

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5302-02
Bill No.: HJR 68
Subject: Constitutional Amendments; Taxation and Revenue - Sales and Use; Roads and Highways; Transportation
Type: Original
Date: February 3, 2014

Bill Summary: This proposal would submit to the voters a constitutional amendment imposing a 1% temporary increase in the state sales and use tax to be used for transportation projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 or (More than \$7,100,000)	\$0 or (\$92,924)	\$0
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$7,100,000)	\$0 or (\$92,924)	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Transportation Safety and Job Creation	\$0	\$0 or Less than \$319,500,000	\$0 or \$639,000,000
County Aid Transportation	\$0	\$0	\$0
Municipal Aid Transportation	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or Less than \$319,500,000	\$0 or \$639,000,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0 or Less than \$36,000,000	\$0 or \$72,000,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly. Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. The Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, the Missouri Constitution requires the state to pay the costs. The cost of a special election is estimated to be \$7.1 million, based on analyzing and totaling expense reports received from local election authorities for the 2012 Presidential Preference Primary.

ASSUMPTION (continued)

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by the Missouri Constitution and state law, and the SOS 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 election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 in even numbered fiscal years. 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 number of initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue).

Therefore, SOS assumes, for the purposes of this fiscal note, that it would have the full appropriation authority it needs to meet the publishing requirements. However, because the publications are mandatory, we reserve the right to request 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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

General Revenue Fund sales tax collections totaled \$1,897.5 million in FY 2013, at the 3% rate, and BAP officials assume an additional 1% would generate $(\$1,897.5 \text{ million} / 3) = \632.5 million annually.

The general sales tax does not apply to motor vehicles, but the proposed 1% increase would apply to motor vehicles. Based on information in the Department of Revenue (DOR) annual report for FY 2012, \$218.2 million was collected at the at the current 3% tax rate, and BAP officials assume an additional 1% would generate $(\$218.2 \text{ million} / 3) = \72.7 million. Similarly, at a rate of 4% for highway use taxes, \$70.9 million, and BAP officials assume an additional 1% would generate additional revenues of $(\$70.9 \text{ million} / 4) \17.7M annually. In summary, BAP estimates an annual increase in sales tax revenue of approximately \$723 million $(\$632.5\text{M} + \$72.7\text{M} + \$17.7\text{M})$.

ASSUMPTION (continued)

If this proposition is approved by voters, the additional sales tax increase would become effective January 1, 2015. Budget and Planning officials estimated additional revenues of \$301.3M for FY 15 (accounting for 5 months of year or $\$723\text{M} / 12 \times 5$).

The proposition would exclude revenues generated from this proposed legislation from the current constitutional definition of Total State Revenues (TSR), nor would these additional revenues be considered in the calculations required by Section 18e due to the voter approval requirement.

BAP officials also noted the proposal includes language to prohibit the use of funds for administrative purposes. However, the language allows DOR to retain the actual costs of collection not to exceed one percent of collections. DOR may have information on the adequacy of one percent to provide sufficient authority to cover all costs. If not, there may be a cost to the General Revenue Fund.

Officials from the **Department of Transportation (MODOT)** assume this proposal would provide additional revenues for the first year (January 1, 2015-December 31, 2015) of \$718 million based on FY 2013 General Revenue Fund Sales and Use Tax revenue. The General Revenue Fund Sales and Use Tax revenue is consistent with the exemptions in this proposal as of July 1, 2013, since it does not include tax on food, prescription drugs, motor fuel and motor vehicle sales.

Estimated additional revenue

(Numbers in \$ millions.)

FY 2013 General Revenue Fund Sales Tax Based on 4% rate	\$1,868
New Transportation Revenue at 1%	\$623
Additional Motor Vehicle Sales Tax at 1%	\$95
Total Additional Revenue	\$718

ASSUMPTION (continued)

Allocation of Additional Revenue

(Numbers in \$ millions.)

Entity	Allocation	Amount
MODOT	90%	\$639
Cities	5%	\$36
Counties	5%	\$36
Department of Revenue	1%	\$7
Total		\$718

Officials from the **Department of Revenue (DOR)** did not respond to our request for information; however, in response to similar provisions in HCS for HJR 23 LR 1168-04 (2013), DOR officials assumed the proposal would levy a one percent sales tax on sellers for the privilege of selling and leasing tangible personal property (TPP) or rendering taxable services. In addition to the sales tax, the legislation would impose a one percent use tax for storing, using, or consuming TPP.

