

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3951-02
Bill No.: HB 1726
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Cities, Towns, and Villages; Political Subdivisions; Department of Revenue
Type: Original
Date: January 31, 2020

Bill Summary: This proposal authorizes certain cities to levy a ½ cent sales tax for public safety.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0	\$0 or Up to \$7,643	\$0 or Up to \$11,693
Total Estimated Net Effect on General Revenue	\$0	\$0 or Up to \$7,643	\$0 or Up to \$11,693

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government - City of Kearney and City of Smithville	\$0	\$0 or Up to \$756,629	\$0 or Up to \$1,157,643

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposal allows voters in the City of Kearney and the City of Smithville to impose a sales tax up to 0.50% for the purpose of funding public safety for the cities.

Based upon the City of Kearney's and the City of Smithville's Fiscal Year 2019 taxable sales revenues, B&P estimates that a 0.50% tax will generate collections as shown in the chart below. Since the bill indicates that this sales tax would take effect starting April 1, only Quarter 4 of Fiscal Year 2021 sales collections would be impacted with the full year collection amounts generated in Fiscal Year 2022 and Fiscal Year 2023.

	DOR Collections				Sales Tax Collections Data		
City	FY 2021	FY 2022	FY 2023		FY 2021	FY 2022	FY 2023
Kearney	\$ 1,645	\$ 6,578	\$ 6,578		\$ 162,811	\$ 651,244	\$ 651,244
Smithville	\$ 1,056	\$ 4,225	\$ 4,225		\$ 104,560	\$ 418,239	\$ 418,239
	\$ 2,701	\$ 10,803	\$ 10,803		\$ 267,371	\$ 1,069,483	\$ 1,069,483

As a voter-approved tax, the collected revenues will not impact General Revenue (GR) and Total State Revenues (TSR); however, the Missouri Department of Revenue (DOR) will retain 1% to offset collection costs. Therefore, this portion could increase GR and TSR by the DOR fee amounts shown in the chart above.

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

Oversight notes B&P assumes the City of Kearney could anticipate increases in sales tax revenue equal to \$162,811 in Fiscal Year 2021 and \$651,244 annually thereafter and the City of Smithville could anticipate increases in sales tax revenue equal to \$104,560 in Fiscal Year 2021 and \$418,239 annually thereafter. Oversight has confirmed the amount of taxable sales used by B&P to provide the estimates.

Oversight further notes B&P has stated the proposed legislation would have an effective starting date of April 1, 2021. That would be so if either city has this proposal on the November 3, 2020, General Election ballot. Oversight assumes by the time this bill is enacted on August 28, 2020, that it would be too late for the cities to get this proposal on the November 3, 2020, General Election ballot. Therefore, Oversight assumes the earliest either city could have this proposal on a ballot would be April 6, 2021, at the General Municipal Election Day in which the first collections would begin October 1, 2021 (Fiscal Year 2022).

ASSUMPTION (continued)

Officials from the **Missouri Department of Revenue (DOR)** state this proposal would allow the City of Kearney to authorize and impose up to one-half of one percent sales tax, and shall be imposed solely for the purpose of improving the public safety. Using taxable sales report data for the City of Kearney, DOR estimates the impact as follows:

City of Kearney Taxable Sales by Calendar Year:

Calendar Year	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Total
2015	\$27,519,194	\$30,433,910	\$30,585,656	\$30,499,212	\$119,037,972
2016	\$29,649,506	\$32,472,290	\$32,177,705	\$31,615,729	\$125,915,230
2017	\$30,965,917	\$33,837,063	\$33,228,851	\$31,556,051	\$129,587,882
2018	\$31,091,023	\$34,389,327	\$33,602,628	\$32,563,846	\$131,646,824
2019	\$30,832,259	\$34,565,728			\$65,397,987 (Two Quarters Only)

Conversion of Taxable Sales by Calendar Year to Fiscal Year:

Fiscal Year	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	Total
2016	\$30,585,656	\$30,499,212	\$29,649,506	\$32,472,290	\$123,206,664
2017	\$32,177,705	\$31,615,729	\$30,965,917	\$33,837,063	\$128,596,414
2018	\$33,228,851	\$31,556,051	\$31,091,023	\$34,389,327	\$130,265,252
2019					\$132,870,557
2020					\$135,527,968
2021					\$138,238,528
2022					\$141,003,298
2023					\$143,823,364

Oversight notes DOR has estimated growth in the City of Kearney's taxable sales each fiscal year equal to two percent (2%) for all fiscal years after Fiscal Year 2018.

