

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5372-01
Bill No.: SJR 33
Subject: Appropriations; Constitutional Amendments; General Assembly; Governor and Lt. Governor; Taxation and Revenue- General; Taxation and Revenue -Income
Type: Original
Date: February 17, 2016

Bill Summary: This proposal amends the Constitution 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 2017	FY 2018	FY 2019
General Revenue	\$0 or (More than \$7,100,000)	\$0	\$0 or \$(50,410,000) to Unknown
Total Estimated Net Effect on General Revenue	\$0 or (More than \$7,100,000)	\$0	\$0 or (\$50,410,000) to Unknown

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the change in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Local Government *	\$0	\$0	\$0

* Net of election costs and state reimbursements.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of the Secretary of State (SOS)** assume 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.

ASSUMPTION (continued)

Unless a special election is called for the purpose, a joint resolution proposing a constitutional amendment is 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, §115.063.2, RSMo, requires the state to pay the costs. The cost of the special election has been estimated to be \$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 Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item 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 to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon 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). In FY 2015, the General Assembly changed the appropriation so that it was no longer an estimated appropriation and the SOS was appropriated \$1.19 million to publish the full text of the measures. Due to this reduced funding, the SOS reduced the scope of the publication of these measures. In FY 2015, at the August and November elections, there were 9 statewide Constitutional Amendments or ballot propositions that cost \$1.1 million to publish (an average of \$122,000 per issue). Despite the FY 2015 reduction, the 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.

ASSUMPTION (continued)

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2017. 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 statewide primary election is in August 2016 and the next scheduled general election is in November 2016 (FY 2017). It is assumed the subject within this proposal could be on one of these ballots; 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 2017.

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this resolution requires various calculations using multiple data sources, along with oversight and reporting requirements. It will necessitate the collection and calculation of various economic, budget and census data in order to fulfill the requirements at the beginning of each fiscal year. While the workload for this task will be significant, it would not be a full-time position. Therefore, B&P would need to contract out certain functions of the OA Economist to complete the resolution requirements. Contract costs are estimated to be approximately \$50,000. While the actual transfer would not be made until the following fiscal year (FY 18 for this estimate), the calculation work and tracking requirements would begin in the prior fiscal year.

The general revenue fund will 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.

Amounts in excess of the required balances are 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 will reduce state revenues by an estimated \$188.4 million based on tax year 2013 data. Based on historical data, this provision would not be triggered; therefore no impact is assumed from this provision.

Separating the budget reserve fund into two funds may create cash flow problems for the state. For example, in FY 2015, state funds borrowed in excess of \$400 million.

ASSUMPTION (continued)

FISCAL YEAR 2017			
CORF in millions	BRF in millions	TOTAL in millions	
359.76	503.66	863.42	Amount required to be in the funds for FY 2017 (5% and 7% using FY 2015 data)
373.30	183.90	557.20	BRF balance to be split between the two funds
(13.54)	319.76	306.22	Required GR transfer to the CORF/BRF
	63.95	63.95	FY 2017 Required GR transfer to BRF in Yrs 1-5
(13.54)		(13.54)	FY 2017 Required GR transfer from CORG to GR
(13.54)	63.95	50.41	Total FY 2017 Required GR transfer

FISCAL YEAR 2018			
CORF in millions	BRF in millions	TOTAL in millions	
370.91	519.27	890.18	Amount required to be in the funds for FY 2018 (5% and 7% using FY 2015 data)
359.76	503.66	863.42	BRF balance to be split between the two funds
11.15	15.61	26.76	Required GR transfer to the CORF/BRF
	3.12	3.12	FY 2018 Required GR transfer in Year 1
	3.12	3.12	FY 2018 Required GR transfer in Yrs 2-5
	63.95	63.95	FY 2018 Required GR transfer in Year 2
11.15	67.07	78.22	Total FY 2018 Required GR transfer

ASSUMPTION (continued)

This proposal will not directly impact General and Total State Revenues. However, if redemptions increase or decrease due to changes in appropriated funding, General and Total State Revenues may be impacted. This proposal may also impact economic activity associated with the various tax credit programs. B&P cannot estimate the resultant impacts on General and Total State Revenues. Making tax credits subject to appropriation could reduce resources otherwise available for K-12 education or other appropriations.

Officials at the **Department of Revenue, Joint Committee on Administrative Rules, Missouri House of Representatives, Missouri Senate, Office of Administration's Division of Accounting, Office of the Governor, Office of the Lieutenant Governor** and the **Office of the State Treasurer** each assume there is no fiscal impact from this proposal to their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Additional revenue -</u>			
Reduction in tax credit issuances	\$0	\$0	\$0 or Unknown
<u>Transfer in - from the Cash Operating Reserve Fund</u>			
Section 27(c) 6 - if approved by the voters	\$0	\$0	\$0 or \$13,540,000
<u>Transfer Out - SOS</u>			
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 - to the Budget Reserve Fund</u>			
Section 27(c) 6 - if approved by voters	\$0	\$0	\$0 or (\$63,950,000)
<u>Cost - DOR</u>			
Staffing and IT costs	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0 or (\$50,410,000) to Unknown</u>

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the change in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
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 - to the Cash Operating Reserve Fund</u>		\$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 - from the Budget Reserve Fund</u>		\$0 or	
Section 27(a) 1 - if approved by voters	\$0	\$373,300,000	\$0
<u>Transfer out - to the General Revenue Fund</u>			\$0 or
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 2017 (10 Mo.)	FY 2018	FY 2019
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 <u>\$7,100,000</u>)	<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 that do less business with the state due to the lower level of appropriations for state services, may be negatively impacted.

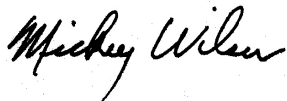
FISCAL DESCRIPTION

This constitutional amendment, if approved by voters, would limit state general revenue appropriations to the amount of appropriations made in the previous fiscal year increased by an inflationary growth factor. In any fiscal year where net general revenue collections exceed total state general revenue appropriations by more than one percent of total general revenue appropriations, the excess over one percent will be transferred to the newly created cash operating reserve fund to be used to reduce all state income tax rates. The amendment provides procedures for appropriating revenues in excess of the appropriation limitation and restoring certain expenditures of the state or any of its agencies when no other funds are available in cases of emergency.

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



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