

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5669-02
Bill No.: HB 2168
Subject: Taxation and Revenue - Sales and Use, Taxation and Revenue - General,
Department of Revenue, Political Subdivisions
Type: Original
Date: March 20, 2018

Bill Summary: This proposal changes the laws regarding local sales taxes so that no political subdivision may raise the rates above twelve percent.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** assume this will not impact Total State Revenue or 18(e). Additionally, the bill requires that the combined rate under local sales tax law in a political subdivision be less than 12.00%. Based on information from DOR, there are no jurisdictions with a combined rate in excess of 7.275%; the highest cumulative local rate is currently 7.138%. Since the bill does not require a change in tax rates and only adds a cap, there is no impact to Total State Revenue or 18(e).

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials at the **City of Kansas City** assume this proposal has potentially negative consequences for the City. The cap of 12% proposed for the combined sales tax rate appears to be inclusive of state, county, city, special districts (TDD/CID/PID), and the City's convention and tourism taxes. If all of the aforementioned rates are included, then the sales tax rate for Kansas City far exceeds the 12% cap. The legislation indicates that rates over 12% can continue if in place at the time of the effective date of this bill but it's unclear if the City would be allowed to renew such a tax that would keep the rate above 12%.

Even if the combined sales tax rate is not intended to include the City's convention and tourism taxes, the highest combined rate in the City (including special districts) is currently 10.6%. The legislation also indicates that even if the state raises its rate so that the combined rate is above 12%, no reduction is required. However, what if several taxing jurisdictions come to the ballot at the same time to enact a sales tax increase, where is the order of priority in terms of which district has to reduce its rates? In addition, this entire bill poses risks to the renewal of City sales tax rates - especially in light of the 12% cap. As an example, the general 1% sales tax which the City dedicates for capital improvements expires on December 31, 2018. The loss of this revenue stream would be devastating to the City's ability to meet its debt obligations (for financed infrastructure) and to maintain existing infrastructure. The total amount generated from this sales tax is over \$81 million per year. This is just one example of the City's reliance on sales tax for various governmental purposes. The City has four other sales taxes which are subject to renewal.

ASSUMPTION (continued)

Officials at the **City of Liberty** assume this legislation would take away local authority and would create an unfair competition between taxing entities and result in creating winners and losers on priorities. For example, whichever local authority received approval for the last tax increase and thereby reaches the overall 12% rate would block out others from implementing their taxes. This legislation would also impact economic development by potentially limiting Community Improvement Districts (CID) and Transportation Development Districts (TDD).

Officials at the **City of Springfield** assume a potential negative fiscal impact to the City. The proposed ceiling would reduce the amount of the State and City General funds which would negatively impact important programs. The amount is unquantifiable.

Officials at the **Branson Police Department** assume a potential for a significant negative fiscal impact if this passes. Our community has a very low permanent population but experiences 8.5 to 9 million visitors per year, which strains the public safety and infrastructure resources. The City's ability to adjust tax revenues allows the City to maintain the needed level of service.

Officials at the **Kirksville R-III School District** assume this would have a negative fiscal impact on the district by limiting tax resources.

Officials at the **Greene County Sheriff Department** assume the impact is unknown.

Officials at the **West Plains School District**, the **St. Louis County Police Department** and the **St. Louis County Department of Justice Services** assume there is no fiscal impact from this proposal.

Officials at the **Summersville R-II School District** assume an unknown negative fiscal impact.

Officials at the **Wellsville-Middletown R-I School District** assume a negative impact on the district and loss of local control.

Oversight notes this proposal would create a cumulative sales tax rate in a political subdivision no greater than twelve percent when combined with the state sales tax rate. The current state sales tax rate is 4.225%. Therefore a local political subdivision could have a tax rate as high as 7.775%. Oversight will not show a fiscal impact from this proposal.

ASSUMPTION (continued)

For informational purposes, **Oversight** is presenting information obtained from the Department of Revenue's published report of local sales tax rates for 2018. The following political subdivisions reported some of the highest sales tax rates in the State.

St. Louis/501 Olive CID/501 Olive TDD	11.6790%
St. Louis/Convention Center TDD & CID	11.6790%
St. Louis Residence Inn Downtown CID & TDD	11.6790%
Belton/Cass County/Regional TDD	10.9750%
Kansas City/ Zoological District/Downtown Streetcar	10.6000%
Kansas City/Zoological District/Performing Arts	10.6000%
Hayti/Hayti-Ventures CID	10.4750%
Crystal City/Joachhim-Plattin Ambulance District	10.1000%

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<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 direct 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

Branson Police Department
City of Kansas City
City of Liberty
City of Springfield
Department of Revenue
Greene County Sheriff
Kirksville R-III School District
Office of Administration Division of Budget and Planning
St. Louis County Police Department
St. Louis County Department of Justice Services
Summersville R-II School District
West Plains School District
Wellsville-Middletown R-I School District

Ross Strobe

A handwritten signature in black ink, appearing to read "Ross Strobe", with a stylized flourish at the end.

Acting Director
March 20, 2018