

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5474-02
Bill No.: Perfected HCS for HB Nos. 2188, 1533, 1393, 2114 & 2113
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 16, 2016

Bill Summary: This proposal relates to local taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

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 to More than \$3,300,250	\$0 to More than \$15,143,000	\$0 to More than \$16,065,000

FISCAL ANALYSIS

ASSUMPTION

Section 67.1360 Archie Transient Guest Tax

Oversight notes this proposal would allow the City of Archie to impose a transient guest tax, upon voter approval, for the promotion of tourism; however, Oversight has no information as to the number of facilities or the rental revenues which would be subject to the tax.

Oversight notes the election to approve the tax could be held as early as April 2017 (FY 2017); the earliest the tax could then become effective by certification would be 2 weeks after the election, so in this case late April or early May of 2017.

Oversight will assume the election would be held at the first opportunity, and will include election costs in FY 2017 for this proposal from \$0 (no election held) or Unknown. Oversight will also indicate additional tax revenues for FY 2018 and FY 2019 of \$0 (no taxable entities, no election held, or the voters disapprove the tax) or Unknown.

Officials at **Cass County** responded to Oversight's request but did not provide information on fiscal impact.

Officials at the City of Archie did not respond to Oversight's request for fiscal impact.

Section 67.1790 Greene County Sales Tax

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would allow voters in Greene County, as well as cities in that county, to impose a sales tax up to 0.25% for early childhood education purposes. B&P officials stated that according to Department of Revenue (DOR) reports, taxable sales in Greene County totaled \$4,684.4 million in fiscal year 2015. Therefore, this sales tax might generate $(\$4,684,000,000 \times .0025) = \11.7 million annually for the county, and additional amounts might be generated if cities in the county separately approve this tax.

B&P officials stated the revenues collected would have no impact on General and Total State Revenues; however, 1% would be retained in the General Revenue Fund to offset DOR collection costs. Therefore, General and Total State Revenues could increase by \$0.1 million if the county sales tax is approved.

B&P officials deferred to DOR for estimates of actual collection costs

ASSUMPTION (continued)

Although they did not respond to our request for information, officials from the **Department of Revenue (DOR)** provided a response to a similar proposal (SB 753) which did not indicate a fiscal impact for their organization.

Oversight assumes DOR could absorb any cost to implement this proposal with existing resources.

OA-ITSD officials provided an estimate of the IT cost of \$21,762 to implement the proposal based on 167 hours of programming to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year and could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

In response to similar language in another proposal in a prior session, (SB 947, 2014) officials from the **Republic School District** assumed a 1/4 cent sales tax would generate approximately \$500,000 in additional revenue. School district officials also stated at the time it is uncertain what this sales tax would generate for the Republic School District in the municipalities that include other school districts within their boundaries. These municipalities include Springfield and Battlefield.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume that, contingent upon the actions of voters (and subsequently the governing bodies of Greene County and cities within) this proposal would have an impact on the revenues received into the "Early Childhood Education Sales Tax Trust Fund"; however, DESE has no means to calculate the potential impact.

Oversight assumes the B&P estimate is the best available and for fiscal note purposes, will use the B&P estimate. Oversight will indicate a range of additional local government revenue from \$0 (no local government approves the sales tax) to more than \$11.7 million per year (the county and one or more other local governments approve the sales tax.)

Oversight notes the election to approve the sales tax could be held in April 2017 (FY 2017) or in November 2016 (FY 2017); the earliest the sales tax could become effective would be the first day of the second calendar quarter after the Department of Revenue is notified of voter approval. In this case, the earliest effective date assuming voter approval at the November 2016 general election would be April 1, 2017 (FY 2017).

ASSUMPTION (continued)

Oversight will assume the election would be held at the first opportunity. Since there will be a general election in November of 2016, additional election costs due to this proposal are assumed to be \$0.

