

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5844-02
Bill No.: HCS for HJR 75
Subject: Constitutional Amendments; Appropriations; General Assembly
Type: Original
Date: April 23, 2014

Bill Summary: This proposes a constitutional amendment prohibiting state appropriations in any fiscal year from exceeding certain limits.

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 (Unknown greater than \$104,049,662)	\$0 or (Unknown greater than \$70,690,627)
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$7,100,000)	\$0 or (Unknown greater than \$104,049,662)	\$0 or (Unknown greater than \$70,690,627)

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
Budget Reserve	\$0	\$0 or (Unknown greater than \$267,340,338)	\$0 or Less than \$70,690,627
Cash Operating Reserve	\$0	\$0 or Less than \$371,390,000	\$0 or (Unknown)
Taxpayer Stabilization	\$0	\$0 or Unknown	\$0 or Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or Unknown greater than \$104,049,662	\$0 or Less than \$70,690,627

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	\$0

* Transfer In and costs net to zero.

FISCAL ANALYSIS

ASSUMPTION

In response to the previous version, officials at the **Office of the Secretary of State (SOS)** assume 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. Article XII section 2(b) of 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, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The SOS is required 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 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 appropriated in even 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 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, the SOS 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 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.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2015. 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

ASSUMPTION (continued)

ballot; however, it could also be part of a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2015.

Officials at the **Office of Administration's Budget and Planning (BAP)** assume the following statewide impact:

To fulfill the resolution's requirements of the Commissioner of Administration, BAP will need to contract out certain current functions of the OA Economist to allow time to complete the resolution requirements. Contract costs are estimated to be about \$50,000.

In addition, the General Revenue fund will be negatively impacted by \$387 million because of the change in the percentage requirements for the newly created Cash Operating and Budget Reserve funds (see table below).

Amounts in excess of the required balances are transferred to the Taxpayer Protection Stabilization Fund until a sufficient amount exists to reach a temporary reduction of at least one quarter of one percent of all state individual income tax rates. Each one quarter of one percent reduction in income tax rates will reduce state revenues by an estimated \$230 million based on tax year 2011 data.

The proposal could have an impact on the level of state services that can be provided as a result of the caps it imposes on General Revenue appropriations and net General Revenue collections.

CORF	BRF	TOTAL	
\$371,390,000	\$519,946,000	\$891,336,000	Amount required to be in the funds for FY 2015 (5% and 7%)
\$338,030,965	\$166,492,863	\$504,523,828	BRF balance that is to be split between the two funds
\$33,359,035 (67%)	\$353,453,137 (33%)	\$386,812,172	General Revenue required to be transferred to BRF
\$33,359,035	\$70,690,627	\$104,049,663	Amount to be transferred in year 1
\$0	\$70,690,627	\$70,690,627	Amount to be transferred in years 2-5

ASSUMPTION (continued)

Oversight assumes that since BAP is charged with doing revenue calculations yearly because of the requirements of the Hancock amendment that they already have staff who can do the calculations required under this proposal. Should it become necessary to hire staff to carry out the duties of this proposal, BAP could request funding through the appropriation process.

Oversight assumes that since this is a constitutional amendment, it will have no effect on state funds unless it is passed. Oversight assumes that the requirements of this legislation will result in money being transferred from General Revenue into the Budget Reserve Fund and the Cash Operating Reserve Fund and will net to zero.

Oversight assumes that if this constitutional amendment is adopted in November 2014, then due to the wording of this proposal it would go into effect on July 1, 2015 which is fiscal year 2016.

Officials at the **Department of Agriculture**, the **Department of Corrections**, the **Department of Economic Development's Division of Business and Community Services**, the **Department of Health and Senior Services**, the **Department of Labor and Industrial Relations**, the **Department of Mental Health**, the **Department of Public Safety**, the **Department of Social Services**, the **Missouri Highway Patrol** and the **Office of Administration** defers to the Office of Administration's Division of Budget and Planning for fiscal impact.

Officials at the **Department of Conservation**, the **Department of Elementary and Secondary Education**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Public Safety's Division of Fire Safety**, the **Department of Public Safety's Capitol Police**, the **Missouri House of Representatives**, the **Missouri Senate**, the **Office of the Governor**, the **Office of the State Auditor**, the **Office of the State Public Defender** and the **Office of State Treasurer** each assume there is no fiscal impact to their organization from this proposal.

In response to the previous version, officials at the **Department of Revenue** assume that if this proposal is passed it would require a number of changes to their tax processing systems, website and forms. The IT portion is estimated at \$27,518 for \$1,008 FTE hours.

