

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3165-01
Bill No.: SJR 45
Subject: Taxation and Revenue - General; Political Subdivisions; Constitutional Amendments
Type: Original
Date: March 10, 2020

Bill Summary: This proposal prohibits overlapping political subdivisions from levying multiple taxes for the same services.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0 or greater than (\$7,800,000)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or greater than (\$7,800,000)	\$0 or (Unknown)	\$0 or (Unknown)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
School District Trust Fund (0688)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Conservation Commission Fund (0609)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Parks and Soils State Sales Tax Funds (0613 & 0614)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Blind Pension Fund (0621)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposal would require voters to elect which taxing jurisdiction they would like to remit taxes to if they reside in an area where multiple taxing jurisdictions levy property tax, sales tax, or any other tax solely for a specific purpose. B&P notes that the state of Missouri is considered a political subdivision.

B&P notes both state and local jurisdictions levy a property tax and sales tax. B&P further notes that while both the state and some local jurisdictions levy an income tax and cigarette tax, neither are used for the same specific purpose at both the state and local levels. Therefore, B&P estimates that this proposal will impact state and local property and sales taxes.

This proposal would go to a vote at the next general election in November 2020. For the purpose of this fiscal note, B&P assumes that if voter approved this proposal would begin January 1, 2021. B&P further assumes that voters would elect to keep the lowest tax rate in each category of tax where political subdivision boundaries overlap.

Property Tax

B&P notes, in addition to local levies, the Blind Pension Trust Fund has a property tax levy of \$0.03 for each \$100 valuation. During Fiscal Year 2019, the Blind Pension Trust Fund collected \$34,007,275 in property taxes. B&P is unable to determine how many voters would choose to keep a local levy versus the state levy. Therefore, revenues to the Blind Pension Trust Fund may be reduced by up to \$34,007,275 annually beginning in Fiscal Year 2022. In addition, local property tax revenues may be reduced by a significant unknown amount.

B&P further notes that if total local property taxes decrease under this proposal, claims for the Property Tax Credit (PTC) will also decrease. In Fiscal Year 2019, PTC refund claims totaled \$83,216,728. Therefore, B&P estimates that this proposal could increase General Revenue (GR) by up to \$83,216,728 annually beginning in Fiscal Year 2022.

Sales Tax

In addition to local sales tax levies, the state has a statewide levy of 4.225% on the sale of tangible personal property and a levy of 1.225% on food. Further, the state sales tax rate is 3% for general and motor vehicle sales tax (excluding food), 1.0% for the School District Trust Fund, 0.125% for Conservation, and 0.1% for DNR. Thus, the lowest state sales tax rate is 0.1%.

ASSUMPTION (continued)

B&P notes that based on information published by the Missouri Department of Revenue, the lowest local sales tax rate is a 0.1% levy on food. B&P assumes that voters will choose the lowest sales tax rate possible; however, B&P is unable to determine whether voters would choose the 0.1% state sales tax or the 0.1% local sales tax in the 14 jurisdictions that have such rate. For the purpose of this fiscal note, B&P will show the loss to state funds as “up to” to reflect the uncertainty about which voters selecting which taxes to continue.

In addition, it is not clear whether this constitutional amendment would require voters to replace the current constitutional sales taxes for Conservation (0.125%) and DNR (0.1%) with a single tax rate, since their boundaries overlap statewide. B&P will reflect the potential impact to the two constitutional sales taxes as “\$0 or up to”.

B&P notes the 3% state sales tax is split between various funds. GR receives a 3% tax on all sales and use taxes except for the sales of motor vehicles. The 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions. B&P notes the 3% state sales tax is the same tax, just distributed between various funds based on taxable item purchased.

Based on Fiscal Year 2019 collections, B&P estimates that this proposal may reduce GR by \$1,118,574,789 in Fiscal Year 2021. Once fully implemented, this proposal may reduce GR by \$2,237,149,579 annually beginning in Fiscal Year 2022. In addition, once fully implemented this proposal may reduce local sales tax collections by \$3,513,021,007 annually.

Officials from the **Missouri Department of Revenue (DOR)** assume, in any county or other political subdivision which levies a property tax, sales tax, or any other tax solely for a specific purpose, and whose boundaries overlap the boundaries of another political subdivision which also levies a property tax, sales tax, or any other tax solely for the same purpose, persons residing in such overlapping boundaries shall only remit such property tax, sales tax, or other tax to one taxing jurisdiction. This requires a vote of the people to choose which tax they would pay if there is overlap.

DOR notes this proposal appears to eliminate most of the taxes currently collected in the state, depending on how the taxpayers decide to vote.

