

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0613-04
Bill No.: HCS for HB 165
Subject: Cities, Towns, and Villages; Taxation and Revenue - General;
Telecommunications
Type: Original
Date: March 6, 2007

Bill Summary: Enacts the 2007 Municipal Telecommunications Business License Tax Simplification Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator** state this proposal has no fiscal impact on the Courts.

Officials from the **Office of 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 to the SOS office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

Officials from the **Department of Economic Development - Public Service Commission** and **Office of Public Counsel** state this proposal will have no fiscal impact on their respective agencies.

Officials with the Office of State Auditor assume the requirements imposed by this legislation to resolve inconsistencies or disputes arising from the information provided by municipalities and telecommunications companies could require three additional Staff Auditors to be hired. **Oversight** assumes that any additional workload created by this proposal could be absorbed by existing personnel.

In response to a similar proposal from this session (SB 209), officials from the **Office of Attorney General (AGO)** state that due to the substantial likelihood of litigation over this proposal, AGO assumes that additional staffing and/or expense and equipment may be necessary on a temporary basis. Such costs would likely not exceed \$100,000.

Oversight assumes that the likelihood of litigation is speculative and therefore does not assign fiscal impact.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** made the following assumptions regarding the fiscal impact of this proposed legislation:

Business Tax - Due to the manual requirements, and past experience, Taxation will require 2 Tax Processing Technician I to compile and record data, notify businesses and municipalities, answer phone calls, resolve problems and inconsistencies with data received, and contact taxpayers and municipalities who have not provided data.

Processing - Processing would require 1 Tax Processing Technician I for return pre-edit, data entry, and corrections.

Customer Assistance - Will require 1 Tax Collection Technician I for every 15,000 delinquent calls a year. Lien fees may be required depending on estimated number to be filed and released. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices (DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield).

Oversight assumes that collections fees paid to DOR for this tax would offset additional costs brought about by this proposal.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 months at a rate of \$16,744.

Officials from **St Louis County** state that their county currently receives gross receipts taxes totaling more than \$2.7 million dollars per year from land line telephone service providers. All revenues from gross receipts tax are dedicated for police and law enforcement purposes. By mandating that the County must dismiss its current suit against cell phone service providers who refuse to pay any gross receipts taxes, the bill prevents the County from collecting more than \$45 million dollars in unpaid back taxes, plus up to \$3 million dollars per year in future tax payments.

Officials from the **City of Centralia** estimate costs of \$35 in 2008 for advertisement to adopt new rate and approximately \$212 per year to the Director of Revenue for the 1% collection fee. They also assume a potential loss of at least \$195,000 in penalties and interest on unpaid taxes with a loss of an estimated \$285,000 in actual back taxes.

ASSUMPTION (continued)

Officials from **Texas County** do not believe this proposal will have a negative impact on the county's General Revenue Fund.

Officials from the **City of Independence** state the fiscal impact (loss) is estimated to be almost \$2.4 million in the first year.

Officials from the **City of Gladstone** assume this proposal would cost the City of Gladstone over \$2 million in unpaid telephone utility taxes. In addition, by reducing their current tax rate on telephone service, this proposal would reduce future city revenues from this tax by \$215,000 per year.

According to officials from the **City of Springfield**, the section that limits gross receipts tax to 5% would cost the city approximately \$785,000 a year because the current tax is 6%. Springfield officials also stated there would be significant lost revenue due to current litigation regarding back taxes.

In response to the introduced version of this proposal, officials from **St Louis City** state the current gross receipts rate charged for telecommunications services in the City of St Louis is 10%. According to the Department of Revenue, the total municipal sales tax gross receipts for a recent four quarter period for all telecommunications service in the City of St Louis was \$202,671,541. Under the existing City rate, potential tax revenues on this base would total in excess of \$20.2 million per year. (Currently over half of this amount is being paid under protest or remains unpaid.) Beginning, July 1, 2008 (FY09) the proposed legislation would initiate adjustments to the tax rate and base so that total tax rate would be reduced by half to 5% or approximately \$10M per year, beginning July 1, 2010.

In response to the introduced version of this proposal, officials from the **City of West Plains** state that although they assume the proposal would have a fiscal impact on their city, but the amount is unknown.

Oversight assumes any potential revenue gains or losses from the dismissal of pending litigation - of which the outcome is unknown - is speculative. **Oversight** also assumes the proposal provides a methodology to have the tax base be an amount equal to the total amount of telecommunications business license taxes collected by a municipality, therefore the proposal would have a revenue-neutral effect. **Oversight** assumes any ordinance, publication, or notification costs to the local political subdivisions could be absorbed with existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<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.

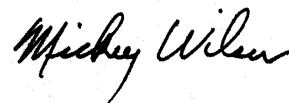
FISCAL DESCRIPTION

The proposed legislation appears to have no fiscal impact.

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 State Courts Administrator
Department of Revenue
Department of Economic Development
 Public Service Commission
 Office of Public Counsel
Office of Attorney General
Office of State Auditor
Office of Secretary of State
 Administrative Rules Division
Cities
 West Plains
 Centralia
 St Louis
 Independence
 Gladstone
Counties
 St Louis
 Texas



Mickey Wilson, CPA
Director
March 6, 2007