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

ASSUMPTION (continued)

Officials at the **Department of Economic Development's Division of Tourism (MDT)** assume this proposal would jeopardize MDT's funding formula. MDT's funding formula is based on the sales tax collected in 17 Tourism-Related SIC Codes. Pursuant to §620.467, MDT shares the growth of sales tax revenues generated by the tourism industry with the general revenue fund. If the growth in sales tax revenues from the 17 SIC codes exceeds three percent, 50 percent of the growth, not to exceed \$3 million, shall be deposited to the credit of the division of tourism supplemental revenue fund (TSRF), which is added to MDT's core budget from the previous year. The TSRF is funded through a general revenue transfer to the TSRF. Limiting the increase in appropriations in any fiscal year, as proposed in this constitutional amendment, would limit the amount of growth to be appropriated to MDT. MDT estimates this loss to be \$0 to \$3 million per fiscal year.

In response to the previous version, officials at the **Missouri Department of Transportation (MoDOT)** assume this joint resolution, if enacted, would impose significant state spending limitations from the General Revenue Fund on state government, and much like the Hancock Amendment, would have to be determined based on an evaluation of revenues to the General Revenue Fund. As a result, fluctuations of incoming revenues to the General Revenue Fund would impact whether the state spending limitations are violated, however, it also makes it difficult to determine whether the joint resolution would have any impact on appropriations of General Revenue Fund to MHTC/MoDOT for multimodal programs, such as transit, waterways and Amtrak funding. The State Road Fund would not be impacted.

Officials at the **Office of State Courts Administrator** assume that since this is a constitutional amendment, it will have no effect on state funds unless it is passed. There may be some impact but there is no way to quantify that currently. Any significant changes will be reflected in future budget requests.

Officials at the **Missouri Gaming Commission** assume no fiscal impact as they do not receive General Revenue funds.

Officials at the **Department of Natural Resources** assume the impact is unknown because the growth limit for future years is unknown. Additionally, the department is unable to determine which General Revenue appropriations would be increased by the legislature.

In response to the previous version, officials at the **Department of Higher Education (DHE)** assume this proposal would have no direct fiscal impact on the DHE but could limit the appropriation of new funds to the DHE, student assistance programs, and public colleges and

ASSUMPTION (continued)

universities. The limit would depend on the level of growth allowed under the constitutional caps, which are unknown to the DHE.

Officials at the **Missouri Veterans Commission** assume this would impact General Revenue appropriations by an unknown amount.

Officials at the **Office of Prosecution Services (OPS)** assume the potential fiscal impact of this proposed legislation cannot be accurately determined by OPS as the amount of General Revenue or appropriations for any future fiscal year cannot be predicted based on the information available to OPS.

In response to the previous version, officials at the **Office of Attorney General** assume that any potential costs arising from this proposal can be absorbed with existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Transfer Out</u> - to the Budget Reserve Fund	\$0	\$0 or (\$70,690,627)	\$0 or (\$70,690,627)
<u>Transfer Out</u> - to the Cash Operating Reserve Fund	\$0	\$0 or (\$33,359,035)	\$0
<u>Transfer Out</u> - Taxpayer Stabilization Fund	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Transfer Out</u> - Secretary of State - reimbursement of local election authority election costs if a special election is called by the Governor	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or (More than <u>\$7,100,000</u>)	\$0 or (Unknown greater than <u>\$104,049,662</u>)	\$0 or (Unknown greater than <u>\$70,690,627</u>)

FISCAL IMPACT - State Government
 (continued)

FY 2015
 (10 Mo.)

FY 2016

FY 2017

BUDGET RESERVE FUND

Transfer In - from General Revenue

	\$0 or	\$0 or
\$0	\$70,690,627	\$70,690,627

Transfer Out - 67% of old budget reserve
 fund balance to Cash Operating Reserve
 Fund

	\$0 or	
\$0	(\$338,030,965)	\$0

Transfer Out - to Taxpayer Stabilization
 Fund

	\$0 or	\$0 or
<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

**ESTIMATED NET EFFECT ON
 BUDGET RESERVE FUND**

	\$0 or	
	(Unknown	
	greater than	\$0 or Less than
<u>\$0</u>	<u>\$267,340,338)</u>	<u>\$70,690,627</u>

**CASH OPERATING RESERVE
 FUND**

Transfer In - from General Revenue

	\$0 or	
\$0	\$33,359,035	\$0

Transfer In - 67% of old Budget Reserve
 Fund balance

	\$0 or	
\$0	\$338,030,965	\$0

Transfer Out - to Taxpayer Protection
 Stabilization Fund

	\$0 or	\$0 or
<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

**ESTIMATED NET EFFECT ON
 CASH OPERATING RESERVE
 FUND**

	\$0 or Less than	\$0 or
<u>\$0</u>	<u>\$371,390,000</u>	<u>(Unknown)</u>

FISCAL IMPACT - State Government
 (continued)

FY 2015 FY 2016 FY 2017
 (10 Mo.)

