

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2104H.03I  
Bill No.: HB 1209  
Subject: Political Subdivisions; Auditor, State; Cities, Towns, and Villages; County  
Government; Revenue, Department of  
Type: Original  
Date: March 18, 2021

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Bill Summary: This proposal changes the laws regarding financial reports by political subdivisions.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
General Revenue*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<b>Total Estimated Net Effect on General Revenue*</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

\*The fiscal impact to the state is the 2% fee collected by DOR on fine revenue from certain Local Political Subdivisions with inhabitants of less than 3,500. Oversight assumes the reduction in fees is not expected to exceed \$250,000 annually.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- ☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Savings to certain Local Political Subdivisions less the loss of fine revenues received by the school districts should net to \$0.

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration - Budget and Planning (B&P)** assume \$105.145 of the proposal caps the fine for failure to submit annual financial statements for political subdivisions with less than 3,500 inhabitants to 10% of the total sales and use tax revenue for the fiscal year for which the annual financial statements were not timely submitted. This may result in a revenue loss for both the state and schools.

It also requires the chief executive and chief financial officer of the municipality be notified by DOR. The State Demographer has identified 836 municipalities that are fewer than 3,500 inhabitants. B&P defers to DOR for more specific estimates of fines and actual collection costs.

Officials at the **Department of Revenue (DOR)** state currently local political subdivisions are required to file annual financial statements with the State Auditor's Office. Failure to file those statements results in the political subdivision being assessed a fine of \$500 per day per statutes, which is deposited into school district funds. DOR notes that the Department started imposing this fine in August 2017. DOR receives notice from the State Auditor's Office if a political subdivision does not file their annual financial statement. At that time, the Department sends a notice to the political subdivision and thirty days later the fee starts to accumulate.

The Department collects the fine by offsetting any sales or use tax distributions due to the political subdivisions. In essence, the Department only gets to collect the fee if the political subdivision has a sales or use tax. Most of these political subdivisions do not have a sales or use tax for the Department to collect, so the Department assumes much of what is owed is uncollectable. Additionally, this is not state money but local political subdivision funds.

Currently, a transportation development district that has gross revenues of less than \$5,000 in a fiscal year is not subject to this fine.

The Department notes that per statute we are allowed to retain 2% of the amount collected for administration. Since the program began we have collected \$48,780 which has been deposited into General Revenue. All DOR collection fees are deposited into General Revenue and are not retained by the Department.

In regards to the \$500 per day fine, this proposal would limit municipalities with fewer than 3,500 inhabitants to a fine of no more than 10% of the total sales and use tax revenue collected in the fiscal year for which the report covers. This proposal will also require the Department to send the "failure to file" notice to both the chief executive and chief financial officer if the municipality has fewer than 3,500 inhabitants.

Current records of the Department show total fines of \$72,444,999.99 and that \$2,438,991.50 has been collected. The Department is showing the assessment of the fines by the political subdivision type and by the county in which the district that owes the fine is located.

By Political Subdivision Type:

<b>PolSub Type</b>	<b>Total Owed</b>	<b>Total Paid</b>
911	\$500.00	\$0.00
AMB	\$2,143,500.00	\$91,639.53
CID	\$13,349,500.00	\$360,986.77
City	\$23,435,499.99	\$1,745,878.33
Drain	\$3,789,000.00	\$0.00
FPD	\$9,502,500.00	\$42,500.00
Health	\$333,500.00	\$0.00
Hospital	\$524,500.00	\$0.00
Levy	\$3,128,500.00	\$0.00
Library	\$757,000.00	\$0.00
NHD	\$215,000.00	\$0.00
PWSD	\$3,124,000.00	\$6,500.00
SEWER	\$223,500.00	\$0.00
SLD	\$771,500.00	\$0.00
SRD	\$6,666,500.00	\$0.00
TDD	\$4,480,500.00	\$191,486.87
	<b>\$72,444,999.99</b>	<b>\$2,438,991.50</b>

By County of where the political subdivision is located:

