COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1169-10
Bill No.: SCS for HS for HCS for HB 517, 94, 149, 150, & 342
Subject: Drugs and Controlled Substances; Elderly; Health Care; Health Dept.; Health, Public; Pharmacy; Property, Real and Personal; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: April 29, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	$0	$0	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**$0**	**(Unknown)**

*(Unknown) expected to exceed $100,000 per year. Subject to appropriation; does not include possible costs to fully fund Foundation Formula.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension	$0	$0	($123,000)
Senior Rx	$5,200,000	$6,200,000	$6,500,000
Total Estimated Net Effect on Other State Funds	**$5,200,000**	**$6,200,000**	**$6,377,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	**$0**	**$0**	**(Unknown)**

* Expected to exceed $100,000 per year.

FISCAL ANALYSIS

ASSUMPTION

Missouri Homestead Preservation Act

Officials from the **Office of the Secretary of State** assume this proposal would modify the rebate requirement for generic prescription drugs in the Senior RX Program. The Department of Health and Senior Services could promulgate rules to enact this legislation. Based on experience with other divisions, the rules, regulations, and forms issued by the Department of Health and Senior Services could require as many as 8 pages in the Code of State Regulations and half again as many pages in the Missouri Register because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the Register is $23 and the estimated cost of a page in the Code is $27. The actual cost could be more or less than the numbers given. The impact of the legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.
((8x$27)+(12x$23)=$492)

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to a previous version of this proposal, officials from the **Cole County Assessor's Office** assumed there would be no revenues or savings to the Cole County Assessor's office from this proposal. Officials from the Cole County Assessor's Office also assume the office will incur one time programming change costs estimated at $2000 for the year 2004.

The Assessor's office would have to maintain a separate accounting of homestead properties and this would require additional personnel time; the Cole County Assessor's office is understaffed and no additional requirements can be placed on the existing staff without sacrificing some other function of the office. It is estimated a quarter time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense of $6000 per year, starting in 2004.

There would be no loss in 2004 as new construction and improvements would still be added pursuant to existing law. For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions caused by this bill would be approximately $612,000.

Officials from the Cole County Assessor's Office assumed there would be no loss in 2006, as new construction and improvements would still be added pursuant to existing law.

The Cole County Assessor’s Office estimated that no losses would be made up to political subdivisions in the year 2005, considering that the number of sales of homestead properties would be so minimal at that point in time that any substantial effect would be unlikely. The proposal does not guarantee that political subdivisions would ever be reimbursed for losses listed above, only granting the General Assembly the option of appropriating monies. Also, it would be nearly impossible to estimate how many sales of homestead properties would occur in any given year.

The Assessor's work load would not change as all properties under this bill still need to be inspected during physical property review for additions, alterations, and/or deletions, including non-reassessment years. The work load of the Assessor would actually increase due to administrative cost of implementing this program in the Assessor's office.

ASSUMPTION (continued)

Oversight assumes there be significant but unknown costs to the county assessors, county clerks, county collectors, and to officials of other political subdivisions, and has included these in the estimate of local fiscal impact.

In response to a previous version of this proposal, officials from the **Department of Revenue** (DOR) assume the proposal would have no fiscal impact to DOR.

Officials from the **Office of Administration, Division of Budget and Planning**, assume the proposal would result in unknown decrease to the state's general revenue fund. The proposed legislation should not result in additional costs or savings to the Division of Budget and Planning.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would prohibit taxes on residential property from increasing by more than 5 percent during any tax-year reassessment cycle by exempting from taxation a portion of the assessed valuation of the property. This will inhibit the assessed value of the property from keeping pace with the local economy on property sales and may result in less local revenue for taxing jurisdictions including school districts.

Freezing the value of some residential property may result in less total reassessment value increase for the taxing jurisdiction. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

DESE assumes that while the proposal does not reference the state school aid foundation formula, non-hold harmless districts (districts on the formula) could potentially recover the lost local revenues through the state aid formula rather than a separate appropriation if the appropriation for the formula would be sufficient to provide a proration factor no less than 1.00. The local deductions (Line 2) in the foundation formula would not increase as much as current law provides since the assessed valuation for the district will not increase as much as it would without the exemption, thereby increasing the cost to fund the state foundation formula at a proration factor of no less than 1.00. If the formula is not funded at the 1.00 level, the school districts would need a separate payment to replace the lost revenue due to the homestead exemption.

