

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0077S.05C
 Bill No.: SCS for HCS for HB 162
 Subject: Attorney General; Business and Commerce; Corporations; Professional
 Registration and Licensing; Property, Real and Personal; Fees; Secretary of State
 Type: Original
 Date: May 7, 2021

Bill Summary: This proposal modifies provisions relating to business entities registered with the state.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|--------------------|--------------------|--------------------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| General Revenue | (\$903,667) | (\$996,855) | (\$623,875) | (\$381,632) |
| Total Estimated Net Effect on General Revenue | (\$903,667) | (\$996,855) | (\$623,875) | (\$381,632) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|--|--------------|-------------------|------------------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| Technology Trust Fund | \$180 | (\$77,384) | \$290,979 | \$501,198 |
| Total Estimated Net Effect on Other State Funds | \$180 | (\$77,384) | \$290,979 | \$501,198 |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|--|------------|------------|------------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on All Federal Funds | \$0 | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|----------|----------|----------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 | \$0 |

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|--|------------|------------|------------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| | | | | |
| Local Government | \$0 | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

§§347.044, 347.179, 347.183, 358.460, & 358.470 – Regulating Limited Liability Companies & Partnerships

Officials from the **Office of the Secretary of State (SOS)** assume state General Revenue regarding these particular filings will decrease, for Limited Liability Company (LLC), and decrease for Limited Liability Partnerships in the first five years.

A new filing of Information Statement for LLCs will start in 2024 and affect LLCs every five years thereafter for each new registration resulting in a positive fiscal impact.

State revenue in 10 years would then level back as the fee cut shifts to the information statement required every five years.

These estimates assume various rate(s) of participation and use of an averaging of historical data to determine estimations.

347.044-347.183 (LLC)

| <u>FY</u> | <u>GR 0101</u> | <u>TECH 0266</u> |
|---------------------------------|----------------|------------------|
| FY2022 | (1,083,835.31) | 180 |
| FY2023 | (996,264.86) | 216 |
| FY2024 | (623,329.79) | \$290,979 |
| AVG Estimated Change in GR 2025 | (381,632.32) | 501,198.00 |
| AVG Estimated Change in GR 2026 | (651,875.25) | 279,209.70 |
| AVG Estimated Change in GR 2027 | (694,666.43) | 244,000.00 |

358.460-358.470 (LLP)

| <u>FY</u> | <u>GR 0101</u> | <u>TECH 0266</u> |
|-----------|----------------|------------------|
| FY2022 | \$ (565.00) | |
| FY2023 | \$ (590.00) | |
| FY2024 | \$ (545.00) | |

Current customer ratio of paper vs online is 25% to 75% for creation filings the change in fees would strive to move that ratio to 5% paper and 95% online. Filing online will have a cost savings as the system is set up to auto process creation documents. While this cost saving is not true for all filings, as manual review by an examiner is required for those documents, there are added benefits to customer submitting online.

It is assumed that 30% of the current LLCs listed as active are actually doing business and will file an information statement as required under 347.044, with an increase rate over time as new LLCs will know before creating that an information statement will be required in five years. The first LLC was created in December of 1993, since that time over 700,000 entities have been created, or converted to the entity type of Limited Liability Company.

Series LLC is a growing area of the LLC entity type. It is unknown how many filings will be effected by the change in cost, as they do not currently have revenue collected for these filings. The best estimate is based on what an examiner thinks they file per month annualized.

The technology trust fund is not impacted until January of 2024 when 347.044 starts.

SOS states the overall impact is estimated at:

| Fund Affected | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|--|--------------------|----------------------|--------------------|------------------|--------------------|--------------------|
| General Revenue | (\$903,667) | (\$996,855) | (\$623,875) | (\$381,632) | (\$651,875) | (\$694,666) |
| Technology Trust Fund | \$150 | (\$77,384) | \$290,979 | \$501,198 | \$279,210 | \$244,000 |
| Total Estimated Net Effect on All State Funds | (\$903,517) | (\$1,074,239) | (\$332,896) | \$119,565 | (\$372,665) | (\$450,666) |

The Secretary of State reserves the right to offset or request additional resources for estimated fiscal note impacts during the budget process.

