

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4156S.03I
Bill No.: SB 735
Subject: Taxation and Revenue - Sales and Use; Political Subdivisions; Cities, Towns and Villages; Counties
Type: Original
Date: January 6, 2022

Bill Summary: This proposal modifies provisions relating to certain special taxing districts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	\$0	\$0	\$0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	(\$56,742,933)	(\$68,061,520)	(\$68,061,520)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will not impact TSR or the calculation under Article X, Section 18(e).

Section 67.457

Officials from the **Department of Revenue (DOR)** note this section pertains to neighborhood improvement districts. This proposal will require that after completion of all improvement projects, for which the district was created, and the satisfaction of all the debt obligations are made, the neighborhood improvement district will be required to terminate its existence. This is not expected to fiscally impact DOR.

B&P states this provision would require all neighborhood improvement districts to be abolished once improvements in the district have been made and all outstanding district debt has been paid. **B&P** estimates that this provision will not impact state or local funds.

Section 67.1481

DOR states this section pertains to community improvement districts. Previously the districts could terminate upon the completion of their improvement projects and satisfaction of all their debt, but was not required to terminate. This proposal makes it mandatory to terminate upon completion. This is not expected to fiscally impact DOR.

B&P states this section requires a community improvement district (CID) to be abolished prior to the expiration date under certain circumstances. Currently a CID may be abolished. **B&P** estimates that this provision will not impact state or local funds.

Section 67.1545

DOR notes this section pertains to community improvement districts (CID). Currently a political subdivision can impose a district sales and use tax on all retail sales. This proposal adds an exemption to that sales tax, for food. If a CID collects sales tax off of food currently, they may experience a negative fiscal impact. In FY 2021, CID's reported to DOR, that 354 of them collected a combined \$35,306,762 in sales tax on food. This proposal would be expected to be a loss of \$30 million to locals. This will not impact general revenue or state revenue or DOR. DOR defers to the community improvement districts to determine their exact loss.

This proposal also limits the combined sales tax rate that can be assessed in the district. Starting August 28, 2022 the district cannot have a combined sales tax rate of more than 3.25%. The combined rate must include the districts rate and all other sales tax rates by any taxing jurisdiction, other than a county or city.

DOR notes that many of the community improvement districts have a district sales tax that is higher than the new limit of 3.25% with calculating in the county, city and state sales taxes. Additionally, the state sales and use tax of 4.225% would need to be included in the combined

rate as the state is a taxing jurisdiction and is not excluded from the calculation by this proposal. Since the state sales tax rate of 4.225% is higher than the new combined rate of 3.25% no new community improvement districts can be formed.

DOR notes this section does not require existing districts over the limit to terminate. However, they cannot increase their existing tax rate. This will prevent districts from being formed in the future. This will not fiscally impact DOR.

B&P notes this section would exempt the sale of food from a CID's sales tax base. Based on data provided by DOR, 354 CIDs levied sales tax on food in FY21, for total tax collections of \$35,306,762. B&P notes that this provision would become effective August 28, 2022. Therefore, B&P estimates that this will reduce CID revenue by \$29,422,301 in FY23 and by \$35,306,762 annually thereafter beginning FY24.

Section 67.1545.1 would also place a "total combined rate" limit within a CID at 3.25%. Any CID over such rate prior to August 28, 2022 will not have to repeal or reduce their tax rate. The total combined rate excludes the tax rate of a county, city, village, and St. Louis City. The total combined rate includes every other taxing jurisdiction (CIDs, TDDs, ambulance districts, fire protection districts, emergency service districts, and zoological districts, plus the statewide district).

B&P notes that the state of Missouri is itself a taxing jurisdiction, with a sales tax rate of 4.225%. Therefore, every CID would have a total combined rate in excess of the 3.25% limit. While this will not impact existing CIDs, this would essentially prohibit any new CIDs from being formed.

Example 1: CID A located within city B and county C
CID A – tax rate 1.0% ← NOT excluded under proposed language
City B – tax rate 1.4% ← excluded under proposed language
County C – tax rate 2.25% ← excluded under proposed language
MO State – tax rate 4.225% ← NOT excluded under proposed language

Total combined rate = 5.225% (CID + MO State)

Example 2: CID X located within city Y and county Z, overlapping boundaries with TDD Q and ambulance R
CID X – tax rate 1.0% ← NOT excluded under proposed language
City Y – tax rate 1.4% ← excluded under proposed language
County Z – tax rate 2.25% ← excluded under proposed language
TDD Q – tax rate 0.25% ← NOT excluded under proposed language
Ambulance R – tax rate 0.5% ← NOT excluded under proposed language
MO State – tax rate 4.225% ← NOT excluded under proposed language

Total combined rate = 5.975% (CID + TDD + ambulance + MO State)

Section 238.235 and 238.236

DOR notes these sections pertain to transportation development districts (TDD). Currently a political subdivision can impose a district sales and use tax on all retail sales. This proposal adds an exemption to that sales tax, for food. If a TDD collects sales tax off of food currently, they may experience a negative fiscal impact. In FY 2021, DOR noted that 156 TDD districts reported that collecting a combined \$32,784,758 in sales tax of food. This proposal would be expected to be a loss of the \$32 million to the locals. This will not impact general revenue or state revenue or DOR. DOR defers to the local transportation development districts to determine their exact loss.

