

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2391-01
Bill No.: HB 1173
Subject: Taxation and Revenue - Sales and Use; Cities, Towns and Villages; Law Enforcement Officers and Agencies
Type: Original
Date: March 20, 2019

Bill Summary: This proposal authorizes Hallsville to levy a sales tax whose revenue is dedicated to public safety upon voter approval.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0	\$0 or \$377	\$0 or \$502
Total Estimated Net Effect on General Revenue	\$0	\$0 or \$377	\$0 or \$502

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	\$0	\$0 or \$36,933	\$0 or \$49,244

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal allows voters in the City of Hallsville to impose a sales tax up to 0.50% for the purpose of funding public safety for the city.

Using forecast estimates for statewide average growth in local sales taxes and state taxes (including food), the estimated average growth for FY19 and FY20 is 3.4% and 3.1%, respectively.

B&P estimates the City of Hallsville FY 2020 taxable sales to total \$2.5 million. The bill indicates that this sales tax would take effect starting April 1, thus only impacting Q4 of FY 2020 sales collections. For the City of Hallsville, with estimated Q4 sales collections of \$2.5 million, this proposed sales tax could generate approximately \$12,400 for the city for FY 2020. As a voter-approved tax, the collected revenues will not impact General and Total State Revenues; however, DOR will retain 1% to offset collection costs. Therefore, this portion could increase General and Total State Revenues by approximately \$126 in FY 2020.

Using the same methodology to estimate FY 2021 and FY 2022 sales, we estimate quarterly taxable sales in City of Hallsville to total \$2.5 million in FY 2020. This proposed sales tax might generate approximately \$49,700 for the city in FY 2021, and annually thereafter. The collected revenues will have no impact on General and Total State Revenues; however, DOR will retain 1% to offset collection costs, which could therefore increase General and Total State Revenues by approximately \$502 in FY 2021 and annually thereafter if the city sales tax is approved.

B&P defers to DOR for more specific estimates of actual collection costs.

Officials at the **Department of Revenue (DOR)** assume this proposal added to the cities authorized to impose, by ordinance or order, a sales tax in the amount of up to one-half of one percent on all retail sales made in such city which are subject to taxation under §144.010 to §144.525 for the purpose of improving the public safety for such city is the City of Hallsville.

Per the Department of Revenue's published "Financial and Statistical Report – Fiscal Year ended June 30, 2017, the City of Hallsville received a total sales tax distribution in the amount of \$103,875. The Department is authorized to keep one percent for the cost of collection. With the one percent extrapolated back into the total sales tax distribution, the Department estimates the total sales tax collected in the City of Hallsville in Fiscal Year 2017 was \$104,924 (\$103,875 / 99%).

ASSUMPTION (continued)

The City of Hallsville's tax rate equals 1.625 percent. When the total estimated sales tax collected is extrapolated using the cities tax rate, the Department estimates the City of Hallsville's total taxable sales in Fiscal Year 2017 was \$6,456,862 ($\$104,924 / 1.625\%$).

If an additional one-half of one percent sales tax is imposed on all retail sales made in the City of Hallsville, the Department estimates that the City of Hallsville's revenues could increase by \$31,961 ($\$6,456,862 \times .5\% - (\$32,284 \times 1\%)$) each fiscal year.

The Department estimates that General Revenue could increase by \$323 each fiscal year ($\$32,284 \times 1\%$).

Officials at the **City of Hallsville** assume the current base sales tax rate is 1.625%. If the event the Board of Aldermen approve to put on the ballot a ½ cent public safety tax to go to the voters and it is approved our base tax rate will be 2.125%. A ½ cent Public Safety tax will generate approximately \$50,000 a year for the Police Department.

Oversight notes this proposal would become effective August 28, 2019 and therefore could not be placed on the November 2019 ballot as the certification date for the November election is August 27, 2019. Therefore it would be put to a vote of the people at the April 2020 municipal election. Therefore, the earliest the sales tax could become effective would be the first day of the second calendar quarter after the Department of Revenue is notified of voter approval. In this case, the earliest effective date assuming voter approval at the April 2020 general municipal election would be October 1, 2020 (FY 2021). Therefore, only nine months of taxes would be collected in FY 2021.

Oversight will show the impact as \$0 (not approved or put before voters) to the impact estimated by B&P. Oversight notes that if the proposal is adopted, DOR would be allowed to keep 1% of the amount of sales tax collected to cover their expenses. Oversight notes that DOR would retain \$502. Oversight will show the fee as \$0 (no sales tax increase is adopted by voters) to up to the amount listed for the City.

<u>FISCAL IMPACT - State Government</u>	FY 2020	FY 2021 (9 Mo)	FY 2022
GENERAL REVENUE			
<u>Revenue</u> - DOR 1% collection fee	<u>\$0</u>	<u>\$0 or \$377</u>	<u>\$0 or \$502</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0 or \$377</u>	<u>\$0 or \$502</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020	FY 2021 (9 Mo)	FY 2022
CITY OF HALLSVILLE FUNDS			
<u>Revenue</u> - City ½ percent sales tax	\$0	\$0 or \$37,310	\$0 or \$49,746
<u>Transfer Out</u> - \$94,900.5 to DOR for 1% collection fee	<u>\$0</u>	<u>(\$0 or \$377)</u>	<u>(\$0 or \$502)</u>
ESTIMATED NET EFFECT ON CITY OF HALLSVILLE FUNDS	<u>\$0</u>	<u>\$0 or \$36,933</u>	<u>\$0 or \$49,244</u>

FISCAL IMPACT - Small Business

Businesses in Hallsville would be impacted as they collect the tax.

FISCAL DESCRIPTION

This bill authorizes any city of the fourth classification with more than 1350 but fewer than 1500 inhabitants and located in any county of the first classification with more than 150,000 but fewer than 200,000 inhabitants to levy a sales tax dedicated to public safety upon voter approval. Currently, this only applies to Hallsville.

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

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SOURCES OF INFORMATION

City of Hallsville
Department of Revenue
Office of Administration Division of Budget and Planning



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March 20, 2019

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