DOR took the fiscal year taxable sales and multiplied the amounts by the proposed tax rate of one-half of one percent (.5%) to determine the total amount of the sales tax collected. DOR notes that this proposal allows DOR to retain one percent (1%) that is deposited into GR for expenses for collection of this tax.

ASSUMPTION (continued)

Fiscal Year	Total Taxable Sales	% Growth	Check	Collections	DOR Fee	Final Collection
2018	\$130,265,252			\$651,326	\$6,513	\$644,813
2019	\$132,870,557	2%	-5.34%	\$664,353	\$6,644	\$657,709
2020	\$135,527,968	2%	3.40%	\$677,640	\$6,776	\$670,863
2021	\$138,238,528	2%		\$691,193	\$6,912	\$684,281
2022	\$141,003,298	2%		\$705,016	\$7,050	\$697,966
2023	\$143,823,364	2%		\$719,117	\$7,191	\$711,926

DOR notes that this proposal would become effective on August 28, 2020, and the first election would be the April 6, 2021, election. Therefore this will not have a fiscal impact in Fiscal Year 2021. This sales tax would begin October 1, 2021, (Fiscal Year 2022) if adopted by the voters. Therefore the impact in Fiscal Year 2022 would be for 9 months.

Fiscal Year	DOR Collection Fee	Kearney Sales Tax Amount
2021	\$0	\$0
2022	\$5,288	\$523,475
2023	\$7,191	\$711,926

Oversight notes DOR assumes the City of Kearney could anticipate an increase in sales tax revenue equal to \$523,475 in Fiscal Year 2022 and \$711,926 in Fiscal Year 2023 and an increase to GR equal to \$5,288 in Fiscal Year 2022 and \$7,191 in Fiscal Year 2023.

Oversight notes DOR's Fiscal Year 2022 estimates report three quarters (9 months) of the estimated collections as DOR assumes this proposed legislation would begin on October 1, 2021 (Fiscal Year 2022). Oversight assumes actual collections for Fiscal Year 2022 will report 8 months of estimated collections as sales tax is not paid to DOR until one month after collection.

DOR assumes this proposal would allow the City of Smithville to authorize and impose up to one-half of one percent (.5%) sales tax, and shall be imposed solely for the purpose of improving the public safety. Using taxable sales report data for the City of Smithville, DOR estimates the impact as follows:

ASSUMPTION (continued)

City of Smithville Taxable Sales by Calendar Year

Calendar Year	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Total
2015	\$18,324,168	\$21,003,657	\$20,543,911	\$18,606,705	\$78,478,441
2016	\$18,563,002	\$21,339,111	\$21,767,674	\$19,455,853	\$81,125,639
2017	\$18,671,654	\$22,070,560	\$21,628,460	\$19,691,818	\$82,062,492
2018	\$19,056,529	\$22,849,004	\$22,213,205	\$20,463,774	\$84,582,512
2019	\$18,956,527	\$22,859,235			\$41,815,762 (Two Quarters Only)

Conversion of Taxable Sales by Calendar Year to Fiscal Year

Fiscal Year	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	Total
2016	\$20,543,911	\$18,606,705	\$18,563,002	\$21,339,111	\$79,052,729
2017	\$21,767,674	\$19,455,853	\$18,671,654	\$22,070,560	\$81,965,741
2018	\$21,628,460	\$19,691,818	\$19,056,529	\$22,849,004	\$83,225,811
2019					\$84,890,327
2020					\$86,588,134
2021					\$88,319,896
2022					\$90,086,294
2023					\$91,888,020

Oversight notes DOR has estimated growth in the City of Smithville's taxable sales each fiscal year equal to two percent (2%) for all fiscal years after Fiscal Year 2018.