This proposal also limits the combined sales tax rate that can be assessed in the district. Starting August 28, 2022 the district cannot have a combined sales tax rate of more than 3.25%. The combined rate must include the districts rate and all other sales tax rates by any taxing jurisdiction, other than a county or city. It should be noted that many of the transportation development districts have a district sales tax that is higher than the new limit of 3.25% when calculating in the county, city and state sales taxes. Additionally, the state sales and use tax of 4.225% would need to be included in the combined rate as the state is a taxing jurisdiction and is not excluded from the calculation by this proposal. Since the state sales tax rate of 4.225% is higher than the new combined rate of 3.25% no new transportation development districts can be formed.

This proposal does not require existing districts over the limit to terminate. However, they cannot increase their existing tax rate. This will prevent districts from being formed in the future. This will not fiscally impact the DOR

B&P states this section would exempt the sale of food from a transportation development district's (TDD) sales tax base. Based on data provided by DOR, 156 TDDs levied sales tax on food in FY21, for total tax collections of \$32,754,758. B&P notes that this provision would become effective August 28, 2022. Therefore, B&P estimates that this will reduce TDD revenue by \$27,320,632 in FY23 and by \$32,754,758 annually thereafter beginning FY24.

Sections 238.235 and 238.236 would also place a "total combined rate" limit within a TDD at 3.25%. Any TDD over such rate prior to August 28, 2022 will not have to repeal or reduce their tax rate. The total combined rate excludes the tax rate of a county, city, village, and St. Louis City. The total combined rate includes every other taxing jurisdiction (CIDs, TDDs, ambulance districts, fire protection districts, emergency service districts, and zoological districts, plus the statewide district).

B&P notes that the state of Missouri is itself a taxing jurisdiction, with a sales tax rate of 4.225%. Therefore, every TDD would have a total combined rate in excess of the 3.25% limit. While this will not impact existing TDDs, this would essentially prohibit any new TDDs from being formed.

Example 1: TDD A located within city B and county C

TDD A – tax rate 1.0% ← NOT excluded under proposed language
City B – tax rate 1.4% ← excluded under proposed language
County C – tax rate 2.25% ← excluded under proposed language
MO State – tax rate 4.225% ← NOT excluded under proposed language

Total combined rate = 5.225% (TDD + MO State)

Example 2: TDD X located within city Y and county Z, overlapping boundaries with CID Q and ambulance R

TDD X – tax rate 1.0% ← NOT excluded under proposed language
City Y – tax rate 1.4% ← excluded under proposed language
County Z – tax rate 2.25% ← excluded under proposed language
CID Q – tax rate 0.25% ← NOT excluded under proposed language
Ambulance R – tax rate 0.5% ← NOT excluded under proposed language
MO State – tax rate 4.225% ← NOT excluded under proposed language

Total combined rate = 5.975% (TDD + CID + ambulance + MO State)

Section 238.275

DOR notes this section adds clean up language to the abolishing of transportation development districts and their elections. This will not fiscally impact DOR.

B&P notes this section would require a TDD to be abolished once the TDD project has been abolished or it has been determined that the project cannot be completed. Currently a TDD can only be abolished upon a vote within the district. B&P estimates that this provision will not impact state or local funds.

Oversight notes that **DOR & B&P** both stated the proposal would have negative fiscal impact to community improvement districts and transportation development districts – both considered local political subdivisions. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR and B&P’s forgone tax estimation on the fiscal note.

Officials from the **Missouri Department of Conservation, Missouri Department of Transportation, Department of Natural Resources, Department of Elementary and Secondary Education**, and the **City of Springfield** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss – Community Improvement Districts - §67.1545.1- Exemption of food from CID’s sales tax base</u>	(\$29,422,301)	(\$35,306,762)	(\$35,306,762)
<u>Revenue Loss – Transportation Development Districts - §238.235 & §238.236 - Exemption of food from TDD’s sales tax base</u>	(\$27,320,632)	(\$32,754,758)	(\$32,754,758)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$56,742,933)</u>	<u>(\$68,061,520)</u>	<u>(\$68,061,520)</u>

FISCAL IMPACT – Small Business

This proposal may impact small businesses located within a CID and/or TDD district.

FISCAL DESCRIPTION

This act modifies provisions relating to certain special taxing districts.

Current law authorizes Community Improvement Districts to levy a sales tax on all retail sales made in the district which are subject to taxation, with exceptions. This act provides that the CID sales tax shall not apply to sales of food, as defined in current law for the purposes of sales taxes. Additionally, current law limits the rate of the CID sales tax levy to a maximum of one percent. This act limits the total amount of combined sales taxes at any given location in the district to 3.25%, as described in the act. (Section 67.1545)

TRANSPORTATION DEVELOPMENT DISTRICTS

Current law authorizes transportation development districts (TDDs) to levy a sales tax to fund projects within the district. This act provides that sales of food, as defined in current law for the purposes of sales taxes, shall be exempt from such sales taxes. Additionally, current law limits the rate of the TDD sales tax levy to a maximum of one percent. This act limits the total amount of combined sales taxes at any given location in the district to 3.25%, as described in the act.

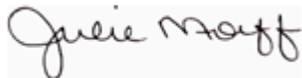
(Sections 238.235 and 238.236)

Current law also requires that the governing board of a TDD to submit to voters of the district a question to abolish the district when the district has completed its project or the board determines that it is unable to complete the project. This act requires the board to abolish the district under such circumstances without submitting a question to the voters of the district. (Section 238.275)

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 - Budget and Planning
Missouri Department of Conservation
Missouri Department of Transportation
Department of Natural Resources
Department of Elementary and Secondary Education
City of Springfield



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