DOR notes the state has the Blind Pension property tax that overlaps all counties in the state. The Blind Pension Fund receives \$.03 for each \$100 valuation of taxable property in the state of Missouri. According to the "State Tax Commission Annual Report- 2018" the total assessed

valuation for Tax Year 2018 for Personal Property Tax equals \$20,924,550,116. The amount collected in 2018 for the Blind Pension Fund was \$33,240,319. It is assumed the citizens would chose to keep the Blind Pension Fund property tax and eliminate all their local property taxes at a loss of \$20,924,550,116.

ASSUMPTION (continued)

Oversight notes DOR anticipates, provided the voters of local political subdivisions forgo remitting personal property tax to their local jurisdictions, and only remit to the state's Blind Pension Fund, the loss to local political subdivisions would equal the 2018 total assessed value of \$20,924,550,116. Provided this assumption is accepted, Oversight notes the total assessed valuation of property must be multiplied by the applicable tax rate (based on residence) to determine the true fiscal impact.

Per the Missouri State Tax Commission, approximately \$7,857,992,942 was paid in total property tax for Tax Year 2018. Of such amount, 12.03% was collected via motor vehicle property tax and 6.43% was collected on other personal property. Therefore, Oversight estimates, if local political subdivisions were to forgo collecting their personal property tax, the combined loss could amount to \$1,450,585,497 ($(\$7,857,992,942 * 12.03\%) + (\$7,857,992,942 * 6.43\%)$).

DOR assumes the elimination of property tax would result in a savings to the Senior Property Tax Credit. If people don't owe property tax then they would no longer be eligible to claim the credit. In Fiscal Year 2018, owners and renters claimed \$88 million in the tax credit.

DOR notes that the state sales and use tax is 4.225%. General Revenue is 3% (on all sales that are not motor vehicles), Motor Vehicle is 3% (on all motor vehicle sales - this money is given to several transportation funds), School District Trust Fund is 1%, Conservation Commission Fund is .125% and Parks, Soil & Water Funds .1%.

Additionally, many political subdivisions have special sales and use taxes for emergency services, transportation development districts etc. that are less than 1%. Many of these special sales and use taxes overlap the state sales and use tax. Therefore DOR assumes that most districts would eliminate the state sales and use tax and keep whichever of their special tax rates is the lowest.

The elimination of the state sales and use tax (on everything but motor vehicles) is estimated to cost the state:

General Revenue	\$2,237,149,579
School District Trust Fund	\$ 908,179,982
Conservation Commission	\$ 120,934,964
Parks, Soil & Water Fund	\$ 96,747,863
TOTAL	\$3,363,012,388

ASSUMPTION (continued)

The 3% general state sales tax (on motor vehicles) is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD) (12.5%) which is then distributed to local jurisdictions. The elimination of the state sales and use tax on motor vehicles is estimated to cost the state:

State Road Bond Fund	\$187,421,725
State Road Fund	\$136,817,859
State Transportation Fund	\$3,748,435
Fuel Local Deposit Fund	\$46,855,431
TOTAL	\$374,843,450

Officials from the **University of Missouri's Economic & Policy Analysis Research Center** state this constitutional amendment, if approved by the voters, would provide that, in any county or other political subdivision which levies a property tax, sales tax or any other tax solely for a specific purpose and whose boundaries overlap the boundaries of another political subdivision which also levies a property tax, sales tax or any other tax solely for the same purposes, persons residing in such overlapping boundaries shall only be required to remit such tax to one taxing jurisdiction. The local election authority shall submit to the voters living within the overlapping boundaries the question of from which political subdivision such voters shall continue to receive services from and to which political subdivision the voters shall remit the tax.

EPARC states, even though EPARC possess the data to identify overlapping boundaries of sales taxes that serve similar specific purposes, the bill does not indicate whether the resulting taxing authority/jurisdiction will be levying the aggregate tax rate of both overlapping jurisdiction(s) or only the rate of the remaining jurisdiction. Therefore, EPARC is unable to estimate the impact this bill may have on Net General Revenue.

Officials from the **City of Kansas City (Kansas City)** state this proposed legislation may have a negative fiscal impact on Kansas City in an indeterminate amount.

Officials from the **City of Springfield (Springfield)** assumes this bill would have a substantial negative impact on Springfield. Both Springfield and Greene County levy several taxes that provide for the same kind of services. Examples include: law enforcement, transportation, capital improvement and general sales tax. If Springfield were to lose any of the funding sources, Springfield's ability to provide municipal services would be severely hampered.

Officials from the **Missouri Secretary of State's Office (SOS)** state each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that

ASSUMPTION (continued)

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.