ASSUMPTION (continued)

Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue even if the foundation formula is funded at the 1.00 level. The lowered assessment would in three years start to reduce the increase in the state guaranteed tax base and the increased formula cost may be zeroed out after the third year for any given year's assessed value. A reduced guaranteed tax base reduces the inflationary adjustment needed in the formula for districts to fund inflationary increases of its education and operational expenses.

DESE does not have data available to estimate the amount of fiscal impact at the state or local level

Oversight assumes the Foundation Formula and other school finance issues, if any, would be addressed through the appropriation process.

Officials from the **State Tax Commission** (Commission) assume this proposal would create the Missouri Homestead Preservation Act.

The Commission assumes Residential Property is reassessed in odd-numbered years, and that calendar year 2003 is a reassessment year with minimal assessed valuation changes to the residential property in following year (2004).

The 2002 assessment valuation for residential property is 33.1 billion dollars. The Commission is assuming a seven percent (7%) increase in the assessed valuation in 2003 resulting in an additional 2.3 billion dollars in revenue. The Commission projects that in 2003 the assessment valuation for residential property will be 34.5 billion dollars. As there are minimal improvements to residential property in an even-number year, we will assume for 2004 the assessment valution will again be approximately 35.4 billion dollars. In 2005, the next reassessment year, we assume there will be loss of revenue as a result of this legislation. Assuming that 100% of the residential property will be effected by this legislation and the statewide tax rate will be $6 per hundred, the revenue loss would be approximately $42,480,000.

Projected Residential Assessment Valuation for Calendar Year 2003 is $35,400,000,000.

The Commission assumes the average assessed valuation increases approximately seven percent (7%) each reassessment year. This proposed legislation caps the assessed valuation for the homestead exemption to five percent (5%) which results in a two percent (2%) loss in assessed valuation.

ASSUMPTION (continued)

$35,400,000,000. x 2% x $6 per hundred average state tax rate = ($ 42,480,000).

The Commission also assumes that six percent (6%) of residential properties change ownership each year. Acquisition based assessment could result in an average 15% increase in value for those properties.

$35.4 Billion X 6% (ownership transfers) $2,124,000,000.

$2.1 Billion X 15% (increase) $318,600,000.

$318,600,000 X $6 per hundred tax rate $ 14,646,626 increase

Revenue Loss (Reassessment limit)	($42,800,000.)
Revenue Gain (Reassessment on sales)	$14,646,626.

Net Effect would be approximately ($28,153,374)

As this legislation requires the political subdivisions to be reimbursed, there would be a loss of revenue to the General Revenue Fund and to the Blind Pension Fund.

ASSUMPTION (continued)

Oversight assumes this proposal would be implemented as of January 1, 2004 and apply to tax years after December 31, 2003. Oversight assumes there would be no impact from the proposal in FY 2005 for calendar 2004 taxes since 2004 is not a reassessment year. Oversight also assumes that approximately six percent of residential property changes ownership per year, and that those properties which change ownership each year could have assessed valuation increases of seven percent each two years. Therefore the estimated impact could be as follows:

FY 2006 (calendar 2005 taxes)

Loss from reassessment limitation:

$35,400,000,000 Valuation x 2% x $6 per hundred average state tax rate = ($ 42,480,000)

Less sold properties not subject to limit

$35,400,000,000 Valuation x 6% per year x 2 years x 7% valuation increase=	$297,360,000
$297,360,000 Valuation increase x $6 per hundred average state tax rate =	$ 17,842,000
Net loss	($24,638,000)

Also, Oversight assumes that actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on certain individual parcels would in turn reduce the tax rate rollback required. This proposal would become effective January 1, 2004, for taxes to be collected in FY 2005. Oversight assumes that net losses to political subdivisions from this provision, as compared to current law are unknown but would exceed $100,000 per year.

Oversight also assumes there would be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions, or approximately $123,000 for FY 2006.

ASSUMPTION (continued)

Senior Rx Program Changes

In response to a previous version of this proposal, officials from the **Department of Social Services** assume this proposal would have no fiscal impact to their organization.

Officials from the **Department of Health** (DOH) assumed this proposal, over time, would increase participation by generic drug manufacturers in the Missouri Senior Rx program. The state currently requires generic manufacturers to pay the program a 15% rebate on their drugs that are utilized by the program participants while the national trend (including the Missouri Medicaid program) is 11%.

