

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1935-04
Bill No.: HCS for HJR 20
Subject: Constitutional Amendments; Appropriations; State Departments
Type: Original
Date: April 4, 2007

Bill Summary: Proposes a constitutional amendment establishing limits on total state revenue appropriations.

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 8 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 **Missouri Department of Health and Senior Services - Certificate of Need Program, Department of Public Safety - Capitol Police, Missouri State Public Defender, Department of Public Safety - Division of Fire Safety, Department of Conservation, Department of Public Safety - Director's Office, Department of Public Safety - Alcohol and Tobacco Control, Joint Committee on Public Employee Retirement, Missouri Auditor's Office, Missouri Gaming Commission, State Treasurer's Office, Department of Insurance, Financial Planning and Professional Registration, Office of State Courts Administrator, Missouri Senate, Department of Economic Development, Missouri State Water Patrol, Department of Labor and Industrial Relations, Department of Revenue, Department of Transportation, Department of Social Services, Missouri Veterans Commission, State Emergency Management Association, Lieutenant Governor and Missouri House of Representatives** assume no fiscal impact to their agencies.

Officials from the **Office of Administration - Division of Budget and Planning** has reviewed Fiscal Note #1935-04 (HJR 20) and notes the following:

- Section 23(a), subsection 2, lines 36 to 37 includes a reference to subsection 1, Section 18(e), Article X of the Missouri Constitution, this should be subsection 2, Section 18(e), Article X.
- The inflation factor used to calculate the limit on total state general revenue appropriations and net general revenue collections is based on data for the previous fiscal year. The previous fiscal year will not be complete when the following year's budget is being prepared. Thus, it will not be possible to know if the various limits created by HJR 20 are being met until after the budget is passed.
- Supplemental appropriations will not be known at the time the appropriations growth limit is calculated.
- Assuming the general revenue appropriation limit is exceeded, the proposal does not provide any guidance to explain how the Governor and/or General Assembly can lower appropriations to get back under the limit.
- The limit applies only to general revenue and not appropriations made to other dedicated funds; this could lead to creation of numerous dedicated funds to circumvent the legislation's intent.
- The permanent reduction in income tax rates (one quarter of one percent) will reduce state revenues by approximately \$227 million. Budget and Planning would defer to the UM-EPARC for a more precise estimate of the impact.

ASSUMPTION (continued)

- It is unclear in Article IV, Section 23(a), subsection 3, last sentence, whether the amount of excess funds to be tracked and applied to income tax rates is intended to be the total excess funds as calculated and transferred, or the excess funds between zero and one percent (the amount over the threshold but not transferred to the budget reserve fund).

To fulfill the resolution's requirements of the Commissioner of Administration, B&P will need one additional FTE to track the excess funds outlined in the legislation and research, analyze and calculate any reductions in state income tax rates. An OA Economist position (range 32), fringes, and associated E&E are estimated to cost \$78,970.

In addition, the proposal has an impact on state government operations as a result of the caps it imposes on general revenue appropriations and net general revenue collections. For analysis purposes, Budget and Planning assumed the legislation was in effect for the FY 2008 budget process. Based on our analysis, HJR 20 would require the FY-08 general revenue appropriations to be \$95 million less than the Governor's recommendations. It is impossible to say where the appropriation reductions would take place, as that would be up to the Governor and General Assembly to determine.

In addition, it results in a \$373 million negative impact to the general revenue fund because of the change in the percentage requirements for the reserve funds (explained in the table on the following page). Separating the budget reserve fund into two funds may create cash flow problems for the state.

Budget Reserve Fund = BRF
Cash Operating Reserve Fund = CORF

\$513,210,207 Current BRF balance (7.5% of GR)

\$343,850,839 67% Amount to be placed in the CORF per HJR 20

\$169,359,368 33% Amount to be placed in the BRF per HJR 20

\$513,210,207 Total to be placed in the CORF and BRF per HJR 20

ASSUMPTION (continued)

CORF	BRF	Total	
\$369,300,000	\$517,100,000	\$886,400,000	Net GR Collections percentage required for FY-08 (5%CORF and 7%BRF)
<u>\$343,850,839</u>	<u>\$169,359,368</u>	<u>\$513,210,207</u>	Current BRF balance to be split between the two funds
\$ 25,449,161	\$347,740,632	\$373,189,793	General revenue required to be transferred to the funds
		\$347,740,632	Amount required to reach the 7% fund balance in the BRF
		\$ 69,548,126	Amount required each year to be transferred to the BRF for the 5-year phase-in option

Officials from the **State Tax Commission** assume the impact of this proposal is unknown.

Officials from the **Department of Higher Education** assume the impact of this proposal is unknown. There could possibly be a negative impact on appropriations to their department, especially if the limits create greater competition for state resources by various departments.

Officials from the **Department of Health and Senior Services** assume this proposal could cause reduction in state General Revenue Funds. Depending upon the amount of the reduction and the portion that is allocated to the department, it could have an impact to operations of programs and could require some services to be downsized or eliminated..

Officials from the **Missouri State Highway Patrol** assume a negative "appropriations growth limit" would not occur and also that the inflation rate would be sufficient to cover any annual increase in pay. In the event of a state emergency, the services of the Drug and Crime Division would be called upon; cost incurred as a result of the emergency would be covered by General Revenue Funds as noted in this proposal.

Officials from the **Secretary of State's Office** assume most joint resolutions are considered by the General Assembly that would require the Secretary of State's office to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. 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. Funding for this item is adjusted each year depending upon the

ASSUMPTION (continued)

election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's Office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to require funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

Officials from the **Department of Mental Health** will defer to the Office of Administration.

Officials from the **Department of Natural Resources** assume the fiscal impact of this proposal is unknown because the growth limit of future years is unknown. Additionally, the department is unable to determine which general revenue appropriations would be increased by the proposal.

Oversight assumes this proposal would submit the amendment to the voters; and that any limits on revenues and appropriations, and any transfers to the newly created funds would result from the popular vote and enabling legislation in a future legislative session. Oversight has not included any revenue or appropriation limits, or transfers in this fiscal note.

<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 could have an effect on various funds.

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

Missouri Department of Health and Senior Services -
Certificate of Need Program

Department of Public Safety -

Capitol Police

Division of Fire Safety

Director's Office

Alcohol and Tobacco Control

Missouri State Public Defender

Department of Conservation

Joint Committee on Public Employee Retirement

Missouri Auditor's Office

Missouri Gaming Commission

State Treasurer's Office

Department of Insurance, Financial Planning and
Professional Registration

Office of State Courts Administrator

Missouri Senate

Department of Economic Development

Missouri State Water Patrol

Department of Labor and Industrial Relations

Department of Revenue

Department of Transportation

Department of Social Services

Missouri Veterans Commission

State Emergency Management Association

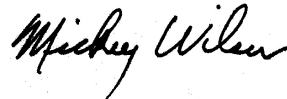
Lieutenant Governor

Missouri House of Representatives

VL:LR:OD (12/02)

SOURCES OF INFORMATION (continued)

State Tax Commission
Department of Higher Education
Department of Health and Senior Services
Missouri State Highway patrol
Secretary of State's Office
Department of Mental Health
Office of Administration -
 Division of Budget and Planning
Department of Natural Resources



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