

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2771-01
Bill No.: SB 661
Subject: Elementary and Secondary Education Dept; Business and Commerce; Revenue Dept; Teachers; Taxation and Revenue - Property, Sales and Use, General, Income; Political Subdivisions
Type: Original
Date: April 3, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$773,623 to Unknown)	(\$3,863 to Unknown)	(\$3,959 to Unknown)
Road Fund	\$13,998,210	\$28,836,320	\$29,701,380
State Transportation Fund	\$189,165	\$389,680	\$401,370
Excellence in Education Fund	\$0	\$0	\$0
School District Trust Fund	\$0	\$0	\$0
State School Moneys Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>All State Funds</u>*	\$13,413,752 to (Unknown)	\$29,222,137 to (Unknown)	\$30,098,791 to (Unknown)

***Does not include possible increase in costs to fully fund the foundation formula**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All Federal Funds</u>	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Political Subdivisions	Up to \$309,929,125	Up to \$644,180,000	Up to \$1,516,494,492

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer**, and the **State Tax Commission** indicated that this proposed legislation would have no fiscal impact on their agencies.

The following divisions of the **Department of Economic Development** indicated there would be no fiscal impact to their divisions: **Professional Registration, Tourism, Public Service Commission, Motor Carrier and Railroad Safety**.

Officials from the **Secretary of State's Office (SOS)** assumed the rules, regulations and forms issued by the State Board of Education could require as many as 10 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$615 for FY 2003. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Secretary of State's Office - Division of Elections** estimated that publication costs would be \$3,471 per column inch for 180 inches for a total cost of \$624,780. This includes printings of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2002 general election.

Officials from the **Department of Revenue - Division of Taxation** made the following assumptions regarding administrative fiscal impact of the proposed legislation:

ASSUMPTION (continued)

Business Tax – The proposed legislation will increase the state sales tax rate from 4% to 5%. Business tax will need to send out approximately 150,000 letters at a cost of \$40,200 to notify businesses of the increase in sales tax. Business Tax recommends the effective date for the sales tax rate increase be January 1 after the election, in order to eliminate the remaining of voucher books with the new tax rate. Corporation income tax will also need to notify approximately 70,000 corporations registered for income tax (at a cost of \$18,760) of the rate increase of 1% (6 1/4% to 7 1/4%).

Personal Tax – No impact.

Information Technology – The increase in the tax rates will require programming changes to sales tax (MITS), individual income (MINITS), and corporations income (COINS) mainframe systems.

The MITS system will need to change the state sales/use tax rate from 4% to 5%. To increase the education tax for sales and use tax to 2% will require changing tables, and various programs to recognize when the education tax changed. As well as changes to the distribution programs to distribute the taxes collected to the state. A system test will be required to verify the new rates and distributions are working correctly. It is estimated the above program changes will require 692 hours of programming at a cost of \$23,085.

The MINITS system will require a change to the batch and on-line programs and screens that calculate Missouri tax. A new tax table will need to be used and new notice messages added to the table. The changes to the system will require a complete system test. It is estimated the above program changes will require 692 hours of programming at a cost of \$23,085.

The COINS system will require a change to table 00406 and a comprehensive test. The deposits to the School District Trust Fund will be accounted for outside the boundaries of the COINS system. It is estimated the above changes will require 173 hours of programming at a total cost of \$5,771.

The State Data Center cost to implement the proposed legislation would be \$10,132.

Officials from the **Department of Transportation (MoDOT)** indicated that the additional funding received by MoDOT may require additional employees and the associated expense and equipment and/or capital improvements if necessary to manage the additional workload resulting from the increased funding generated by this proposed legislation. MoDOT assumes their revenues would be affected beginning January 1, 2003. Growth rate on sales/use tax is estimated at 4.5% for FY 03 and 3% in subsequent years. MoDOT further assumes an increase in revenue to counties and municipalities resulting from increase sales and use tax on motor vehicles.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume that withholdings and estimated payments will not be adjusted in FY04 for the individual and corporate income tax increases, and also assume that the sales tax increase will be in effect for 75% of FY03. BAP defers to the Department of Elementary and Secondary Education to determine the effects of this proposal on the school aid formula and local property taxes.

The following table shows the BAP estimate for the revenue increase that would result from this proposed legislation:

GENERAL REVENUE

	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
<u>1% Individual Income Tax Rate Increase</u>	\$0	\$0	\$818,041,120
<u>1% Corporate Income Tax Rate Increase</u>	\$0	\$0	\$ 28,993,122
<u>1 Cent Sales Tax Increase</u>			
State Schools Money Fund	\$457,800,000	\$634,438,000	\$659,426,000
State Road Fund	\$ 20,997,315	\$ 28,836,320	\$ 29,701,380
State Transportation Fund	\$ 283,748	\$ 389,680	\$ 401,370
Cities	\$ 4,256,213	\$ 5,845,200	\$ 6,020,550
Counties	\$ 2,837,475	\$ 3,896,800	\$ 4,013,700

Oversight assumes six months of sales tax collection for FY 2003 and for fiscal note purposes has adjusted the revenue accordingly.