For simplicity, **Oversight** will not include the 1% withholding for DOR collections costs in this fiscal note.

Section 94.902 Liberty Sales Tax

In response to a similar proposal from 2015 (HB 566), officials from the **City of Liberty** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,700,000 per year and the election cost would be approximately \$30,000. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. Oversight will include the city's estimated municipal election cost in this fiscal note.

Officials from the **City of North Kansas City** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,600,000 each year if the entire half-cent sales tax was levied. City officials did not indicate any additional cost to their organization to implement this proposal, and **Oversight** assumes any additional cost could be absorbed with existing resources. The city did not provide an estimate of election costs for this proposal, and Oversight will include an unknown but less than \$100,000 estimated election cost in this fiscal note for the city.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted the proposal would allow voters in certain cities to approve a sales tax up to ½ of one percent to improve public safety of the city.

B&P officials provided information indicating taxable sales in Liberty totaled \$404.8 million in FY 2015. Therefore, B&P officials estimated the proposed sales tax could generate up to \$1 million for FY 2017 and \$2 million annually thereafter. B&P noted the Department of Revenue can keep up to 1% of collections to offset costs, and therefore B&P estimates Total State Revenue and General Revenue increases could be as much as \$10,000 in FY2017 and \$20,000 per year thereafter if the sales tax is approved.

B&P officials provided information indicating taxable sales in the City of North Kansas City totaled \$320 million in FY 2015. Therefore, B&P officials estimated the proposed sales tax could generate up to \$800,000 for FY 2017 and \$1.6 million annually thereafter. B&P noted the Department of Revenue can keep up to 1% of collections to offset costs, and therefore B&P estimates Total State Revenue and General Revenue increases could be as much as \$8,000 in FY2017 and \$16,000 per year thereafter if the sales tax is approved.

ASSUMPTION (continued)

For simplicity, **Oversight** will not include the one percent additional collection deduction in this fiscal note.

Oversight assumes the B&P revenue estimates for this proposal are the best estimates available and will use those estimates for this fiscal note. Oversight assumes the additional revenues would be spent for public safety purposes and will also include additional cost for local governments equal to the additional revenue in this fiscal note.

Oversight also assumes the proposals could be submitted to the voters as early as the April, 2017 (FY 2017) municipal elections. If a sales tax is approved by the voters, it would become effective on the first day of the second calendar quarter after the election. The proposed sales tax could therefore become effective as early as October 1, 2017 (FY 2018).

For fiscal note purposes, **Oversight** will assume the election would be held with the April, 2017 municipal elections and sales tax could be collected from October 1, 2017 to June 30, 2018 (FY 2018). Oversight is also aware there is some delay in collecting, reporting, accounting, and remitting sales tax to local governments; however, we will indicate revenue up to nine months (75%) of the annual estimate for FY 2018.

For the City of Liberty, the estimate would be $(\$2,024,000 \times .75) = \$1,518,000$, and for FY 2019 and following years, the sales tax revenue estimate would be \$2,024,000.

For the City of North Kansas City, the estimate would be $(\$1,600,000 \times .75) = \$1,200,000$ (rounded) and for FY 2019 and following years, the sales tax revenue estimate would be \$1,600,000.

Finally, **Oversight** notes this proposal would allow, but not require, the cities to propose a public safety sales tax to the voters, and the fiscal impact will be presented as \$0 (no election held) or the estimated election costs above and \$0 (no election or voters do not approve the sales tax) or the estimated sales tax revenue above.

Officials from the **Department of Revenue (DOR)** stated this proposal would authorize these cities to impose a one-half percent sales tax for improving public safety but would have no impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal of \$5,200 based on 40 hours of programming at \$130 per hour to make changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year, and assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the budget process.

