

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0772-02
Bill No.: HB 856
Subject: Corporations; Political Subdivisions; Secretary of State; Business and Commerce;
Revenue, Department of
Type: Original
Date: February 15, 2019

Bill Summary: This proposal changes the law regarding government sanctioned business.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	Up to (\$89,565) to Unknown	Up to (\$90,406) to Unknown	Up to (\$91,073) to Unknown
Total Estimated Net Effect on General Revenue	Up to (\$89,565) to Unknown	Up to (\$90,406) to Unknown	Up to (\$91,073) to Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	Up to 2 FTE	Up to 2 FTE	Up to 2 FTE
Total Estimated Net Effect on FTE	Up to 2 FTE	Up to 2 FTE	Up to 2 FTE

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 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state their Business Tax Unit requires two (2) Revenue Processing Technicians (\$24,360 each) in order to administer Section 70.221.3.

Oversight attempted to obtain information regarding the number of entities that were initially formed under Section 70.220 to determine the number of potential violations may be reported to the Department of Revenue; however, we were unable to obtain this information and therefore, unable to determine scope of this bill. Therefore, Oversight will range the fiscal impact to the DOR as “Up to” their estimated need for 2 FTE. Similarly, Oversight does not know how many such entities are exceeding its initial purpose and may be treated as a for-profit corporation and taxed as such. Nor, would Oversight be able to estimate when such switch in taxation for these entities begin. Therefore, Oversight will reflect a \$0 or Unknown amount of tax revenue from this proposal.

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 SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

Officials from the **Joint Committee on Administrative Rules (JCAR)** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

ASSUMPTION (continued)

Officials from the **City of Kansas City** and **Monroe County Assessor** both assume the proposal will have no fiscal impact on their respective organizations.

Oversight notes that the City of Kansas City and Monroe County Assessor have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE FUND			
<u>Income</u> - potential tax revenue from entities initially formed under Section 70.220, but now being taxed as corporations §70.221	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - DOR §70.221	Up to...	Up to...	Up to...
Personal service	(\$40,600)	(\$49,207)	(\$49,699)
Fringe benefits	(\$33,391)	(\$40,217)	(\$40,367)
Equipment and expense	(\$15,574)	(\$982)	(\$1,007)
<u>Total Cost</u> - DOR	<u>Up to (\$89,565)</u>	<u>Up to (\$90,406)</u>	<u>Up to (\$91,073)</u>
FTE Change - DOR	Up to 2 FTE	Up to 2 FTE	Up to 2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Up to (\$89,565)</u> <u>to Unknown</u>	<u>Up to (\$90,406)</u> <u>to Unknown</u>	<u>Up to (\$91,073)</u> <u>to Unknown</u>
Estimated Net FTE Change General Revenue	Up to 2 FTE	Up to 2 FTE	Up to 2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill requires that any entity created pursuant to Section 70.220, RSMo, must be treated as a for-profit corporation if it provides services to any individual, entity, or political subdivision in excess of its initial purpose. The Department of Revenue may implement these provisions.

This bill also specifies that the state and any political subdivision thereof can only offer a good or service for rent or purchase to the public in certain circumstances if a private business offers substantially the same good or service. No revenue collected from such rental or purchase shall be used to fund the offering of any other good or service offered by the state or political subdivision or transferred into any other account.

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
Office of the Secretary of State
Joint Committee on Administrative Rules
City of Kansas City
Monroe County Assessor



Kyle Rieman
Director
February 15, 2019

Ross Strope
Assistant Director
February 15, 2019

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