DOR took the fiscal year taxable sales and multiplied the amounts by the proposed tax rate of one-half of one percent (.5%) to determine the total amount of the sales tax collected. DOR notes that this proposal allows DOR to retain one percent (1%) that is deposited into GR for expenses for collection of this tax.

Fiscal Year	Total Taxable Sales	% Growth	Check	Collections	DOR Fee	Final Collection
2018	\$83,225,811			\$416,129	\$4,161	\$411,968
2019	\$84,890,327	2%	-5.34%	\$424,452	\$4,245	\$420,207
2020	\$86,588,134	2%	3.40%	\$432,941	\$4,329	\$428,611
2021	\$88,319,896	2%		\$441,599	\$4,416	\$437,183
2022	\$90,086,294	2%		\$450,431	\$4,504	\$445,927
2023	\$91,888,020	2%		\$459,440	\$4,594	\$454,846

ASSUMPTION (continued)

DOR notes that this proposal would become effective on August 28, 2020, and the first election would be the April 6, 2021 election. Therefore this will not have a fiscal impact in Fiscal Year 2021. This sales tax would begin October 1, 2021, (Fiscal Year 2022) if adopted by the voters. Therefore the impact in Fiscal Year 2022 would be for 9 months.

Fiscal Year	DOR Collection	Smithville Collection Amount
2021	\$0	\$0
2022	\$3,378	\$334,445
2023	\$4,594	\$454,846

Oversight notes DOR assumes the City of Smithville could anticipate an increase in sales tax revenue equal to \$334,445 in Fiscal Year 2022 and \$454,846 in Fiscal Year 2023 and an increase to GR equal to \$3,378 in Fiscal Year 2022 and \$4,594 in Fiscal Year 2023.

Oversight notes DOR's Fiscal Year 2022 estimates reports three quarters (9 months) of the estimated collections as DOR assumes this proposed legislation would begin on October 1, 2021 (Fiscal Year 2022). Oversight assumes actual collections for Fiscal Year 2022 will report 8 months of estimated collections as sales tax is not paid to DOR until one month after collection.

Officials from the **City of Smithville** estimates this proposed legislation could generate approximately \$450,000 annually.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this bill would authorize the cities of Kearney and Smithville to levy a ½ cent sales tax for public safety.

The City of Kearney sales tax base has averaged \$149,565,923 over the last three years. Should a new one-half percent (.5%) sales tax be implemented throughout the City of Kearney causing the after-tax price for all goods to increase by one-half percent (.5%), EPARC estimates an approximate one-half percent (.5%) decline in the demand for all goods reducing the tax base to \$148,821,814.

Using this figure, should this bill be enacted and passed by the voters of Kearney, a one-half percent (.5%) sales tax on this base would yield new collections of \$744,109; \$736,668 for the City of Kearney for public safety and \$7,441 to GR per the state collection fee of 1%.

ASSUMPTION (continued)

The impact of the reduction in tax base by approximately one-half percent (.5%) will reduce all other existing collections within the City of Kearney by approximately one-half percent (.5%), an aggregate decrease of \$1,563 of which \$16 represents the decrease in the 1% GR collection fee. As well, the impact of the reduction in tax base by approximately one-half percent (.5%) within the City of Kearney will modestly reduce all existing county-wide collections within Clay County, an aggregate decrease of \$8,371 of which \$84 represents the decrease in the 1% GR collection Fee. Lastly, the reduction in the tax base in city of Kearney from \$149,565,923 to \$148,821,814 will reduce the 3% GR Sales Tax collection from \$4,486,978 to \$4,464,654, a decrease of \$22,323.

Therefore, from a new ½ cent sales tax for public safety in Kearney, we approximate a decrease in Net General Revenue of \$14,982; \$7,441 minus \$22,323 minus \$16 minus \$84 (rounding error may occur).

The City of Smithville sales tax base has averaged \$102,685,308 over the last three years. Should a new one-half percent (.5%) sales tax be implemented throughout the City of Smithville causing the after-tax price for all goods to increase by one-half percent (.5%), we estimate an approximate one-half percent (.5%) decline in the demand for all goods reducing the tax base to \$102,174,436.