Officials from the **Department of Elementary and Secondary Education (DESE)** made the following assumptions in estimating the cost associated with revising the foundation formula:

- Average Daily Attendance (ADA) x \$5,300 (Summer school ADA is not doubled)
- Assessed Valuation/100 x \$1.25
- In Lieu Of, State Assessed Railroad & Utility, Federal Property, Impact Aid, Intangible Tax, Fair Share, and Textbook revenues are the same as in the FY 02 foundation formula
- Free and Reduced Count used on Line 14 of FY 02 formula x .15 x \$5,300
- There is no hold harmless provision

ASSUMPTION (continued)

Applying these assumptions as if this proposal had been in place in FY 02, the estimated cost is \$3.7 billion compared to the actual FY 02 cost of \$2.02 billion, resulting in an increased cost of approximately \$1.68 billion. This increased cost would be funded by:

- Current one-cent sales tax (Proposition C) = \$691 M
- New one-cent sales tax = \$691 M
- Total sales tax revenue = \$1.382 B
- New income tax revenue (amount unknown by DESE)

The actual cost of the revised formula is unknown to DESE and is partially dependant on when such a formula would be implemented.

SECTION 163.172 - Minimum Teacher Salaries; Experienced Teacher Entitlement

Officials of the **Department of Elementary and Secondary Education** stated that they were unable to compute the effect of this proposal on the amount of money needed to fully fund the foundation formula; however, in response to similar legislation from last year (SB 1912), they made the following assumptions and estimates of salary supplements which would have been required had the proposal been in effect for the 2000-01 school year:

Baccalaureate

0 - 5 years	\$25,000	\$ 9,413,270
6 - 10 years	\$30,000	\$15,168,703
Greater than 19 years	\$35,000	\$ 9,464,661

Masters or equivalent

Greater than 10 years	\$35,000	\$ 7,269,512
Greater than 19 years	\$40,000	\$11,823,965
Greater than 29 years	\$45,000	\$ 3,541,418

Total State Supplements would have been \$56,681,529.

Approximate local costs would have been \$522,000,000

2003-04 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,000,000 and the state supplement would decrease a similar amount, to about \$44,000,000.

ASSUMPTION (continued)

2004-05 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,000,000 and the state supplement would decrease a similar amount, to about \$31,000,000.

2005-06 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,700,000 and the state supplement would decrease a similar amount, to about \$17,300,000.

It should be noted that actual dollars needed for all years beyond 2000-01 would change because:

- a) the number of teachers in each bracket will change due to retirements and resignations;
- b) teachers gaining additional experience will qualify for different brackets;
- c) replacement teachers may be in different brackets from the teachers replaced; and
- d) individual school boards may agree to increase salaries more or less than the assumed 2.5% per year, which would affect the state salary supplement.

The increased Public School Retirement System contribution by the district would be a local cost but could be significant for some districts. The employer match percentage is 10.5%

Officials also noted that there could be other costs incurred by school districts to qualify for the minimum salary supplement.

A program would need to be written to identify the teachers in each category, the amount of salary supplement required, and the eligibility criteria for receiving the money. Therefore, DESE would incur an IT impact estimated to be \$25,000 in its first year, and 15% estimated maintenance costs for FY 2003 and 2004. Additionally, OIT requires an 8% project development fee for the first year.

Oversight assumed a fringe benefit cost of 18.37% to include retirement, FICA, unemployment and worker's compensation on the salary increases, but did not calculate the cost as it is unknown what the actual salary amount would be for either the minimum teachers salaries or the experienced teacher entitlement or how many districts would elect to participate in the program.

For fiscal note purposes, Oversight assumes that increased costs to fund the Foundation Formula will be limited to the amount of additional revenue the proposal would bring into the General Revenue Fund. (Otherwise, either Formula payments would be prorated or additional money ASSUMPTION (continued)

would be appropriated from the General Revenue Fund to the State School Moneys Fund.)

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Income</u> - Increased Individual Income Tax Collections	\$0	\$0	\$818,041,120
<u>Income</u> - Increased Corporate Income Tax Collections	\$0	\$0	\$28,993,122
<u>Income</u> - Increased Sales Tax Collections	\$305,200,000	\$634,438,000	\$659,426,000
<u>Cost</u> - Department of Revenue Information Technology to implement changes in tax provisions	(\$121,033)	\$0	\$0
<u>Cost</u> - Secretary of State Publication costs	(\$624,780)	\$0	\$0
<u>Cost</u> - Department of Elementary and Secondary Education Expense and Equipment	(\$27,810)	(\$3,863)	(\$3,959)
<u>Transfer</u> - Transfer to School District Trust Fund	(\$305,200,000)	(\$634,438,000)	(\$659,426,000)
<u>Transfer</u> - Transfer to State School Moneys Fund	\$0	\$0	(\$847,034,242)
<u>Transfer</u> - Transfer to Excellence in Education Fund	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$773,623 to Unknown)</u>	<u>(\$3,863 to Unknown)</u>	<u>(\$3,959 to Unknown)</u>