Secretary of State's office is a silo IT department. All changes to software would require working with a third party vendor and/or the Information Technology department. Resulting in an estimated expenditure of \$77,600

SOS vendor has standard rates for determining cost per hour.

| | |
|--------------------------------|-----------------------------------|
| Project Manager | \$ 180.00 x 40 hr. = \$7,200 |
| Technical Architect | \$ 165.00 x 80 hr. = \$13,200 |
| Senior RegSys Developer | \$ 150.00 |
| RegSys Developer | \$ 130.00 x 160 hr. = \$20,800 |
| Business Analyst | \$ 145.00 x 160 hr. = \$23,200 |
| Database Administrator | \$ 150.00 |
| Quality Assurance (QA) Analyst | \$ 110.00 x 120 hr. = \$13,200 |
| TOTAL | \$77,600 |

*An estimation was done on the hours required for this changed based on past PAQs

Oversight will reflect the estimated fiscal impact as provided by SOS

Officials from the **Office of the State Courts Administrator**, the **Office of the State Treasurer** and the **Attorney General’s Office** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

§407.475 – Non-Profit Organizations

In response to similar legislation from this year (HCS for SS for SB 333), officials from the **Office of Administration – Budget and Planning (B&P)** stated Section 105.1500 establishes the Personal Privacy Protection Act which prohibits the listed entities from sharing personal information in its possession. A person or entity found to be in violation of this section would be subject to a fine of no less than \$2,500 per violation with fines being tripled if the violation is intentional. The section also provides for the reimbursement of litigation fees. Any person who knowingly violates this section is guilty of a class B misdemeanor. To the extent any related fines are deposited in the state treasury, Total State Revenues may be impacted.

In response to similar legislation from this year (HCS for SS for SB 333), officials from the **University of Missouri** stated although this proposed legislation will create possible new sources of liability for the University of Missouri System, they do not believe it will have a significant fiscal impact.

Oversight assumes the fiscal impact from §105.1500.5 (if any) would not be material to the state or to local political subdivisions.

In response to similar legislation from this year (HCS for SS for SB 333), officials from the **Department of Economic Development, Office of the Attorney General, Administrative**

Hearing Commission and the **Office of the State Courts Administrator** each assumed the proposal would not fiscally impact their respective agencies.

Oversight notes that the above mentioned agencies 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 for this section.

In response to similar legislation from this year (HCS for SS for SB 333), officials from the **City of Springfield** assumed the proposal would not fiscally impact their city.

Section 1

Officials from the **Department of Health and Senior Services** assume this section requires an agency or state department in response to an alleged civil violation of rules or regulations of an agency or department, which is subsequently abandoned, withdrawn or fails to be determined as a violation to remove from all public records of the state and notify all other government agencies, departments, entities that might have been notified of the charge or allegation to expunge the violation from their records. This can be conducted within the normal duties for the Division of Regulation and Licensure, minimal time and expense will be required to conduct the requirements of the proposed legislation.

The department anticipates being able to absorb these costs. However, until the FY22 budget is final, the department cannot identify specific funding sources.

Oversight does not have information to the contrary and therefore, Oversight will reflect no fiscal impact for this section of the proposal.

Responses regarding the proposed legislation as a whole

Officials from the **Department of Commerce and Insurance**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education and Workforce Development**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety's Division of Alcohol and Tobacco Control**, the **Fire Safety**, the **Missouri Gaming Commission**, the **Missouri National Guard**, the **Missouri Highway Patrol**, the **Missouri Veterans Commission**, the **Office of the Director**, the **State Emergency Management Agency**, the **Department of Social Services**, the **Missouri Department of Agriculture**, the **Missouri Department of Conservation**, the **Missouri Ethics Commission**, the **Missouri Department of Transportation**, the **MoDOT & Patrol Employees' Retirement System**, the **Office of Administration**, the **Petroleum Storage Tank Insurance Fund**, the **Office of the State Public Defender**, the **University of Missouri System**, the **City of Claycomo**, the **City of Corder**, the **City of Kansas City**, the **City of St. Louis**, the **Kansas City Police Department**, the **St. Louis County Police Department**, the **Office of the Governor**, the **Joint Committee on Education**, the **Joint Committee on Public**

Employee Retirement, Legislative Research, Oversight Division, the Missouri Senate, the Missouri Lottery, the Missouri Consolidated Health Care Plan, the Missouri Higher Education Loan Authority, the Missouri Office of Prosecution Services, the Missouri State Employee's Retirement System and the State Tax Commission each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State** also notes, except for what is previous noted in the above sections, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they 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 their office can sustain with their core budget. Therefore, they 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.

