

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4193-01
Bill No.: HB 1731
Subject: Taxation and Revenue - Sales and Use; Cities, Towns and Villages; Law Enforcement Officers and Agencies; Department of Revenue
Type: Original
Date: January 31, 2020

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 2021	FY 2022	FY 2023
General Revenue	\$0	\$0 or Up to \$316	\$0 or Up to \$484
Total Estimated Net Effect on General Revenue	\$0	\$0 or Up to \$316	\$0 or Up to \$484

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 9 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 Hallsville	\$0	\$0 or Up to \$31,323	\$0 or Up to \$47,924

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning Division (B&P)** state 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.

Based upon the City of Hallsville's Fiscal Year 2019 \$8.9 million of taxable sales, B&P estimates that a 0.50% tax will generate \$44,275 in collections. 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. This results in the proposed sales tax generating approximately \$11,069 for the city for Fiscal Year 2021. As a voter-approved tax, the collected revenues will not impact General Revenue (GR) and Total State Revenue (TSR); however, the Missouri Department of Revenue will retain 1% to offset collection costs. Therefore, this portion could increase GR and TSR by approximately \$112 in Fiscal Year 2021.

Budget and Planning defers to DOR for more specific estimates of actual collection costs.

Oversight notes B&P assumes the City of Hallsville could anticipate increases in sales tax revenue equal to \$11,069 in Fiscal Year 2021 and \$44,275 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 the City of Hallsville has this proposal on the November 3, 2020, General Election ballot. However, Oversight assumes by the time this bill is enacted on August 28, 2020, that it would be too late for the City of Hallsville to get this proposal on the November 3, 2020, General Election ballot. Therefore, Oversight assumes the earliest the City of Hallsville 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).

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

ASSUMPTION (continued)

City of Hallsville Taxable Sales by Calendar Year

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	2,120,442	2,206,788	2,374,865	2,281,633	8,983,728
2016	2,209,520	2,277,424	2,389,793	2,287,573	9,164,310
2017	2,283,198	2,479,424	2,423,003	2,283,876	9,469,500
2018	2,305,757	2,424,249	2,156,592	2,249,081	9,135,679
2019	2,272,117	2,266,564			

Conversion of Taxable Sales by Calendar Year to Fiscal Year

FY	Jul - Sep	Oct - Dec	Jan - Mar	Apr - June	Total
2016	2,374,865	2,281,633	2,209,520	2,277,424	9,143,442
2017	2,389,793	2,287,573	2,283,198	2,479,424	9,439,988
2018	2,423,003	2,283,876	2,305,757	2,424,249	9,436,885
2019	2,272,117	2,266,564			9,625,623
2020					9,818,135
2021					10,014,498
2022					10,214,788
2023					10,419,084

Oversight notes DOR has estimated growth in the City of Hallsville'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	Collections	DOR Fee	Final Collection
2018	\$9,436,885	\$47,184	\$472	\$46,713
2019	\$9,625,623	\$48,128	\$481	\$47,647
2020	\$9,818,135	\$49,091	\$491	\$48,600
2021	\$10,014,498	\$50,072	\$501	\$49,572
2022	\$10,214,788	\$51,074	\$511	\$50,563
2023	\$10,419,084	\$52,095	\$521	\$51,574

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 Fee	Hallsville Collection
2021	\$0	\$0
2022	\$383	\$37,922
2023	\$521	\$51,574

Oversight notes DOR assumes the City of Hallsville could anticipate an increase in sales tax revenue equal to \$37,922 in Fiscal Year 2022 and \$51,574 in Fiscal Year 2023 and an increase to GR equal to \$383 in Fiscal Year 2022 and \$521 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

Officials from the **City of Hallsville (the City)** state the City's current base sales tax rate is 1.625%. In the event the Board of Aldermen approve to put on the ballot a ½ cent public safety sales tax to go to the voters and it is approved, our base tax rate will be 2.125%. The total sales tax rate for purchases within the City is 7.6%, which includes 4.225% for the State of Missouri and 1.750% for (Boone) County. With the ½ cent sales tax the total sales tax will be 8.1%. This tax rate is comparable to other communities in the City's area. The City anticipates a ½ cent public safety sales tax will generate approximately \$55,000 a year for the Police Department. With these funds, the City could increase their department from three full time officers to four full time officers. Adding another full time officer will give the City near 24/7 coverage for the first time. The funds will also allow the department to increase their fleet of patrol vehicles and keep up with the upgrades in technology and the replacement of outdated equipment.

