

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4619-04  
Bill No.: SB 1219  
Subject: Tobacco Products; Health Care; Health Care Professionals; Health, Public; Health Dept.; Hospitals; Education, Higher  
Type: Original  
Date: March 13, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$69,420)	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)
Healthy Families Trust	\$0	(\$143,400,000)	(\$144,800,000)
Missouri Tobacco Settlement for Healthy Families Trust	\$0	(Unknown less than \$551,918)	(Unknown less than \$325,786)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$69,420)</b>	<b>(Unknown exceeding \$144,051,918)</b>	<b>(Unknown exceeding \$145,225,786)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<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 LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Division of Accounting, Department of Health and Senior Services, Linn State Technical College, Missouri Western State College, Office of State Treasurer, University of Missouri, Central Missouri State University, Department of Economic Development, Coordinating Board for Higher Education and Harris-Stowe College** assume the proposed legislation will not fiscally impact their organizations.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** stated there will be no fiscal impact to the DMS from this proposed legislation. In the bill, the DMS will receive 3.5% of the proposed Missouri Tobacco Settlement for Health Missourians Trust Fund in FY 03

Officials from the **Metropolitan Community College** stated the legislation would only affect their colleges if they were to receive grant funds from the trust fund for life sciences research and grants or for the education of students in the area of tobacco usage. There would probably not be a negative fiscal impact on their organization.

Officials from the **Department of Revenue (DOR)** provided the following assumptions related to the proposed legislation”

### **ADMINISTRATIVE IMPACT:**

The DOR - Taxation Unit will need one Tax Processing Tech I for every 10,000 credits and one Tax Processing Tech for every 3,000 additional pieces of correspondence generated by this legislation. In addition, the Information Technology Unit will need to modify the computer systems. Total time is estimated at 1,284 hours at a cost of \$46,170. The total estimated cost of the proposed legislation is \$125,802 for FY 05.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** stated this bill would create a new tax credit for the cost of health insurance coverage for small businesses.. The BAP deferred to the Department of Insurance and the Department of Revenue for an estimate on this portion of the bill.

The BAP officials stated the proposed legislation would also earmark the proceeds from the tobacco settlement for the tax credit and other purposes beginning in FY 04. The proposal would be submitted to the voters during the November, 2002 election. With voter approval, the bill would exempt the tobacco settlement proceeds and interest earnings from total state revenue. The proceeds are currently not included in total state revenue since they are reimbursements for costs incurred by the state. ASSUMPTION (continued)

However, interest earnings are part of total state revenue, so this bill would reduce total state revenue if approved by the voters. The bill would have no impact on the BAP.

Since all of the revenue from the tobacco settlement is recommended for ongoing programs in FY 03, this legislation would affect these ongoing programs in FY 04. The BAP provided a table explaining the changes that would occur, but the table has not been included in the fiscal note due to the size. However, the total revenue from the tobacco settlement is anticipated to fall from \$164 million in FY 03 to \$143 million in FY 04. Therefore, it is not known how much would be available for each of the existing programs in FY 04 without this legislation. The potential loss to these existing appropriations is \$117.4 million. The net loss, after backing out the revenue reduction, is \$96.8 million.

**Oversight** assumes that appropriations of tobacco settlement moneys would be prorated to the various funds based on the actual amounts received.

Although not addressed officially by BAP officials, the General Revenue Fund would experience a loss of interest earnings on funds deposited into the Missouri Tobacco Settlement for Health Families Trust Fund. **Oversight** assumes the loss would be an unknown amount exceeding \$100,000 annually.