DOR officials assumed that DOR would collect, apportion, distribute, and deposit the proceeds from the additional state sales and use taxes. Proceeds from the additional state sales and use taxes imposed under this proposal would be distributed as follows:

"County Aid Transportation Fund"	5% non - state funds
"Municipal Aid Transportation Fund"	5% non - state funds
"Moneys in the Transportation Sales Tax Fund"	90% non - state funds

DOR officials did not provide an estimate of anticipated sales tax revenues.

ASSUMPTION (continued)

Sales Tax

DOR officials provided an estimate of the costs associated with notifying approximately 150,000 sales/use tax filers of the rate change.

Letters:	\$ 0.025	x	150,000 =	\$ 3,750
Envelopes:	\$ 0.04	x	150,000 =	\$ 6,000
Postage:	\$ 0.46	x	150,000 =	<u>\$ 69,000</u>
Total				<u>\$ 78,750</u>

Because of the short time frame between election and implementation, DOR officials stated the programming for this notification would in all likelihood have to be done before the election to be ready to notify taxpayers.

Excise Tax / Business Tax

DOR officials assumed the money that goes to cities and counties would be distributed in the same manner and the same time as the current County Aid Road Trust Fund distribution is made. The Excise Tax section currently performs the distribution process. Implementing this proposal would require a new distribution computer program and distribution forms.

Because of the short implementation date, DOR officials stated the distribution program may need to be developed before the election.

Cashiering

DOR officials assumed implementing the proposal would require changes to the MITS System Batch Cashiering Report, Cashiering Transmittals System, and Sales Worksheet, to add the new fund codes.

Motor Vehicle Bureau

DOR officials also assumed procedures would need to be revised by a Management Analyst Specialist I requiring 40 hours of overtime at a cost of \$1,206 in FY 2015, and the Department's web site would need to be revised requiring 10 hours of overtime for an Administrative Analyst I, at a cost of \$325 in FY 2015.

ASSUMPTION (continued)

IT impact

DOR Officials assumed the IT cost to implement this proposal would be \$14,174 based on 524 hours of programming to make changes to DOR systems.

Oversight notes that DOR costs would be incurred to implement this program, and only if the proposal is approved by the voters. Accordingly, Oversight will indicate costs of \$0 or the DOR estimate for the notifications and computer system changes.

Officials from the **Office of the State Treasurer** and the **Office of Administration - Division of Accounting** assumed similar provisions in HCS for HJR 23 LR 1168-04 (2013) would have no fiscal impact on their respective agencies.

Oversight has reflected in this fiscal note, the cost to the state for potential reimbursement to local political subdivisions for the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2014 (FY 2015). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2014.

Oversight will include \$0 (proposition not approved by the voters) or the MODOT estimate of additional revenue (proposition approved and implemented) for the County Aid Transportation Fund, the Municipal Aid Transportation Fund, and the Transportation Safety and Job Creation Fund.

The revenues in the County Aid Transportation Fund and Municipal Aid Transportation Fund would be distributed to local governments, and \$0 or the amount of those estimated distributions will be included in this fiscal note. Oversight assumes the proposition would be submitted to the voters in November, 2014 and implemented as of January 1, 2015 if approved by the voters. Therefore, less than 50% of the annual estimate would be collected the first year, FY 2015.

Oversight will also assume for fiscal note purposes that the additional cost to the General Revenue Fund for Department of Revenue collections would be approximately equal to the one percent limitation on reimbursement from the proceeds of the additional sales tax.

ASSUMPTION (continued)

	<u>FY 2015</u>	<u>FY 2016 and following years</u>	
Transportation Sales Tax Fund	Less than \$319.5 million	\$639 million	
County Aid Transportation Fund (50% of local portion)	Less than \$18 million	\$36 million	
Municipal Aid Transportation Fund (50% of local portion)	Less than \$18 million	\$36 million	
General Revenue Fund (Reimbursement of collection cost)	Less than \$3.5 million	\$7 million	
<u>FISCAL IMPACT - State Government</u>	<u>FY 2015</u> (10 Mo.)	<u>FY 2016</u>	<u>FY 2017</u>
GENERAL REVENUE FUND			
<u>Additional revenue</u> - DOR		\$0 or Less than	\$0 or
Collection cost reimbursement	\$0	\$3,500,000	\$7,000,000
<u>Transfer Out</u> - Secretary of State - reimbursement of local election authority	\$0 or (More than		
election costs if a special election	\$7,100,000)	\$0	\$0
<u>Cost</u> - DOR			
Administration	\$0	\$0 or (\$92,924)	\$0
<u>Cost</u> - DOR		\$0 or (Less than	\$0 or
Collection	\$0	\$3,500,000)	(\$7,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or (More than \$7,100,000)	\$0 or (\$92,924)	\$0

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FISCAL IMPACT - State Government
 (continued)

FY 2015
 (10 Mo.)