<b>County</b>	<b>Total Fines Assessed</b>	<b>Total Paid</b>
Adair	\$551,500.00	\$1,500.00
Andrew	\$46,500.00	\$0.00
Atchison	\$525,500.00	\$0.00
Audrain	\$688,000.00	\$0.00
Barry	\$1,320,500.00	\$14,113.87
Barton	\$0.00	\$0.00
Bates	\$492,500.00	\$29,408.04
Benton	\$38,500.00	\$0.00
Bollinger	\$1,086,000.00	\$0.00
Boone	\$259,000.00	\$20,967.30
Buchanan	\$506,500.00	\$34,689.99
Butler	\$913,000.00	\$26,694.50
Caldwell	\$100,000.00	\$14,500.93
Callaway	\$190,000.00	\$1,947.94
Camden	\$220,000.00	\$22,000.00
Cape Girardeau	\$195,500.00	\$0.00
Carroll	\$2,142,500.00	\$0.00
Carter	\$1,172,500.00	\$17,500.00
Cass	\$2,944,500.00	\$8,463.47
Cedar	\$211,500.00	\$28,500.00
Chariton	\$372,000.00	\$39,500.00
Christian	\$1,427,500.00	\$0.00
Clark	\$454,000.00	\$37,500.00
Clay	\$682,500.00	\$14,500.00
Clinton	\$875,500.00	\$0.00
Cole	\$434,000.00	\$3,628.34
Cooper	\$828,500.00	\$22,000.00
Crawford	\$944,000.00	\$20,000.00
Dade	\$143,500.00	\$0.00
Dallas	\$806,500.00	\$0.00
Daviess	\$425,500.00	\$0.00
DeKalb	\$390,000.00	\$0.00
Dent	\$194,500.00	\$0.00
Douglas	\$0.00	\$0.00
Dunklin	\$1,200,500.00	\$14,818.20
Franklin	\$947,500.00	\$443.90

Gasconade	\$65,500.00	\$4,249.10
Gentry	\$1,159,500.00	\$0.00
Greene	\$516,500.00	\$9,000.00
Grundy	\$645,000.00	\$0.00
Harrison	\$390,000.00	\$0.00
Henry	\$492,500.00	\$76,883.03
Hickory	\$416,500.00	\$0.00
Holt	\$995,000.00	\$10,500.00
Howard	\$690,000.00	\$147,500.00
Howell	\$489,500.00	\$56,000.00
Iron	\$20,000.00	\$12,000.00
Jackson	\$1,688,500.00	\$204,833.53
Jasper	\$729,000.00	\$24,598.49
Jefferson	\$807,000.00	\$17,800.33
Johnson	\$391,500.00	\$1,500.00
Knox	\$738,500.00	\$0.00
Laclede	\$193,500.00	\$12,000.00
Lafayette	\$237,000.00	\$33,417.80
Lawrence	\$1,916,000.00	\$0.00
Lewis	\$1,187,000.00	\$0.00
Lincoln	\$712,500.00	\$26,313.03
Linn	\$304,000.00	\$30,500.00
Livingston	\$812,500.00	\$22,000.00
Macon	\$38,500.00	\$0.00
Madison	\$1,340,500.00	\$5,139.53
Maries	\$7,000.00	\$0.00
Marion	\$0.00	\$0.00
McDonald	\$38,500.00	\$0.00
Mercer	\$416,500.00	\$0.00
Miller	\$554,500.00	\$2,528.17
Mississippi	\$807,500.00	\$70.56
Moniteau	\$0.00	\$0.00
Monroe	\$10,000.00	\$10,000.00
Montgomery	\$109,500.00	\$0.00
Morgan	\$0.00	\$0.00
New Madrid	\$1,232,500.00	\$102,036.35
Newton	\$242,500.00	\$25,500.00
Nodaway	\$1,804,000.00	\$10,000.00

Oregon	\$0.00	\$0.00
Osage	\$369,500.00	\$9,937.93
Ozark	\$43,000.00	\$43,000.00
Pemiscot	\$2,032,500.00	\$6,500.00
Perry	\$1,162,000.00	\$0.00
Pettis	\$401,000.00	\$0.00
Phelps	\$333,500.00	\$50,000.00
Pike	\$0.00	\$0.00
Platte	\$632,500.00	\$22,500.00
Polk	\$267,000.00	\$0.00
Pulaski	\$860,500.00	\$17,000.00
Putnam	\$0.00	\$0.00
Ralls	\$177,500.00	\$31,055.19
Randolph	\$660,500.00	\$10,500.00
Ray	\$1,374,000.00	\$0.00
Reynolds	\$397,500.00	\$657.95
Ripley	\$232,000.00	\$0.00
Saline	\$463,500.00	\$0.00
Schuyler	\$430,500.00	\$0.00
Scotland	\$548,000.00	\$0.00
Scott	\$1,298,000.00	\$0.00
Shannon	\$104,500.00	\$95,001.92
Shelby	\$6,500.00	\$6,500.00
St Clair	\$178,000.00	\$0.00
St. Charles	\$935,000.00	\$46,455.82
St. Clair	\$1,240,500.00	\$229.37
St. Francois	\$238,500.00	\$0.00
St. Louis	\$2,052,500.00	\$473,564.92
St. Louis City	\$4,018,000.00	\$104,946.13
Ste. Genevieve	\$0.00	\$0.00
Stoddard	\$950,500.00	\$132,693.13
Stone	\$687,999.99	\$88,499.99
Sullivan	\$455,000.00	\$0.00
Taney	\$909,500.00	\$8,500.00
Taney	\$0.00	\$0.00
Texas	\$697,500.00	\$39,500.00
Vernon	\$764,000.00	\$12,000.00