Officials from the **Department of Insurance (INS)** stated tax credits that will be available are limited to 35% of the moneys received each fiscal year in the Missouri tobacco settlement. Funds will be transferred to General Revenue for use by the tax credit program. The Office of Administration - Budget and Planning (BAP) estimates the following tobacco settlement amounts: FY2003 - \$164 million, FY2004 - \$143.4 million, FY 2005 - \$144.8 million. These estimates will provide the following funds available for tax credits: FY 2003 - \$57.4 million, FY 2004 - \$50.2 million, FY 2005 - \$50.7 million. In a similar fiscal note from last year, BAP estimated that approximately 140,000 businesses in Missouri meet the definition of small business and these businesses have over 1,027,000 employees. Tax credits for all businesses and all employees would total  $(1,027,000 \times \$100)$  \$102.7 million. While it is unknown the number of businesses that provide at least twenty percent of the cost of health insurance and the cost of that coverage, the INS anticipates that all available funds will be used each year for tax credits beginning with 2004.

The INS does not have any existing programs that deal with tax credits against state income taxes, small businesses or health insurance costs for small businesses. Therefore, in order to administer this program, the INS would need to create a new section for this purpose. The department anticipates a minimum of (1) Section Supervisor, (3) Accountant I, (1) Computer Information Technologist Specialist, (1) Clerk Typist II/Data Entry and (1) Clerk IV will be needed to implement the program.

The Section Supervisor would be responsible for overall program activities, supervision, and coordination between other departments such as Labor and Industrial Relations, Department of Revenue, Secretary of State and Economic Development since the information needed to approve

ASSUMPTION (continued)

credits is within these departments. A minimum of (3) Accountants will be needed to review applications, approve credit claims, and certify amount of credit for up to 140,000 small businesses. The INS assumes that it will only accept applications for the tax credit and certify credits to Department of Revenue. The INS has not assumed any cost for reviewing tax filings, collecting revenues etc.

The data needed to review applications and certify credits does not reside within the INS. The INS will need a CIT Specialist to work with other departments to get access to databases which contain information on small businesses, employees, health insurance costs for employees etc. Information from these databases will need to be merged and placed in a new database and kept current. The INS will need to create and maintain its own database to utilize this information and also to track tax credits for as many as 140,000 small businesses. In addition to the CIT Specialist, the INS estimates that up 2,600 hours of one-time contract computer programming will be required to create a new tax credit system at a cost of \$325,000.

The Clerk IV will provide overall support for the section and maintain application files for over 140,000 small businesses and send out certification/approval letters. One Clerk Typist II will be needed for data entry of applications and tax credits. Related E&E is requested for all FTE. The INS is requesting General Revenue funding for FTE and Expenses. The Department of Insurance has no experience or expertise in the handling of tax credits for small businesses. This fiscal note represents our best estimate of the cost of creating this new program, but costs could well exceed this depending on the number of businesses and the difficulty in obtaining information from other sources needed to process these credits.

Officials from the **Office of Secretary of State (SOS)** stated statewide newspaper publication of constitutional amendments costs approximately \$1,157 per column inch based on an estimate provided by the Missouri Press Services times 3 for multiple printings, as required by the Constitution and the state statute. Therefore, the cost is approximately \$3,471 per column inch. The estimated total number of inches for this amendment is 20 inches, which includes a title header and certification paragraph. The total cost is estimated to be \$69,420 ( $\$3,471 \times 20$  inches).