Using this figure, should this bill be enacted and passed by the voters of Smithville, a one-half percent (.5%) sales tax on this base would yield new collections of \$510,872; \$505,763 for the City of Smithville for public safety and \$5,109 to GR per the state collection fee of 1%.

The impact of the reduction in tax base by approximately one-half percent (.5%) will reduce all other existing collections within the City of Smithville by approximately one-half percent (.5%), an aggregate decrease of \$786 of which \$8 represents the decrease in the 1% GR collection Fee. As well, the impact of the reduction in tax base by approximately one-half percent (.5%) within the City of Smithville will modestly reduce all existing county-wide collections within Clay County, an aggregate decrease of \$10,217 of which \$102 represents the decrease in the 1% GR collection Fee. Lastly, the reduction in the tax base in City of Smithville from \$102,685,308 to \$102,174,436 will reduce the 3% GR Sales Tax collection from \$3,080,559 to \$3,065,233, a decrease of \$15,326.

Therefore, from a new ½ cent sales tax for public safety in Smithville, we approximate a decrease in Net General Revenue of \$10,327; \$5,109 minus \$15,326 minus \$8 minus \$102 (rounding error may occur).

ASSUMPTION (continued)

If this bill were enacted and passed by the City of Kearney's and City of Smithville's voters, we estimate a one-half percent (.5%) sales tax would yield \$736,668 in new collections for the City of Kearney's public safety and \$505,763 for the City of Smithville's public safety. However, the decrease in aggregate demand would result in a decrease in Net General Revenue of \$25,309 (\$14,982 due to Kearney and \$10,327 due to Smithville).

Oversight notes EPARC has estimated the City of Kearney could anticipate an increase in sales tax revenue equal to \$736,668 and has estimated the City of Smithville could anticipate an increase in sales tax revenue equal to \$505,763.

Oversight assumes the assumptions made by EPARC in regards to the overall sales tax base of the City of Kearney, the City of Smithville, Clay County and the State of Missouri if the one half of one percent (.5%) sales tax was imposed would be indirect impacts if such impact(s) were recognized. Thus, for purposes of this fiscal note, Oversight will only report the direct impact to the sales tax revenues of the City of Kearney and the City of Smithville as a result of a one half of one percent (.5%) sales tax increase.

Oversight assumes this proposed legislation would allow the City of Kearney and the City of Smithville to put forth to their cities' voters at a county or state general, primary or special election a proposal to impose a sales tax in the amount of up to one-half of one percent (.5%) for the purposes of improving public safety within such cities.

Oversight notes the following taxable sales for Fiscal Year 2019 for both the City of Kearney and the City of Smithville:

Fiscal Year 2019	Quarter				Total Taxable Sales Fiscal Year 2019
	1st	2nd	3rd	4th	
City of Kearney	\$33,602,628	\$32,563,846	\$30,832,259	\$34,565,728	\$131,564,461
City of Smithville	\$22,213,205	\$20,463,774	\$18,956,527	\$22,859,235	\$84,492,740

Oversight applied an estimated two percent (2%) growth to each cities respective Fiscal Year 2019 taxable sales to estimate the taxable sales for Fiscal Year 2020 through Fiscal Year 2023. The estimated taxable sales per fiscal year for each city is:

ASSUMPTION (continued)

Fiscal Year	City	Quarter				Estimated Total Taxable Sales
		1st	2nd	3rd	4th	
2020	City of Kearney	\$34,274,680	\$33,215,123	\$31,448,904	\$35,257,042	\$134,195,750
	City of Smithville	\$22,657,469	\$20,873,049	\$19,335,657	\$23,316,419	\$86,182,595
2021	City of Kearney	\$34,960,174	\$33,879,426	\$32,077,882	\$35,962,183	\$136,879,665
	City of Smithville	\$23,110,619	\$21,290,510	\$19,722,370	\$23,782,748	\$87,906,247
2022	City of Kearney	\$35,659,378	\$34,557,014	\$32,719,440	\$36,681,427	\$139,617,258
	City of Smithville	\$23,572,831	\$21,716,320	\$20,116,818	\$24,258,403	\$89,664,372
2023	City of Kearney	\$36,372,565	\$35,248,154	\$33,373,829	\$37,415,055	\$142,409,603
	City of Smithville	\$24,044,288	\$22,150,647	\$20,519,154	\$24,743,571	\$91,457,659