ROAD FUND

<u>Income</u> - Department of Transportation Increase in Sales and Use Taxes	\$13,998,210	\$28,836,320	\$29,701,380
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<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
ESTIMATED NET EFFECT ON ROAD FUND	<u>\$13,998,210</u>	<u>\$28,836,320</u>	<u>\$29,701,380</u>
STATE TRANSPORTATION FUND			
<u>Income</u> - Department of Transportation Increase in Sales and Use Taxes	\$189,165	\$389,680	\$401,370
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	<u>\$189,165</u>	<u>\$389,680</u>	<u>\$401,370</u>
EXCELLENCE IN EDUCATION FUND			
<u>Income</u> - Transfers from General Revenue Fund	Unknown	Unknown	Unknown
<u>Cost</u> - Distributions to School Districts	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON EXCELLENCE IN EDUCATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
SCHOOL DISTRICT TRUST FUND			
<u>Income</u> - Transfers from General Revenue Fund	\$305,200,000	\$634,438,000	\$659,426,000
<u>Transfer</u> - Transfer to State School Moneys Fund	<u>(\$305,200,000)</u>	<u>(\$634,438,000)</u>	<u>(\$659,426,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
STATE SCHOOL MONEYS FUND			
<u>Income</u> - Transfers from General Revenue Fund	\$0	\$0	\$847,034,242

SECTION 163.011 (9) – The formula establishes a flat, per pupil entitlement known as the "formula base amount per eligible pupil" which shall be initially established at \$5300 per pupil for the 2003-04 school year and shall be annually adjusted by the percentage change in the state average equalized assessed value from the 3rd to 2nd preceding year. Deductions are made for local sources of operating revenues, including merchant's and manufacturer's replacement taxes, and some federal revenues.

SECTION 163.011 (3) & (6) – "Average daily attendance" is weighted at 105% for the first 100 children per grade level per school, but only for schools serving at least 4 grades including either kindergarten or twelfth grade. Double counting of summer school attendance is deleted.

SECTION 163.011 (12) – "Operating levy for school purposes" is revised to allow up to 12.5 cents of the \$1.25 minimum levy to be placed in either debt service or capital projects.

SECTION 163.031 – The proposal requires that each district, other than certain very wealthy school districts, levy no less than the \$1.25 minimum operating levy as an eligibility requirement for state aid. Actual local property tax receipts from the \$1.25 minimum levy are deducted at 100% from state aid entitlement while additional local property tax receipts above an additional \$530 or ten percent are deducted at fifty percent. Payments pursuant to the new formula are phased in over 2 years.

CATEGORICAL AID - The current Line 14 At-Risk categorical aid is revised so that districts receive an additional formula entitlement payment of 15% of the base formula amount on the basis of Free and Reduced Price Lunch Eligible pupils in the district enrollment.

SECTION 163.172

MINIMUM TEACHER SALARIES

The proposed legislation creates a new, mandatory 5-level minimum salary program, beginning in the 2003-04 school year, funded by a separate categorical appropriation with salary steps as follows:

- \$25,000 for 5 or less years experience
- \$30,000 for Master's (or higher) + 6-10 years or Bachelor's + 6-19 years)
- \$35,000 for Bachelors + 20 or Master's (or higher) + 11-19 years
- \$40,000 for Master's (or higher) + 20-29 years
- \$45,000 for Master's (or higher) + 30 or more years.

DESCRIPTION (continued)

EXPERIENCED TEACHER ENTITLEMENT

The proposal creates a new categorical, the "experienced teacher entitlement" which shall be \$670 for every year of experience for every employee employed the previous year in a position

for which a certificate from the State Board was required.

To be eligible for the "experienced teacher entitlement" a district shall: meet all requirements for state aid pursuant to section 163.021; make no illegal transfers for capital purposes; make no reductions in salary schedule unless financially stressed; place new teachers (with experience in other districts) on salary schedule using all of the new teacher's public school teaching experience and pay returning teachers no less than they were paid the previous year (on an FTE basis). State payments will be reduced if the district's extra duty pay is more than 8.5% or if end of year operating balances are over 15%.

TAXATION

SECTION 144.020; 144.021; 144.440 – This proposal increases the statutory sales tax from four percent to five percent.

SECTION 144.701 – The one-cent Proposition C sales tax revenues and the one-cent increase in sales tax revenues will be distributed as part of the state sources used to fund the basic school aid payment.

SECTION 143.011 – Personal income taxes are increased by one percent for all brackets.

SECTION 143.071 – Corporate income taxes are increased one percent to seven and one-quarter percent.

The proposal has a referendum clause. The legislation would be submitted to the qualified voters of the state for approval or rejection at a special election to be held on the first Tuesday of November, 2002, pursuant to the laws and constitutional provision of the state applicable to general elections and the submission of referendum measures by initiative petitions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal will increase total state revenue, subject to voter approval.

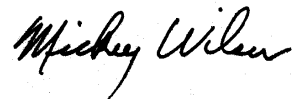
SOURCES OF INFORMATION

Department of Revenue
Division of Taxation
State Tax Commission

LMD:LR:OD (12/01)

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Office of Secretary of State
Administrative Rules Division
Elections Division
Department of Transportation
Office of State Treasurer
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education



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