SOS 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 Fiscal Year 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In Fiscal Year 2019, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. 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.

SOS 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, for the purposes of this fiscal note, has reflected the cost to the state for reimbursing local political subdivisions the cost for having this joint resolution voted on during a special election in Fiscal Year 2021. This reflects the decision made by the Joint Committee on Legislative Research that the cost of special elections should be shown in the fiscal note. The next scheduled general election is in November 2020 (FY 2021). It is assumed the subject matter within this proposed legislation could be on the ballot of the November election; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect the potential election cost of the reimbursement to local political subdivisions in Fiscal Year 2021 if a special election is called. Potential election costs will be ranged from \$0 (no special election) to \$7.8 million (special election is called).

ASSUMPTION (continued)

Oversight notes the **Missouri Department of Conservation (MDC)** and the **Missouri Department of Natural Resources (DNR)** have stated the proposed legislation would not have a direct fiscal impact on their respective organizations.

Oversight assumes MDC and DNR assume no fiscal impact as these organizations are not considering the State of Missouri as a political subdivision. However, per statements provided by B&P and DOR, this proposed legislation could have a significant impact on MDC and DNR. For purposes of this fiscal note, Oversight will report the fiscal impact to MDC and DNR as a negative “Unknown.”

Oversight notes B&P and DOR assume this proposed legislation would create the option of which tax(es) individuals within the State of Missouri would or would not pay (local sales tax or state sales tax; local property tax or state property tax (Blind Pension Fund); and the like). Oversight further notes B&P and DOR assume this proposed legislation would eliminate the majority of taxes paid to the State of Missouri and its respective political subdivisions, as B&P and DOR assume the State of Missouri itself is a political subdivision.

Oversight is unable to determine which tax(es) would truly become nullified under this proposed legislation. Therefore, for purposes of this fiscal note, Oversight will report a potential fiscal impact as \$0 or a negative “Unknown” to the various funds that receive state sale tax revenues, the Blind Pension Fund as well as political subdivision, depending on voter approval.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
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GENERAL REVENUE FUND

<u>Transfer Out</u> - Article X - Section 27 - Reimbursement to local election authorities if a special election is called for by the Governor	\$0 or (<u>\$7,800,000</u>)	\$0	\$0
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<u>Revenue Reduction</u> - Article X - Section 27 - Elimination of tax(es) imposed on citizens of various jurisdictions that simultaneously pay the same tax to an overlapping jurisdiction	\$0 or (<u>Unknown</u>)	\$0 or (<u>Unknown</u>)	\$0 or (<u>Unknown</u>)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or greater than (<u>\$7,800,000</u>)	(<u>Unknown</u>)	(<u>Unknown</u>)
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023
SCHOOL DISTRICT TRUST FUND (0688)			
Revenue Reduction - Article X - Section 27 - Elimination of tax(es) imposed on citizens of various jurisdictions that simultaneously pay the same tax to an overlapping jurisdiction	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
CONSERVATION COMMISSION FUND (0609)			
Revenue Reduction - Article X - Section 27 - Elimination of tax(es) imposed on citizens of various jurisdictions that simultaneously pay the same tax to an overlapping jurisdiction	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
PARKS AND SOILS STATE SALES TAX FUNDS (0613 & 0614)			
Revenue Reduction - Article X - Section 27 - Elimination of tax(es) imposed on citizens of various jurisdictions that simultaneously pay the same tax to an overlapping jurisdiction	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that currently collect taxes that serve the same purposes for multiple jurisdictions that overlap each other may be impacted by this proposed legislation as they would not be required to remit to both jurisdictions, rather, they would remit to the jurisdiction approved by the voters of the overlapping jurisdictions, reducing various administrative costs for such small businesses. (Article X, Section 27)

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, would provide that, in any county or other political subdivision which levies a property tax, sales tax, or any other tax solely for a specific purpose, and whose boundaries overlap the boundaries of another political subdivision which also levies a property tax, sales tax, or any other tax solely for the same purpose, persons residing in such overlapping boundaries shall only be required to remit such tax to one taxing jurisdiction. The local election authority shall submit to the voters living within the overlapping boundaries the question of from which political subdivision such voters shall continue to receive services from and to which political subdivision the voters shall remit the tax. (Article X, Section 27)

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 Administration - Budget & Planning Division
Missouri Department of Revenue
City of Springfield
University of Missouri's Economic & Policy Analysis Research Center
City of Kansas City
Missouri Secretary of State's Office
Missouri Department of Conservation
Missouri Department of Natural Resources



Julie Morff
Director
March 10, 2020



Ross Strobe
Assistant Director
March 10, 2020