

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2372-01  
Bill No.: SB 475  
Subject: Appropriations; Banks and Financial Institutions; Credit Unions; Education, Elementary and Secondary; Elementary and Secondary Education, Department of; Tax Credits; Taxation and Revenue- General; Taxation and Revenue - Income  
Type: Original  
Date: March 25, 2019

Bill Summary: This proposal requires the Department of Elementary and Secondary Education to remit to schools the revenues such schools would have received from income taxes on certain financial institutions.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$89,100 to \$66,632)	(\$31,741,695 to \$31,822,326)	(\$31,741,695 to \$31,823,007)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$89,100 to \$66,632)</b>	<b>(\$31,741,695 to \$31,822,326)</b>	<b>(\$31,741,695 to \$31,823,007)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
General Revenue	0 to 1 FTE	0 to 1 FTE	0 to 1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 to 1 FTE</b>	<b>0 to 1 FTE</b>	<b>0 to 1 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$31,741,695</b>	<b>\$31,741,695</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from **Department of Elementary and Secondary Education (DESE)** state, based on information received from the Department of Revenue, school districts received \$23,339,482 in distributions from the financial institution taxes due under Sections 148.030, 148.140, and 148.620 in FY 2019. When the corporate tax rate is reduced to 4 percent for tax years beginning January 1, 2020, the proportional tax reduction will result in a reduced rate for the financial institutions tax of 4.48 percent. DESE calculated a reduced distribution of the financial institutions tax of \$14,937,269. This legislation indicates that DESE would be responsible for the distribution of the difference to school districts under the appropriation provided for in section 163.031. DESE will include a negative impact to general revenue of \$8.4 million in FY 2021 going forward as the Department expects an additional call on the formula of that amount to make up the difference.

Officials from the **Office of Administration - Information Technology (ITSD)**, on behalf of DESE, assume they will need to create a calculation process to compare two different numbers for prior year and current year then multiply it by the defined formula. ITSD will need to create two reports, a payment report and a payment transmittal transaction report, and potentially create a data entry screen if we cannot get a data file from DOR. There will be a slight change to the payment management system to create the payment. ITSD estimates this will cost \$89,100 (1,188 hours \* \$75 per hour).

**Oversight** notes ITSD assumes that every new IT project/system will be bid out because all their resources are at full capacity. ITSD estimates the project would take 1,188 hours at a contract rate of \$75 per hour for a total cost to the state of \$89,100. Oversight notes that an average salary for a current IT Specialist within ITSD is \$51,618, which totals roughly \$80,000 per year when fringe benefits are added. Assuming that all ITSD resources are at full capacity, Oversight assumes ITSD may (instead of contracting out the programming) hire an additional IT Specialist to perform the work required from this bill. Therefore, Oversight will range the fiscal impact from the cost of hiring an additional FTE IT Specialist (roughly \$80,000 per year) to contracting out the work (\$89,100).

Officials from **Department of Revenue (DOR)** assume this proposed section (163.031) states that, beginning with January 1, 2020, any school district that receives revenue from the tax authorized under 148.030, 148.140, 148.620, and 148.720 shall report the amount of revenue received to the Department of Elementary and Secondary Education (DESE). DESE shall then determine the amount of revenue each district would have received absent the provisions of Section 148.720

ASSUMPTION (continued)

and remit that amount to the school district no later than thirty days after the end of each calendar year. This section then states that the amount remitted to each district shall be the total of the revenue received by the district from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 during the applicable calendar year times one and five thousand six hundred and twenty five ten thousandths (1.5625) minus the total of the revenue received by the district from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 during the same calendar year, and this payment shall be in addition to payments authorized under subsections 1, 2, and 7 of this section and shall be made from the annual appropriation to fund this section.

Methodology

DOR distributed \$23,339,482 to the school districts in the 2018 tax year. This amount was based off of the tax collections at a rate of 7.00%. Beginning January 1, 2020 the tax rate will be reduced from 7.00% to 4.48%, per SB 884 and SB 769(2018). Based on the amount distributed for the 2018 tax year, the DOR determined that in December 2020, the amount that will be distributed to the school districts will be \$14,937,268. The difference is \$8,402,213.

Distribution from tax collections at 7%	\$23,339,482
Distribution from tax collections at 4.48%	<u>\$14,937,269</u>
Difference	\$8,402,213

The proposed section states "school districts that receive revenue from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 shall, beginning January 1, 2020, and every January first thereafter, report the amount of said revenue received by the district to the department."

DOR assumes this distribution is the distribution of tax as provided in Chapter 148, at the rate of 4.48% or \$14,937,269.