Oversight notes the City anticipates its sales tax revenues to increase by approximately \$55,000 each year if the voters of the City approved the one-half of one percent sales tax for public safety.

Oversight assumes this proposed legislation would allow the City of Hallsville to put forth to its city's 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 the city.

ASSUMPTION (continued)

Oversight notes the following taxable sales for Fiscal Year 2019 for both the City of Hallsville:

Fiscal Year 2019	Quarter				Total Taxable Sales Fiscal Year 2019
	1st	2nd	3rd	4th	
City of Hallsville	\$2,156,529	\$2,249,081	\$2,272,117	\$2,266,564	\$8,944,290

Oversight applied an estimated two percent (2%) growth to the City of Hallsville's 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 the City of Hallsville is:

Fiscal Year	Quarter				Estimated Total Taxable Sales
	1st	2nd	3rd	4th	
2020	\$2,199,660	\$2,294,062	\$2,317,559	\$2,311,895	\$9,123,176
2021	\$2,243,653	\$2,339,944	\$2,363,910	\$2,358,133	\$9,305,640
2022	\$2,288,526	\$2,386,742	\$2,411,188	\$2,405,296	\$9,491,752
2023	\$2,334,296	\$2,434,477	\$2,459,412	\$2,453,402	\$9,681,587

Oversight assumes by the time this proposed legislation would be enacted on August 28, 2020, it would be too late for the City of Hallsville to get this proposal on the November 3, 2020, General Election ballot. Therefore, Oversight assumes the earliest the City of Hallsville 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 City of Hallsville's 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 the City of Hallsville's sales tax revenue and GR (DOR fee of 1%) will increase by the following beginning in Fiscal Year 2022 (8 months) provided the voters of each city voted in favor of the proposal:

ASSUMPTION (continued)

Fiscal Year	Total Increase in Sales Tax Collections	Total Sales Tax Revenue Increase (Total Sales Tax Collected Less DOR fee of 1%)	Total Increase to GR
2022 (8 months)	\$31,639	\$31,323	\$316
2023	\$48,408	\$47,924	\$484

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.

For purposes of this fiscal note, Oversight will report the impact to the City of Hallsville showing Oversight's estimates.

Oversight will show a fiscal impact for the City of Hallsville of \$0 or Up to \$31,323 in Fiscal Year 2022 and \$0 or Up to \$47,924 in Fiscal Year 2023.

Oversight will show a fiscal impact for GR of \$0 Up to \$316 in Fiscal Year 2022 and \$0 Up to \$484 in Fiscal Year 2023.

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

<u>FISCAL IMPACT - State Government</u>	FY 2021	FY 2022 (8 Mo.)	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Gain</u> - Section 94.900 - DOR 1% collection fee - p. 7	<u>\$0</u>	<u>\$0 or Up to \$316</u>	<u>\$0 or Up to \$484</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or Up to \$316</u>	<u>\$0 or Up to \$484</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021	FY 2022 (8 Mo.)	FY 2023
LOCAL GOVERNMENT - CITY OF HALLSVILLE			
Revenue Gain - City of Hallsville - Section 94.900 - .5% sales tax for public safety - p. 7	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$31,323</u>	<u>\$0 or Up to</u> <u>\$47,924</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS - CITY OF HALLSVILLE	<u>\$0</u>	<u>\$0 or Up to</u> <u>\$31,323</u>	<u>\$0 or Up to</u> <u>\$47,924</u>

FISCAL IMPACT - Small Business

Small businesses may have to pay more in sales tax in Hallsville as a result of this proposal (and voter approval).

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 of up to one-half of one percent dedicated to 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 and Planning Division
Missouri Department of Revenue
City of Hallsville



Julie Morff
Director
January 31, 2020



Ross Strobe
Assistant Director
January 31, 2020