Section 182.802 House Amendment 2, Cedar County Library Sales Tax

In response to similar legislation filed the year (HB 2271) officials from the **Office of Administration - Division of Budget and Planning** assumed this proposal allows the voters in Cedar County to impose a sales tax up to .5% for library funding purposes. According to information published by Department of Revenue, taxable sales in Cedar County totaled \$92.3 million in fiscal year 2015. Therefore, this sales tax might generate \$462,000 annually.

Oversight assumes an effective date of April 1, 2017, for the effective date of the proposal, assuming voter approval on a November 2016 election date.

Oversight will use a range of \$0 (rejected by voters) or up to \$462,000 (voters could decide to adopt a .25% or .5% local sales tax).

Section 192.300 House Amendment 3, County Health Center Boards Emergency Orders, Ordinances, Rules or Regulations

Oversight assumes no fiscal impact.

Section 205.205 Barton Hospital Property Tax

Officials from **Barton County Memorial Hospital** reported that under current taxing provisions, property taxes generate annual revenue of approximately \$776,000 annually. Under the proposal, the annual property tax receipts could be replaced by annual sales tax receipts.

Oversight assumes the earliest possible election date to be November of 2016, and if voters approve the measure, the repeal of property taxes becomes effective on December 31, 2016 and the sales tax shall become effective on April 1, 2017. Oversight will range the fiscal impact to Barton County from \$0 (either the proposal is not submitted to voters or the voters reject the proposal) to the estimated loss in property taxes and offsetting increase in sales tax revenue.

Section 221.407 Regional Jail District

Officials at the **Office of Administration's Division of Budget & Planning**, the **Office of the State Auditor** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

ASSUMPTION (continued)

In response to similar legislation from 2015 (HCS for HB 639), officials at the **Department of Revenue**, and the **State Tax Commission** each assumed no fiscal impact to their respective agencies from this proposal.

Section 321.242, House Amendment 1, Ripley County Rural Fire Protection District Sales Tax

Oversight notes the proposal authorizes a sales tax of up to one-half of one percent dedicated to the rural fire protection district in Ripley County upon voter approval

Based upon information listed on the website of the **Office of State Auditor**, during the fiscal year ended June 30, 2015, Ripley County collected \$1,053,440 in sales tax revenue based upon a 2% rate (1% General Revenue Fund, ½% Street Fund, and ½% Capital Improvement Fund). Assuming the fire protection district completely covers Ripley County, a one-half cent sales tax on sales would generate tax revenue of approximately \$263,000 annually.

Oversight will assume the election would be held at the first opportunity. Since there will be a general election in November 2016, additional election costs due to this proposal are assumed to be \$0. In addition, if the voters of Ripley County pass this sales tax measure, the earliest that taxes could begin to be collected would be April 1, 2017. Therefore, taxes would only be collected for 3 months of FY 2017 (April - June).

For simplicity, **Oversight** will not include the 1% withholding for Department of Revenue collection costs in this fiscal note.

Bill as a Whole

Officials from the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that 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.

ASSUMPTION (continued)

Officials from Greene County, the Springfield School District, the City of Springfield, Fair Grove Schools, and the City of Republic did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (3 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (3 Mo.)	FY 2018	FY 2019
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POLITICAL SUBDIVISIONS FUNDS

<u>Revenue</u> - Archie - transient guest tax Section 67.1360	\$0	\$0 or Unknown	\$0 or Unknown
<u>Revenue</u> - Greene County - sales taxes Section 67.1790	\$0 to More than \$2,925,000	\$0 to More than \$11,700,000	\$0 to More than \$11,700,000
<u>Revenue</u> - City of Liberty sales tax Section 94.902	\$0	\$0 or Up to \$1,518,000	\$0 or \$2,040,000
<u>Revenue</u> - City of North Kansas City sales tax Section 94.902	\$0	\$0 or Up to \$1,200,000	\$0 or \$1,600,000
<u>Revenue</u> - Barton County Sales and Use Tax Section 94.902	\$0 or \$194,000	\$0 or \$776,000	\$0 or \$776,000
<u>Revenue</u> - Cedar County Library sales tax Section 182.802 HA 2	\$0 or up to \$115,500	\$0 or up to \$462,000	\$0 or up to \$462,000
<u>Revenue</u> - Ripley County Fire Protection District sales tax Section 321.246 HA 1	\$0 or up to \$65,750	\$0 or up to \$263,000	\$0 or up to \$263,000