Oversight assumes by the time this proposed legislation would be enacted on August 28, 2020, it would be too late for the cities to get these proposals on the November 3, 2020, General Election ballot. Therefore, Oversight assumes the earliest these cities could put forth the proposal to their respective voters would be April 6, 2021, at the General Municipal Election Day.

This proposed legislation would allow the city, if voters approved the proposal, to begin collecting sales tax the second quarter after notifying DOR of the approved sales tax. Therefore, Oversight assumes the earliest sales tax may be collected is October 1, 2021 (Fiscal Year 2022). Subsequently, Oversight will report an 8 month increase to the cities sales tax revenues in Fiscal Year 2022 as sales tax collections are not paid to DOR until one month after collection.

Based on the estimated total taxable sales for Fiscal Year 2020 through Fiscal Year 2023, Oversight estimates each cities' tax revenue and GR (DOR fee of 1%) will increase by the following beginning in Fiscal Year 2022 provided the voters of each city voted in favor of the proposal:

Fiscal Year	City	Total Increase in Sales Tax Collected	Total Sales Tax Revenue Increase (Total Sales Tax Collected Less DOR fee of 1%)	Total Increase to GR (both Cities)
2022 (8 months)	City of Kearney	\$465,391	\$460,737	\$7,643
	City of Smithville	\$298,881	\$295,892	
2023	City of Kearney	\$712,048	\$704,928	\$11,693
	City of Smithville	\$457,288	\$452,715	

Oversight notes the difference between DOR's estimates and Oversight's estimates is due to DOR estimating Fiscal Year 2019's total taxable sales by applying a two percent (2%) growth to Fiscal Year 2018's total taxable sales while Oversight used actual taxable sales recognized in Fiscal Year 2019 and applying the two percent (2%) growth to total taxable sales each fiscal year

thereafter.

ASSUMPTION (continued)

For purposes of this fiscal note, Oversight will report the impact to the cities of Kearney and Smithville showing Oversight's estimates.

Oversight notes the fiscal impact of \$0 would be if the city did not submit the proposed sales tax to their respective voters or if the voters reject the proposals; the fiscal impact of "Up to" would be if the voters approved the proposals.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Gain</u> - Section 94.900 - DOR 1% collection fee	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$7,643</u>	<u>\$0 or Up to</u> <u>\$11,693</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$7,643</u>	<u>\$0 or Up to</u> <u>\$11,693</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2021 (10 Mo.)	 FY 2022	 FY 2023
LOCAL GOVERNMENT - CITIES			
<u>Revenue Gain</u> - City of Kearney - Section 94.900 - .5% sales tax for public safety	\$0	\$0 or Up to \$460,737	\$0 or Up to \$704,928
<u>Revenue Gain</u> - City of Smithville - Section 94.900 - .5% sales tax for public safety	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$295,892</u>	<u>\$0 or Up to</u> <u>\$452,715</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS - CITIES	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$756,629</u>	<u>\$0 or Up to</u> <u>\$1,157,643</u>

FISCAL IMPACT - Small Business

This proposed legislation could impact any small business in the City of Kearney or the City of Smithville as they would be required to collect and remit the additional tax to DOR.

FISCAL DESCRIPTION

This bill authorizes any fourth class city with a population of more than 8,000 but less than 12,000 and located in any first class county with a population of more than 250,000 but less than 260,000 to levy a ½% sales tax for public safety upon voter approval. (Section 94.900)

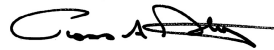
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
University of Missouri's Economic and Policy Analysis Research Center
City of Smithville



Julie Morff
Director
January 31, 2020



Ross Strobe
Assistant Director
January 31, 2020