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 request funding through the appropriation process.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities, counties and local law enforcement were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

| <u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
|---|-----------------------------|---------------------------|---------------------------|-----------------------------------|
| GENERAL REVENUE | | | | |
| <u>Loss – SOS - fee revenue change for LLC s& LLPs p3-4</u> | <u>(\$1,084,400)</u> | <u>(\$996,855)</u> | <u>(\$623,875)</u> | <u>(\$381,632)</u> |
| ESTIMATED NET EFFECT TO GENERAL REVENUE | <u>(\$1,084,400)</u> | <u>(\$996,855)</u> | <u>(\$623,875)</u> | <u>(\$381,632)</u> |
| | | | | |
| | | | | |
| <u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
| TECHNOLOGY TRUST FUND | | | | |
| <u>Loss-SOS-filing fees p. 3-4</u> | \$180 | \$216 | \$290,979 | \$501,198 |
| <u>Cost - SOS Costs to implement changes p. 3-4</u> | <u>\$0</u> | <u>(\$77,600)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT TO THE TECHNOLOGY TRUST FUND | <u>\$180</u> | <u>(\$77,384)</u> | <u>\$290,979</u> | <u>\$501,198</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2025) |
|---|---------------------|------------|------------|-----------------------------------|
| | | | | |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT – Small Business

A small business entity that receives compensation from a real estate broker as provided for in §339.150 may be fiscally impacted as they will not be required to be licensed under this chapter.

The fees that small businesses pay to the Office of the Secretary of State could change as a result of §§347.044, 347.179, 347.183, 358.460, & 358.470 of this proposal.

Certain small limited liability companies could be impacted by §347.143 of this proposal.

FISCAL DESCRIPTION

§§347.044, 347.179, 347.183, 358.460, & 358.470

This act creates and amends various provisions regulating limited liability companies and partnerships.

Every limited liability company (LLC) and foreign limited liability company (foreign LLC) is required to file an information statement with the Secretary of State (SOS) once every 5 years, accompanied by a fee of \$15, or \$5 if filed electronically. The SOS is permitted to administratively cancel the articles of incorporation of an LLC or the registration of a foreign LLC for failure to timely file an information statement. The act provides procedures for allowing a foreign LLC to apply to the SOS to have its registration reinstated following such a cancellation. Procedures are also created allowing an LLC to apply for reinstatement following the erroneous or accidental filing of a notice of winding up or notice of termination.

The act reduces various filing fees imposed on LLC's and partnerships for filing certain documents with the SOS and provides for reduced fees for filing certain documents in an electronic format. Additionally, the act creates the following new fees:

- A fee of \$95 for filing a withdrawal of an erroneously or accidentally filed notice of winding up or articles of termination; and
- For a filing relating to a limited liability series an additional fee of ten dollars for each series effected or, if filing online in an electronic format prescribed by the secretary, a fee of five dollars for each series effected.

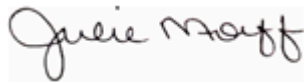
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of the State Courts Administrator
State Tax Commission
Missouri Office of Prosecution Services
Office of the State Treasurer
Attorney General's Office
Department of Commerce and Insurance
Department of Elementary and Secondary Education
Department of Higher Education and Workforce Development
Department of Mental Health
Department of Natural Resources
Department of Corrections
Department of Labor and Industrial Relations
Department of Revenue
Department of Public Safety
Department of Social Services
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Ethics Commission
Missouri Department of Transportation
MoDOT & Patrol Employees' Retirement System
Office of Administration
Petroleum Storage Tank Insurance Fund
Office of the State Public Defender
University of Missouri System
City of Claycomo
City of Corder
City of Kansas City
City of St. Louis
Kansas City Police Department
St. Louis County Police Department
Office of the Governor
Joint Committee on Education
Joint Committee on Public Employee Retirement
Legislative Research
Oversight Division
Missouri Senate
Missouri Lottery

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Missouri Consolidated Health Care Plan
Missouri Higher Education Loan Authority
Missouri State Employee's Retirement System



Julie Morff
Director
May 7, 2021



Ross Strobe
Assistant Director
May 7, 2021