Officials from **Barton County Memorial Hospital, Cass Medical Center, Cooper County Memorial Hospital, Excelsior Springs Medical Center, Lincoln County Memorial Hospital, Pemiscot Memorial Hospital, Phelps County Regional Medical Center, Ray County Memorial Hospital, Samaritan Memorial Hospital Ste. Genevieve County Memorial Hospital, Southwest Missouri State University, Northwest Missouri State University, Truman State University, State Fair Community College, Missouri Southern State College, Southeast Missouri State University, Moberly Area Community College, St. Louis Community College, and Three Rivers Community College** did not respond to our request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE</b>			
<u>Loss - General Revenue Fund</u>			
Interest earnings on funds deposited into the Missouri Tobacco Settlement for Health Families Trust Fund	\$0	<u>(Unknown exceeding \$100,000)</u>	<u>(Unknown exceeding \$100,000)</u>
<u>Costs - Office of Secretary of State</u>			
Newspaper publication costs for ballot	(\$69,420)	\$0	\$0
Total <u>Costs</u> - Office of Secretary of State	(\$69,420)	\$0	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$69,420)</u></b>	<b><u>(Unknown exceeding \$100,000)</u></b>	<b><u>(Unknown exceeding \$100,000)</u></b>
<b>HEALTHY FAMILIES TRUST FUND</b>			
<u>Loss - Healthy Families Trust Fund</u>			
Tobacco settlement funds	\$0	(\$143,400,000)	(\$144,800,000)
<b>ESTIMATED NET EFFECT ON HEALTHY FAMILIES TRUST FUND</b>	<b><u>\$0</u></b>	<b><u>(\$143,400,000)</u></b>	<b><u>(\$144,800,000)</u></b>
<b>MISSOURI TOBACCO SETTLEMENT FOR HEALTHY MISSOURIANS TRUST FUND</b>			
<u>Income - Missouri Tobacco Settlement for Healthy Missourians Trust Fund</u>			
Interest earnings on funds deposited into the Missouri Tobacco Settlement for Healthy Families Trust Fund	\$0	Unknown exceeding \$100,000	Unknown exceeding \$100,000
<u>Income - Missouri Tobacco Settlement for Healthy Missourians Trust Fund</u>			
Tobacco Settlement Funds	\$0	\$143,400,000	\$144,800,000
Total <u>Income</u> - Missouri Tobacco Settlement for Healthy Missourians Trust Fund	<u>\$0</u>	<u>Unknown exceeding \$143,500,000</u>	<u>Unknown exceeding \$144,900,000</u>
<u>Costs - Department of Revenue</u>			

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
Personal Service Costs (2 FTE)	\$0	\$0	(\$43,316)
Fringe Benefits	\$0	\$0	(\$15,598)
Equipment and Expense	\$0	\$0	(\$15,460)
Programming Costs	<u>\$0</u>	<u>\$0</u>	<u>(\$46,170)</u>
Total <u>Costs</u> - Department of Revenue	<u>\$0</u>	<u>\$0</u>	<u>(\$120,544)</u>

<u>Costs - Department of Insurance</u>			
Personal Service Costs (7 FTE)	\$0	(\$200,583)	(\$205,579)
Fringe Benefits	\$0	(\$72,230)	(\$74,035)
Equipment and Expense	<u>\$0</u>	<u>(\$379,714)</u>	<u>(\$25,628)</u>
Total <u>Costs</u> - Department of Insurance	<u>\$0</u>	<u>(\$652,527)</u>	<u>(\$305,242)</u>

Costs - Missouri Tobacco Settlement for  
 Healthy Missourians Trust Fund

<u>Program Costs</u>			
Health Access Incentive Fund	\$0	(\$2,867,988)	(\$2,896,000)
FQHCs	\$0	(\$2,867,988)	(\$2,896,000)
Life Sciences	\$0	(\$20,075,915)	(\$20,272,000)
Tobacco Prevention	\$0	(\$18,641,921)	(\$18,824,000)
Convert Hospitals to Critical Access Hospitals	\$0	(\$716,997)	(\$724,000)
Rural Health Clinics	\$0	(\$4,301,982)	(\$4,344,000)
Research on Tobacco-Related Disease at UMC	\$0	(\$10,037,957)	(\$10,136,000)
Health Insurance Tax Credits	\$0	(\$50,189,787)	(\$50,680,000)
Education on Medical Savings	\$0	(\$716,997)	(\$724,000)
<u>Accounts</u>			
Increase Medicaid Rates/Health Lab Uninsured and Underinsured	\$0	(\$25,094,893)	(\$25,340,000)
	<u>\$0</u>	<u>(\$7,886,966)</u>	<u>(\$7,964,000)</u>
Total <u>Costs</u> - Missouri Tobacco Settlement for Healthy Missourians Trust Fund	<u>\$0</u>	<u>(\$143,399,391)</u>	<u>(\$144,800,000)</u>