Warren	\$10,500.00	\$10,500.00
Washington	\$482,500.00	\$12,000.00
Wayne	\$852,500.00	\$402.75
Webster	\$231,000.00	\$0.00
Worth	\$19,000.00	\$0.00
Wright	\$0.00	
<b>TOTALS</b>	<b>\$72,444,999.99</b>	<b>\$2,438,991.50</b>

This proposal would result in fewer future fines being assessed. As stated previously, many of these current political subdivisions do not have any sales or use tax collected, so they may be able to avoid the current large penalties.

The current outstanding balance is \$70,006,008.49 (\$72,444,999.99 - \$2,438,991.50). This is money the Department notes is owed, but most likely uncollectable. Should it be collected it will be forwarded to the local school district fund.

Reducing the future fines would help save the local political subdivisions money however; do to the uncollectability of most of this money the Department assumes no additional impact to the state.

#### Administrative Impact

The Department assumes there will be additional mailing costs from sending 2 notices instead of one. It is assumed this could be absorbed by the Department.

**Oversight** does not have any information to the contrary. Oversight notes from OA's response that there are 836 municipalities that have less than 3,500 inhabitants. Oversight is unclear how many of those municipalities currently have penalties assessed by the DOR and how much that total would be for those municipalities. Oversight assumes subsection 9 of the proposal would directly affect both current and future potential fines and will therefore reflect a \$0 or unknown negative fiscal impact to both the General Revenue Fund and Local Political Subdivisions.

**Oversight** also notes that the decrease in fine revenue pertaining to municipalities with less than 3,500 inhabitants would result in a savings to those local political subdivisions who would no longer need to pay \$500 per day in fine revenue and instead would be subject to fines not to exceed ten percent of the total sales and use tax revenue of the fiscal year for which the annual financial statement was not timely filed. Oversight notes in subsection 10, a municipality with



less than 3,500 inhabitants who does not timely file their annual financial statement would have a notice sent to them from the DOR. However, subsection 10(2) still suggests a \$500 per day charge on such municipality. Oversight notes clarifying language should be inserted in subsection 10(2) regarding these municipalities. Therefore, Oversight will assume that the local political subdivisions will incur a savings from fine revenue of \$0 or a positive unknown and will reflect this detail in the chart below.

Officials from the **Office of the State Auditor**, the **Attorney General's Office**, the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Office of the State Courts Administrator** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Officials from the **City of Claycomo**, the **City of Corder**, the **City of Hughesville**, the **City of Kansas City**, the **City of O'Fallon**, the **City of Springfield**, **St. Louis City**, the **Kansas City Board of Elections**, the **Platte County Board of Elections** and the **St. Louis County Board of Elections** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to a similar proposal (HB 441 from the 2021 session) version, officials from **Clinton County** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

**Oversight** only reflects the responses that we have received from state agencies and political subdivisions; however, other cities, local election authorities, and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>GENERAL REVENUE</b>			
<u>Loss</u> – DOR – 2% of collection fee on potential fine reduction to municipalities with less than 3,500 inhabitants	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<u><b>\$0 or (Unknown)</b></u>	<u><b>\$0 or (Unknown)</b></u>	<u><b>\$0 or (Unknown)</b></u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Savings</u> – on potential fines for certain LPS	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> – School districts receiving less fine revenue (from savings above)	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Currently, political subdivisions that fail to submit the required annual financial statement to the State Auditor are fined \$500 a day. This bill reduces the fine to an amount of not more than 10% of the total sales and use tax revenue of the fiscal year for which the annual financial statement was not filed for municipalities with fewer than 3,500 inhabitants.

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  
 Department of Revenue  
 Kansas City Board of Elections  
 Platte County Board of Elections  
 Joint Committee on Administrative Rules

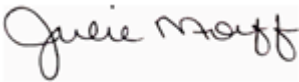
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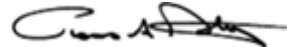
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Office of the Secretary of State  
Office of the State Auditor  
Attorney General's Office  
Office of the State Courts Administrator  
City of Kansas City  
City of O'Fallon  
City of Springfield  
St. Louis City  
St. Louis County Board of Elections  
Clinton County  
City of Claycomo  
City of Corder  
City of Hughesville



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March 18, 2021



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March 18, 2021