The Section goes on to state "The department shall, based on the data submitted by the district, determine the amount of revenue the district would have received from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 absent the provisions of section 148.720, and remit said amount to each applicable district not less than thirty days after the conclusion of each calendar year."

DOR assumes this distribution will be equal to the tax collected, absent the provisions of Section 148.720, which is 7.00% or \$23,339,482.

ASSUMPTION (continued)

However, the section goes on to say "The amount remitted to each district shall be the total of the revenue received by the district from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 during the applicable calendar year times one and five thousand six hundred and twenty five ten thousandths minus the total of the revenue received by the district from the tax authorized under sections 148.030, 148.140, 148.620, and 148.720 during the same calendar year."

This is, as written, a separate and additional requirement. DOR assumes this distribution will be equal to the tax not collected, due to the provisions of Section 148.720, which is \$8,402,213.

The DOR assumes there are three separate distributions stated in the proposed section:

- Distribution One: \$14,937,269 (4.48%, as authorized in Chapter 148)
- Distribution Two: \$23,339,482 (7.00%, authorized in this proposed legislation)
- Distribution Three: \$8,402,213 (tax not collected, authorized in this proposed legislation)

The impact to General Revenue will be the sum of distribution two and three, ( $\$23,339,482 + \$8,402,213 = \$31,741,695$ ).

Impact to General Revenue		
FY 20	FY 21	FY 22
\$0	(\$31,741,695)	(\$31,741,695)

Based on the language in the proposal, **Oversight** will show the estimate as provided by DOR. Oversight assumes this payment will be in addition to foundation formula payments (subsection 1, 2, and 7 of section 163.031).

Officials from **Jefferson City Public Schools** state the tax cuts for financial institutions last year, inadvertently reduced money to local school districts. The tax cut percentage was 36%. This bill shows the reduced amount and multiplies it by 1.5625 which will make the districts whole from this tax cut. JCPS estimates \$8,253,971 in lost revenue for all districts.

Officials from the **Springfield Public Schools** assume the proposal will have no fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **Rockwood School District** assume this would allow the district to retain the Financial Institution Tax collections that were reduced by SB 769 (2018) and becomes effective for the 2021-22 school year. This proposal would benefit the Rockwood School District in the amount of \$197,719.

Officials from **Wellsville-Middletown R-1 School District** assume this would have minimal fiscal impact on the district.

Officials from **Parkway Schools** assume the estimate of lost revenue from SB 769 (2018) to all schools is \$8,253,971.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal will have no fiscal impact on their organization.

**Oversight** did not receive a response from the Office of Administration - Budget and Planning at the time this fiscal note was completed.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other 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](http://www.legislativeoversight.mo.gov).

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>GENERAL REVENUE</b>			
<u>Cost</u> - DESE - ITSD costs (ranged from contracting out programming (\$89,100) to hiring additional FTE IT Specialist)	(\$89,100) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)
FTE Change - ITSD	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
<u>Cost</u> - distribution of Financial Inst. Taxes	<u>\$0</u>	<u>(\$31,741,695)</u>	<u>(\$31,741,695)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(\$89,100 to <u>\$66,632</u>)</b>	<b>(\$31,741,695 to <u>\$31,822,326</u>)</b>	<b>(\$31,741,695 to <u>\$31,823,007</u>)</b>
Estimated Net FTE Change for General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>SCHOOL DISTRICT FUNDS</b>			
<u>Revenue</u> - Financial Institution Taxes distribution	<u>\$0</u>	<u>\$31,741,695</u>	<u>\$31,741,695</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$31,741,695</u></b>	<b><u>\$31,741,695</u></b>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Under this act, beginning January 1, 2020, any school district that receives revenue from the income tax on banking institutions, credit institutions, credit unions and savings and loan associations shall report the amount of such revenue received by the district to the Department of Elementary and Secondary Education.

Using such data, the Department shall determine the amount of revenue the district would have received from the taxes but for the reduction in such income taxes, and remit said amount to each applicable district within 30 days of the end of each calendar year. The amount remitted to the district shall be the total of the revenue received by the district from the tax, times 1.5625, minus the total of the revenue received from the tax.

Such payments shall be in addition to payments made under the foundation formula.

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 Elementary and Secondary Education  
Department of Revenue  
Department of Insurance, Financial Institutions and Professional Registration  
Jefferson City Public Schools  
Springfield Public Schools  
Rockwood School District  
Wellsville-Middletown R-1 School District  
Parkway School District



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March 25, 2019

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March 25, 2019