FY 2016

FY 2017

**TRANSPORTATION SAFETY AND
 JOB CREATION FUND**

Revenue - sales tax

	\$0 or Less than	\$0 or
<u>\$0</u>	<u>\$319,500,000</u>	<u>\$639,000,000</u>

**TRANSPORTATION SAFETY AND
 JOB CREATION FUND**

	\$0 or Less than	\$0 or
<u>\$0</u>	<u>\$319,500,000</u>	<u>\$639,000,000</u>

**COUNTY AID TRANSPORTATION
 FUND**

Revenue - sales tax

	\$0 or Less than	\$0 or
\$0	\$18,000,000	\$36,000,000

Transfer - required distribution to local
 governments

	\$0 or (Less than	\$0 or
<u>\$0</u>	<u>\$18,000,000)</u>	<u>(\$36,000,000)</u>

**ESTIMATED NET EFFECT ON
 COUNTY AID TRANSPORTATION
 FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**MUNICIPAL AID
 TRANSPORTATION FUND**

Revenue - sales tax

	\$ or Less than	\$0 or
\$0	\$18,000,000	\$36,000,000

Transfer - required distribution to local
 governments

	\$0 or (Less than	\$0 or
<u>\$0</u>	<u>\$18,000,000)</u>	<u>(\$36,000,000)</u>

**ESTIMATED NET EFFECT ON
 MUNICIPAL AID
 TRANSPORTATION FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
LOCAL GOVERNMENTS			
<u>Transfer in</u> - from County Aid Transportation Fund	\$0	\$0 or Less than \$18,000,000	\$0 or \$36,000,000
<u>Transfer in</u> - from Municipal Aid Transportation Fund	\$0	\$0 or Less than \$18,000,000	\$0 or \$36,000,000
<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State if a special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Cost</u> - Local Election Authorities - cost of the election	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0 or Less than \$36,000,000</u>	<u>\$0 or \$72,000,000</u>

FISCAL IMPACT - Small Business

This proposal would, if approved by the voters, have a direct fiscal impact to small businesses since the proposed 1% sales and use tax would apply to the sale of all tangible personal property and services.

FISCAL DESCRIPTION

This proposal would submit to the voters a constitutional amendment imposing a temporary, ten-year state sales and use tax for transportation projects.

Upon voter approval, the proposed constitutional amendment would raise the state sales and use tax by 1% for a period of 10 years. The proceeds from the additional tax would be used for transportation purposes. The tax measure is temporary and would be resubmitted to the voters every 10 years until the measure is defeated.

Five percent of the additional sales and use tax proceeds would be deposited into a newly created County Aid Transportation Fund. Moneys in the fund would be distributed to the counties based on the county road mileage and assessed rural land valuation calculation in the Missouri Constitution, except that 5% of the moneys would be distributed to the City of St. Louis. Proceeds distributed to the counties could be used for local highways and bridges, for state highway system purposes, or for county transportation system purposes.

In a similar manner, 5% of the additional sales and use tax proceeds would be deposited into the newly created Municipal Aid Transportation Fund. Moneys in the fund would be distributed to cities, towns and villages based on the population ratio calculations in the Missouri Constitution. Proceeds distributed to the cities, towns, and villages could be used for local roads and streets, for state highway system purposes, or for city transportation system purposes.

The remaining 90% of the additional sales and use tax proceeds would be deposited into a newly created Transportation Safety and Job Creation Fund. Moneys in that fund could be expended by the Highways and Transportation Commission for state highway or transportation purposes.

The proposed resolution would require the additional 1% sales and use tax to expire in 10 years unless renewed by the voters. If the tax measure is ever disapproved by Missouri voters, the tax would terminate at the end of the year following the election. The proposed resolution would require voter approval for any increase in tolls or fees, any motor fuel tax increases, or the conversion of any existing roads or bridges to toll operation.

The proposed resolution would require the commission to annually submit a report to the Governor and General Assembly. The report would include the status of state highway system and state transportation system projects, programs, and facilities that were approved by the commission and funded from the proceeds of the additional sales and use taxes levied, imposed, and collected under the proposed resolution.

FISCAL DESCRIPTION (continued)

The proposed resolution also includes ballot language and a fiscal note.

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 Transportation

Not responding:
Department of Revenue

Mickey Wilson, CPA
Director
February 3, 2014



Ross Strobe
Assistant Director
February 3, 2014