

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1740-02
Bill No.: Perfected HCS for HJR 34
Subject: Appropriations; General Assembly; Taxation and Revenue - Income; Revenue,
 Department of
Type: Original
Date: March 30, 2015

Bill Summary: This proposal would submit to the voters a constitutional amendment to limit general revenue appropriations and mandate state income tax rate reductions in certain situations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0 or (More than \$7,100,000)	\$0	\$0 or (\$50,410,000)
Total Estimated Net Effect on General Revenue	\$0 or (More than \$7,100,000)	\$0	\$0 or (\$50,410,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Budget Reserve	\$0	\$0 or (\$373,300,000)	\$0 or \$63,950,000
Cash Operating Reserve	\$0	\$0 or \$373,300,000	\$0 or (\$13,540,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or \$50,410,000

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
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 2016	FY 2017	FY 2018
Local Government *	\$0	\$0	\$0

* Net of election costs and state reimbursements.

FISCAL ANALYSIS

ASSUMPTION

Officials from the Office of the **Secretary of State (SOS)** provided the following response.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that 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. 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, state law requires the state to pay the costs. The cost of the special election has been estimated at \$7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by the Missouri Constitution and state law. The SOS is provided with core funding for a certain amount of normal activity resulting from each year's legislative session. This funding is adjusted each year depending upon the election cycle, with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years.

The funding has historically been an estimated appropriation because the final cost is dependent on the number of ballot measures approved by the General Assembly, and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue). Therefore, the SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these publications are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

ASSUMPTION (continued)

Oversight has reflected in this fiscal note, the potential cost to the state of reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2016. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2016 (FY 2017). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2016.

SOS officials also stated in response to a similar proposal in the previous session (SJR 26 LR 4581-01) that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize many such bills may be passed by the General Assembly in a given year and collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have a fiscal impact on their organization as follows.

BAP officials assume they would need to contract for certain current functions of the OA Economist to allow time to complete the resolution requirements. Contract costs are estimated to be about \$50,000.

Oversight assumes these responsibilities could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposal are implemented that increase the OA workload, resources could be requested through the budget process.

BAP officials also provided the following information regarding the estimated impact of this proposal on state revenues and operations.

ASSUMPTION (continued)

The General Revenue Fund would be negatively impacted by a change in the fund balance percentage requirements of the Cash Operating and Budget Reserve Funds (see table below). For the purposes of this fiscal estimate, FY 2015 data were used. The calculation also requires the use of inflation and population data. For the purposes of this fiscal estimate, that data was not adjusted for outlying fiscal years as it is not possible to estimate those factors with certainty.

Cash Operating Fund	Budget Reserve Fund	Total	Explanation
\$359,760,000	\$503,660,000	\$863,420,000	Required balance in the funds for FY 2016 (5% and 7%) using FY 2015 data.
\$373,300,000	\$183,900,000	\$557,200,000	Budget Reserve Fund balance to be split between the two funds.
\$13,540,000	\$319,760,000	\$306,220,000	Required transfer from the General Revenue Fund to the Budget Reserve Fund and Cash Operating Fund
(\$13,540,000)	\$0	\$0	FY 2016 Required transfer from the Cash Operating Fund to the General Revenue Fund
\$0	\$63,950,000	\$0	Required transfer from the General Revenue Fund to the Budget Reserve Fund in Years 1-5
(\$13,540,000)	\$63,950,000	\$50,410,000	Amount required to be transferred in the first year (FY 2016)

ASSUMPTION (continued)

Cash Operating Fund	Budget Reserve Fund	Total	Explanation
\$370,910,000	\$519,270,000	\$890,180,000	Required balance in the funds for FY 2017 (5% and 7%).
\$359,760,000	\$503,660,000	\$863,420,000	Budget Reserve Fund balance to be split between the two funds.
\$11,150,000	\$15,610,000	\$26,760,000	Required transfer from the General Revenue Fund to the Budget Reserve Fund and Cash Operating Fund
\$11,150,000	\$0	\$11,150,000	Required transfer from the General Revenue Fund to the Cash operating Fund
\$0	\$3,120,000	\$3,120,000	FY 2017 General Revenue Fund Transfer to Budget Reserve Fund for Year 2
\$0	\$63,950,000	\$63,950,000	FY 2016 Required General Revenue Fund Transfer to Budget Reserve Fund in Year 2-5
\$11,150,000	\$67,070,000	\$78,220,000	Amount required to be transferred in the second year (FY 2017)

Amounts in excess of the required balances would be transferred to the General Revenue Fund until a sufficient amount exists to reach a permanent reduction of at least one quarter of one percent of all state income tax rates. Each one quarter of one percent reduction in income tax rates would reduce state revenues by an estimated \$241 million based on tax year 2012 data. **BAP** officials assume, based on historical data, this provision would not be triggered, therefore no impact is assumed from this provision.