**TAXPAYER PROTECTION
 STABILIZATION FUND**

<u>Transfer In</u> - General Revenue	\$0	\$0 or Unknown	\$0 or Unknown
<u>Transfer In</u> - Budget Reserve Fund	\$0	\$0 or Unknown	\$0 or Unknown
<u>Transfer In</u> - from Cash Operating Fund	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>

**ESTIMATED NET EFFECT ON
 TAXPAYER PROTECTION
 STABILIZATION FUND**

\$0 \$0 or Unknown \$0 or Unknown

FISCAL IMPACT - Local Government

FY 2015 FY 2016 FY 2017
 (10 Mo.)

**LOCAL ELECTION AUTHORITIES
 FUNDS**

<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Costs</u> - Local Election Authorities - cost of a special election	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0</u>

**ESTIMATED NET EFFECT ON
 LOCAL ELECTION AUTHORITIES
 FUNDS**

\$0 \$0 \$0

FISCAL IMPACT - Small Business

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

JH:LR:OD

FISCAL DESCRIPTION

Upon voter approval, this proposed constitutional amendment prohibits appropriations in any fiscal year from exceeding the total state general revenue appropriations from the previous year by more than the appropriations growth limit. The appropriations growth limit is the percentage that is the greater of zero or the sum of the annual rate of inflation and the annual percentage change in Missouri's population.

In any fiscal year when the net general revenue collections are more than 1.5% but less than 2.5% of the total state general revenue appropriations allowed, the excess moneys must be appropriated solely for state debt reduction. In any fiscal year when the net general revenue collections are in excess of 2.5% of the total state general revenue appropriations allowed, 67% of the excess is to be transferred to the Cash Operating Reserve Fund and 33% to the Budget Reserve Fund which are created by the amendment. Any revenue in excess of the specified limits of the funds will be transferred to the newly created Taxpayer Protection Stabilization Fund and used to temporarily reduce the individual income tax rate when the Commissioner of the Office of Administration determines that sufficient amounts exist in the fund for at least a .25% reduction. The amendment authorizes the General Assembly, by a simple majority vote, to appropriate moneys from the Taxpayer Protection Stabilization Fund as it deems necessary if the commissioner determines that total state general revenue appropriations will exceed projected state revenues.

Total state general revenue appropriations for any fiscal year may exceed the appropriations limit only if the Governor declares an emergency and the General Assembly, by a simple majority, enacts and the Governor approves an appropriation bill to meet the emergency. These appropriated funds cannot be included in the total appropriations amount for purposes of complying with the appropriation limit for the next fiscal year.

New or increased tax revenues or fees receiving voter approval will be exempt from the calculation of the appropriations growth limit for the year in which they are passed.

Sixty-seven percent of the balance in the Budget Reserve Fund on July 1 of each year must be transferred to the Cash Operating Reserve Fund. If the balance in the Cash Operating Reserve Fund at the close of any fiscal year exceeds 5% of the net general revenue collected in the previous fiscal year, the commissioner must transfer the excess amount to the Taxpayer Protection Stabilization Fund.

In any fiscal year in which the Governor reduces expenditures below the amounts appropriated, the Governor may request an emergency appropriation from the Budget Reserve Fund. If the request is approved by a two-thirds majority in each house of the General Assembly, funds may be restored to any expenditure authorized by existing appropriations. If the balance in the Budget

FISCAL DESCRIPTION (continued)

Reserve Fund at the end of a fiscal year exceeds 7% of the net general revenue collections for the previous fiscal year, the commissioner must transfer the excess funds to the Taxpayer Protection Stabilization Fund. If the balance is less than 7%, the difference must be transferred from the General Revenue Fund to that fund within five years.

The provisions of the amendment will expire five years after the effective date.

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

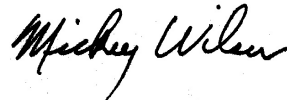
SOURCES OF INFORMATION

Department of Agriculture
Department of Conservation
Department of Corrections
Department of Economic Development
 Division of Business and Community Services
 Division of Tourism
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Higher Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Labor and Industrial Relations
Department of Mental Health
Department of Natural Resources
Department of Public Safety
 Capitol Police
 Division of Fire Safety
Department of Revenue
Department of Social Services
Missouri Department of Transportation
Missouri Gaming Commission
Missouri Highway Patrol
Missouri House of Representatives
Missouri Senate
Missouri Veterans Commission
Office of Attorney General
Office of the Governor

JH:LR:OD

SOURCES OF INFORMATION (continued)

Office of Administration
Division of Budget and Planning
Office of Prosecution Services
Office of the Secretary of State
Office of the State Auditor
Office of State Courts Administrator
Office of the State Public Defender
Office of State Treasurer

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 23, 2014

Ross Strobe
Assistant Director
April 23, 2014