\$0 or \$7,800,000	\$0	\$0	\$0
<u>Cost - Local Election</u> Authorities the cost of the special election if called for by the Governor	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL ELECTION AUTHORITIES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that pay or collect sales or use taxes would be impacted if this joint resolution is approved by voters.

FISCAL DESCRIPTION

Current constitutional provisions provide for a Budget Reserve Fund to assist with short-term cash requirements of the state and for potential budget stabilization needs. This constitutional amendment, if approved by the voters, renames the Budget Reserve Fund as the Cash Balance Fund, and restricts its use to short-term cash operating transfers.

This amendment creates the State Disaster and Emergency Fund, which may be used if the Governor reduces the expenditures of the state or any of its agencies below their appropriations,

FISCAL DESCRIPTION (continued)

or when there is a budget need due to a disaster. A disaster may only be declared by the Governor or by a two-thirds majority vote by each house of the General Assembly.

This amendment also creates the Local Disaster and Emergency Fund. Upon a declaration of a disaster, counties, cities, and other municipalities may apply to the Department of Public Safety to receive grants from the Local Disaster and Emergency Fund. The Department may issue such a grant with the approval of the Governor if the grant request does not exceed the lesser of \$10 million or 5% of the fund balance. If the grant request exceeds such amount, the Department may only issue such grant with an appropriation from the State Disaster and Emergency Fund with the approval of a majority vote by each house of the General Assembly.

This amendment imposes a 0.1% statewide sales and use tax for the purpose of providing funds for disasters and emergencies in this state. Twenty percent of the tax imposed under this amendment shall be deposited in the Local Disaster and Emergency Fund and shall stand appropriated without further legislative action to the Department of Public Safety for the purpose of providing grants to municipalities. Eighty percent of the tax imposed under this amendment shall be deposited in the State Disaster and Emergency Fund.

If the balance in the Local Disaster and Emergency Fund at the end of a fiscal year exceeds \$100 million, the excess amount shall be transferred to the State Disaster and Emergency Fund. If the balance in the State Disaster and Emergency Fund at the end of a fiscal year exceeds \$400 million, the excess amount shall be transferred to the General Revenue Fund.

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 Revenue
Office of Administration Division of Budget and Planning
Office of the Governor
Office of the State Treasurer
Office of the Secretary of State
State Emergency Management Agency



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