

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0157-01
Bill No.: Perfected HB 193
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;
 Taxation and Revenue - Property; Political Subdivisions; Hospitals
Type: Original
Date: March 7, 2017

Bill Summary: This proposal would authorize any third class county to submit to the voters a proposition to repeal the current hospital district property tax levy in favor of a dedicated sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$0	\$0 or Could exceed \$369,500	\$0 or Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Responses to original proposal

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would replace the current property tax with a sales tax. This tax requires a popular vote, and would be implemented in the second calendar quarter following the DOR Director receiving a notification. Therefore, assuming a November 2017 vote, the first full fiscal year impact would occur in FY 2019, with 1/4th fiscal year impact occurring in FY 2018. In CY 2015, the most recent year available, sales and use tax collections in Barton County were \$93,610,037. This number was assumed for FY 2018. According to a December 2015 State Auditor's report, Barton County collected \$776,285 in property taxes for their hospital district in 2015. Subtracting these collections from the potential collections of a 1% sales tax yields an increase in net local revenues of \$150,454 per fiscal year.

BAP officials assume collection charges would be \$9,361 per fiscal year, or 1% of total collections, and deferred to the Department of Revenue (DOR) for an actual estimate of costs related to collection.

Finally, BAP officials noted that voter approved taxes would not impact Total State Revenues but the DOR collections fees would, and noted this proposal would not impact revenue limitation calculations required under the state constitution.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** noted this proposal would authorize Barton County to repeal a property tax in favor of a sales tax of up to one percent dedicated to a hospital district.

EPARC officials noted the Barton County sales tax base has averaged \$108,402,037 over the last three years. Should a new one percent sales tax be implemented throughout Barton County causing the after-tax price for all goods to increase by one percent, EPARC officials estimated an approximate one percent reduction in the demand for all goods reducing the tax base to \$107,328,750. Using this adjusted sales base, and should this bill be enacted and passed by resolution in Barton County, a one percent sales tax on this base would yield new collections of \$1,073,288; \$1,062,555 for Barton County for a hospital district and \$10,733 to General Revenue for state collection fees.

ASSUMPTION (continued)

EPARC officials also assume the reduction in tax base by approximately 1% would reduce all other existing collections within Barton County by approximately 1%, an aggregate reduction of \$32,055 of which \$641 represents the reduction in the state collection fee. In addition, the reduction in the tax base would reduce the 3% General Revenue Sales Tax collection from \$3,252,061 to \$3,219,862, a difference of \$32,199. Overall, EPARC estimated a reduction in Net General Revenue of \$22,107; \$10,733 minus \$32,199 minus \$641.

Oversight assumes the EPARC estimate of potential reduction in the county's taxable sales base and the associated revenue reductions would be a secondary impact from this proposal. Oversight will not include those amounts in this fiscal note.

Officials from **Barton County** assumed the county would lose approximately \$36,000 per year in assessment fund withholdings and collector's fees if this proposal was implemented and the property tax levy was eliminated.

Oversight will include the Barton County estimate of revenue reductions in this fiscal note; the impact will be shown as \$0 (no proposition or proposition does not receive voter approval) or the estimated \$36,000. The impact would occur once the property tax levy was eliminated.

Officials from the **Barton County Memorial Hospital** provided a response to this proposal but did not include an estimate of fiscal impact on their response.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, the **Department of Conservation**, the **Department of Health and Senior Services**, the **Department of Revenue**, the **Department of Social Services**, and the **Department of Natural Resources** assume this proposal would have no fiscal impact on their organizations.

Oversight discussed the taxable sales base with Department of Revenue (DOR) officials and we were informed the reported taxable sales base includes sales and use tax transactions. Further, since Barton County has not adopted a use tax, the tax yield is reduced to sales tax transactions. DOR officials provided a sales tax base of \$64.8 million for Barton County.

Oversight recalculated the taxable sales base for Barton County using the sales tax distributed of \$1.076 million and adding back the 1% DOR retention and the 2% merchant retention; then dividing by the 1.5% sales tax rate to obtain an estimated sales base of \$73.9 million. Oversight will indicate a range of sales tax revenue for the proposed levy from $(\$64.8 \text{ million} \times 1\%) = \$648,000$ to $(\$73.9 \text{ million} \times 1\%) = \$739,000$.

ASSUMPTION (continued)

Oversight notes that Chapter 205.205, RSMo. requires the proposition to be submitted to the voters at a special election or a statewide primary or general election and assumes that, unless a special election was held, the soonest the proposition could be submitted to the voters would be the primary election in August 2018 (FY 2019).

In that case, voter approval would allow sales tax collections beginning in January, 2019 and a total of two quarters' sales tax collections for FY 2019. Voter approval would presumably require cancellation of the hospital district property tax levy for 2019 which would have been collected in December 2019 (FY 2020).

For convenience, **Oversight** will not indicate the Department of Revenue's collection costs in this fiscal note.

Amendment 1

The language in this amendment would expand the authorization to seek voter approval to replace a hospital district property tax with a dedicated sales tax to all third class counties.

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Department of Revenue** assume this amendment would have no fiscal impact on their organization.

Oversight does not have information on the number of third-class counties with a hospital district, current property tax revenues supporting those districts, nor the amount of revenue that would be generated by a replacement sales tax. Oversight will indicate \$0 or Unknown additional sales tax revenue and \$0 or Unknown property tax reduction for the counties which would elect to replace their current property tax with a sales tax.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
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LOCAL GOVERNMENTS

<u>Revenue reduction</u> - Barton County Collector's commission and assessment fund allocations	\$0	\$0	\$0 or (\$36,000)
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<u>Revenue reduction</u> - Third class counties Collector's commission and assessment fund allocations	\$0	\$0	\$0 or (Unknown)
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<u>Additional revenue</u> - Barton County Memorial Hospital		\$0 or \$324,000	\$0 or \$648,000
Sales tax	\$0	to \$369,500	to \$739,000

<u>FISCAL IMPACT</u> - Local Government (Continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
<u>Additional revenue</u> - Third class counties			
Sales tax	\$0	\$0 or Unknown	\$0 or Unknown
<u>Revenue reduction</u> - Barton County Memorial Hospital			
Property tax	\$0	\$0	\$0 or (\$776,285)
<u>Revenue reduction</u> - Third class counties			
Property tax	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0 or Could exceed \$369,500</u>	<u>\$0 or Unknown to (Unknown)</u>

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact to a small business which owns or operates taxable real or personal property or which purchases items or services which are subject to sales tax.

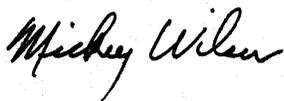
FISCAL DESCRIPTION

This proposal would authorize any third class county to submit to the voters a proposition to repeal the current hospital district property tax levy in favor of a dedicated sales tax.

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 Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Health and Senior Services
Department of Natural Resources
Department of Revenue
Department of Social Services
Barton County
Barton County Memorial Hospital
University of Missouri
 Economic and Policy Analysis Research Center



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