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (3 Mo.)	FY 2018	FY 2019
POLITICAL SUBDIVISIONS FUNDS (continued)			
<u>Cost</u> - Elections	\$0 or (Unknown)	\$0	\$0
<u>Loss</u> - Barton County Property Tax - Section 205.205	<u>\$0</u>	\$0 or <u>(\$776,000)</u>	\$0 or <u>(\$776,000)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISION FUNDS	<u>\$0 or More than \$3,300,250</u>	<u>\$0 or More than \$15,143,000</u>	<u>\$0 or More than \$16,065,000</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses in Greene County which purchase items subject to sales tax.

Small businesses in Barton County may be impacted by this proposal.

Small businesses in Cedar County may be impacted by this proposal.

Small businesses in Ripley County may be impacted by this proposal.

FISCAL DESCRIPTION

This proposal adds the city of Archie to the list of cities and counties that may impose, upon voter approval, a transient guest tax of between 2% and 5% per occupied room per night for the promotion of tourism.

The proposed legislation would authorize Greene County or any city within the county to impose, upon voter approval, a sales tax not to exceed .25% on all retail sales within the county or city for the purpose of funding early childhood education.

On or after the effective date of any tax authorized, the county or city would be required to enter into an agreement with the Director of the Department of Revenue to collect the tax; the department would be responsible for the administration, collection, enforcement, and operation of the tax. All revenue collected, except for 1% for the cost of collection which would be deposited in the General Revenue Fund, would be deposited in the Early Childhood Education Sales Tax Trust Fund. Moneys in the fund would not be deemed state funds and could not be commingled with any funds of the state.

Any tax imposed under these provisions would be submitted to the voters of the taxing jurisdiction for retention or repeal every five years using the same procedure by which the imposition of the tax was voted.

The governing body of any county or city that has adopted the sales tax could submit the question of repeal of the tax to the voters at a general election. The tax could also be repealed by a petition signed by 10% of the registered voters of the county or city voting in the last gubernatorial election, calling for an election to repeal the sales tax.

If the tax is repealed or terminated by any means, all funds remaining in the trust fund could continue to be used solely for early childhood education. One year after the repeal of the tax, the department director would remit the balance in the account to the county or city and close the account.

The governing body of the county or city imposing the tax would select an existing community task force to administer the revenue received. The revenue could only be expended upon approval of an existing community task force selected by the governing body of the county or city to administer the funds and only in accordance with a budget approved by the county or city governing body.

This legislation would authorize certain cities to submit to the voters a proposal to impose a sales tax of up to .5% for the purpose of improving the public safety of the city.

FISCAL DESCRIPTION (continued)

The proposed legislation authorizes, upon voter approval, Barton County to repeal a property tax and it with a sales tax of up to 1% for the funding of a hospital district

The proposal authorizes Cedar County upon voter approval to impose a local sales tax up to .5% for funding a public library.

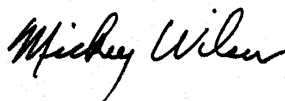
The proposal authorizes a fire protection district in Ripley County to impose upon voter approval, a sales tax not to exceed 0.5% for the purpose of providing revenue for the operation of the fire protection district.

The proposal authorizes a county commission or the county health center board to make and promulgate orders, ordinances, rules or regulations in the event of an 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

Office of Administration
Division of Budget and Planning
Department of Revenue
Department of Elementary and Secondary Education
Joint Committee on Administrative Rules
City of Republic



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Director
March 16, 2016

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