ASSUMPTION (continued)

BAP officials noted the proposal could have an impact on the level of state services that can be provided as a result of the caps it would impose on General Revenue Fund appropriations and net general revenue collections.

BAP officials also noted that separating the current Budget Reserve Fund into two funds may create cash flow problems for the state. For example, in FY 2014, state funds borrowed in excess of \$368 million.

Oversight has no independent information regarding state revenues and fund balances, and will use the BAP response regarding the balance of the Budget Reserve Fund and the amounts of transfers required from the General Revenue Fund to the Budget Reserve Fund and the Cash Operating Reserve Fund. Oversight will reflect the potential transfer from the Budget Reserve Fund to the new Cash Operating Reserve Fund in FY 2017 and the required annual transfers beginning in FY 2018.

We are not able to estimate the required balances nor the future amounts which would be required for annual transfers among the various state funds, other than the five-year amortization of the initial amount required for the Budget Reserve Fund.

Finally, **Oversight** notes the proposal, if approved by the voters and implemented, would result in annual adjustments to the required balances in the Budget Reserve Fund and the Cash Operating Reserve Fund that can not be estimated at this time. External forces are likely to have a significant effect on state revenues which would in turn have an impact on required fund balances. If state revenue sources, other than the income tax, provided sufficient income to fund state operations and the required balances in the Budget Reserve Fund and the Cash Operating Reserve Fund, the proposal could lead to the eventual elimination of the state income tax.

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization, and defer to the Office of Administration - Division of Budget and Planning for an estimate of the fiscal impact of this proposal.

Officials from the **Missouri Senate** assume this proposal would not have an impact on their organization in excess of existing resources.

ASSUMPTION (continued)

Officials from the **Office of the Governor**, the **Missouri House of Representatives**, the **Office of Administration - Division of Accounting**, and the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their organizations.

Officials from the **Office of the Lieutenant Governor** and the **Office of the State Treasurer** assumed a previous version of this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Transfer in</u> - from the Cash Operating Reserve Fund			\$0 or
Section 27(c) 6 - if approved by the voters	\$0	\$0	\$13,540,000
<u>Transfer Out</u> - SOS			
Reimbursement of local election authority election costs - if a special election is called by the Governor	\$0 or (More than \$7,100,000)	\$0	\$0
<u>Transfer out</u> - to the Budget Reserve Fund			\$0 or
Section 27(c) 6 - if approved by voters	<u>\$0</u>	<u>\$0</u>	<u>(\$63,950,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	\$0 or <u>(\$50,410,000)</u>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
BUDGET RESERVE FUND			
Transfer in - from the General Revenue Fund			\$0 or
Section 27(c) 6 - if approved by the voters	\$0	\$0	\$63,950,000
<u>Transfer Out</u> - to the Cash Operating Reserve Fund		\$0 or	
Section 27(a) 1 - if approved by the voters	<u>\$0</u>	<u>(\$373,300,000)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON BUDGET RESERVE FUND	<u>\$0</u>	<u>\$0 or (\$373,300,000)</u>	<u>\$0 or \$63,950,000</u>
CASH OPERATING RESERVE FUND			
<u>Transfer In</u> - from the Budget Reserve Fund		\$0 or	
Section 27(a) 1 - if approved by voters	\$0	\$373,300,000	\$0
<u>Transfer out</u> - to the General Revenue Fund			
Section 27(a) 1 - if approved by voters	<u>\$0</u>	<u>\$0</u>	<u>(\$13,540,000)</u>
ESTIMATED NET EFFECT ON CASH OPERATING RESERVE FUND	<u>\$0</u>	<u>\$0 or \$373,300,000</u>	<u>\$0 or (\$13,540,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
 LOCAL GOVERNMENTS			
<u>Transfer In</u> - Local Election Authorities - reimbursement of special election costs by the State for a special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Cost</u> - Local Election Authorities - cost of the special election	\$0 or (More than \$7,100,000)	<u>\$0</u>	<u>\$0</u>
 ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses and small business owners could pay less in taxes if this proposal is implemented.

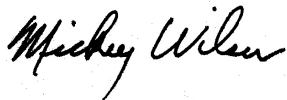
FISCAL DESCRIPTION

The proposed legislation would submit to the voters a constitutional amendment to limit general revenue appropriations and mandate state income tax rate reductions in certain situations.

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 the Governor
Office of the Lieutenant Governor
Office of the Secretary of State
Office of the State Treasurer
Missouri Senate
Missouri House of Representatives
Joint Committee on Administrative Rules
Office of Administration
 Division of Accounting
 Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Director
March 30, 2015

Ross Strobe
Assistant Director
March 30, 2015