**ESTIMATED NET EFFECT ON  
 MISSOURI TOBACCO  
 SETTLEMENT FOR HEALTHY  
 MISSOURIANS TRUST FUND**

<u>\$0</u>	<u>(Unknown less than \$551,918)</u>	<u>(Unknown less than \$325,786)</u>
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FISCAL IMPACT - Local Government

FY 2003  
(10 Mo.)

FY 2004

FY 2005

\$0

\$0

\$0

FISCAL IMPACT - Small Business

The proposed legislation will have a significant positive net effect on small businesses and they would be the recipients of over \$50,000,000 in insurance tax credits.

DESCRIPTION

This act creates the Missouri Tobacco Settlement for Healthy Missourians Trust Fund into which deposits from the Master Settlement Agreement would be made. Moneys in the fund would be distributed as follows: 2% for the Health Access Incentive Fund, 2% for allocation between federally qualified health centers, 14% for life sciences research & grants (1/3 with value under \$1 million and 2/3 over \$1 million), 13% for prevention of tobacco-related diseases, 1/2% to encourage conversion of hospitals to critical access hospitals, 3% for rural health, 7% for research and development regarding tobacco-related diseases at the University of Missouri-Columbia, 35% for to general revenue to offset the small business health insurance tax credits created in the act, 1/5% to educate citizens on the use of Medical Savings Accounts, 17.5% to raise Medicaid provider rates. However, for the first year 14% shall be used for the state health lab, 5.5% for healthcare facilities and providers treating uninsured or underinsured individuals

The established percentages may be modified by concurrent resolution approved by 2/3 of the general assembly and the modification may not be extended for longer than 2 years in any one resolution. The Commission of Administration shall account for the proceeds of the tobacco claim payments. Moneys appropriated in the fund shall be in addition to and not in place of the appropriations as of July 1, 2003.

Tobacco proceeds shall not be considered "total state revenues".

The health insurance credits created are available to qualified small businesses. Qualified small businesses are defined as businesses employing no more than 50 people. Qualified small businesses which provide health insurance for their employees and contribute at least 20% of the cost, would be allowed tax credits of up to \$100 for each full-time employee. The credits are capped at the 35% of moneys in the Missouri Tobacco Settlement for Healthy Missourians Fund. If more persons apply for credits that there are available credits the Department of Insurance is authorized to create an allocation process for the credits.

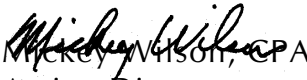
The act contains a referendum clause.

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  
- Division of Accounting  
- Division of Budget and Planning  
Harris-Stowe College  
Metropolitan Community College  
Linn State Technical College  
Coordinating Board for Higher Education  
Department of Revenue  
Department of Health and Senior Services  
Department of Economic Development  
Office of State Treasurer  
Department of Social Services  
University of Missouri  
Missouri Western State College  
Department of Insurance  
Office of Secretary of State  
Central Missouri State University

**NOT RESPONDING: Barton County Memorial Hospital, Cass Medical Center, Cooper County Memorial Hospital, Excelsior Springs Medical Center, Lincoln County Memorial Hospital, Pemiscot Memorial Hospital, Phelps County Regional Medical Center, Ray County Memorial Hospital, Samaritan Memorial Hospital Ste. Genevieve County Memorial Hospital, Southwest Missouri State University, Northwest Missouri State University, Truman State University, State Fair Community College, Missouri Southern State College, Southeast Missouri State University, Moberly Area Community College, St. Louis Community College, and Three Rivers Community College**

  
Mickey Wilson, CPA  
Acting Director  
March 13, 2002