William M. Mercer, Inc. provided the DOH with an estimated cost savings associated with a reduction in the generic rebate percentage. DOH states that the current rebate contracts with generic drug companies expire on either 5-31-03 or 6-30-03. DOH states many of the generic companies have notified the program they will withdraw from the program at the end of this contract period if the rebate percentage for generic companies is not reduced to 11%. Therefore, the assumption made by Mercer, Inc. and DOH is that if the rebate reduction for generic companies is not passed, generic companies will withdraw from the program, thus making the program a brand name drug only program for FY 04 and beyond.

The primary factor driving the estimated savings in total program costs is the increase in the average cost of a prescription resulting from only brand name drugs being available. By removing the generic medications from the program, Mercer, Inc estimated the average cost of the prescription will increase from $74 to $88 in FY 04; from $80 to $95 in FY 05; and from $86 to $102 in FY 06.

DOH assumptions in calculating cost savings:

Population -

- Estimates for the total number of seniors in Missouri were based on the 1990 and 2000 census projected forward through SFY06.
- The total senior population in Missouri grows by an average of 3% per year.
- Actual enrollment in SFY03 was 22,000. Estimated enrollment was assumed to be 22,000 in SFY04; 28,325 in FY05; and 31,160 in SFY06.

ASSUMPTION (continued)

Claim Costs/Trends/Financial Analysis -

- Discounts are legislated at 10.43% of AWP (average wholesale price) for brand and 20% of AWP for generic drugs.

- Rebates are provided at 15% of AMP (average manufacturer's price) for brand and generic drugs in SFY03.

- Rebates are provided at 15% of AMP for brand drugs and 11% of AMP for generic drugs in SFY04, SFY05 and SFY06.

- Generic drug manufacturers will be willing to participate in the program if the rebate amount is reduced from 15% to 11%.

- There is a 6 month lag in rebate payments.

- There is a dispensing fee of $4.09 per prescription.

- The projected yearly number of scripts = 40 scripts per participant per year in FY03 (program benefits will cover 30 scripts per participant per year)

- The projected yearly number of scripts = 43 scripts per participant per year in FY04 (program benefits will cover 34 scripts per participant per year)

- The number of scripts per participant per year is trended at 8% to SFY05 and 7.5% to SFY06. The projected average cost per script $69 in FY03; and $74 in FY04 if the legislation passes, or $88 if the legislation does not pass (before discounts & rebates)

- The average cost per script is trended at 8% to SFY05 and 7.5% to SFY06.

ASSUMPTION (continued)

DOH submitted the following table of estimated the cost savings per year:

Program Claims Costs

FY2004	Without the Legislation	With the Legislation	Net Increase Or (Decrease)
State Portion of Claims Costs before Rebates	$35.9 million	$30.3 million	($5.6 million)
Estimated Rebates	$4.7 million	$4.3 million	$0.4 million
State Portion of Costs after Rebates	$31.2 million	$26.0 million	($5.2 million)
Average Cost per Enrollee	$1,395	$1,182	($213)
FY2005			
State Portion of Claims Costs before Rebates	$51.3 million	$43.2 million	($8.1 million)
Estimated Rebates	$8.5 million	$6.6 million	$1.9 million
State Portion of Costs after Rebates	$42.8 million	$36.6 million	($6.2 million)
Average Cost per Enrollee	$1,511	$1,292	($219)
FY2006			
State Portion of Claims Costs before Rebates	$58.6 million	$49.3 million	($9.3 million)
Estimated Rebates	$12.3 million	$9.5 million	$2.8 million
State Portion of Costs after Rebates	$46.3 million	$39.8 million	($6.5 million)
Average Cost per Enrollee	$1,589	$1,365	($224)

ASSUMPTION (continued)

Oversight was not provided the Mercer, Inc assumptions since this information is proprietary. Accordingly, Oversight does not have the information required to recalculate the saving and cannot validate the DOH response. Oversight is presenting the cost savings as provided by the DOH.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost - Reimbursement to Political Subdivisions*	$0	$0	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**$0**	**(Unknown)**

*(Unknown) expected to exceed $100,000 per year. Political subdivision reimbursement subject to appropriation, and does not include possible costs to fully fund Foundation Formula.

BLIND PENSION FUND			
Revenue reduction			
Reduced tax collections	$0	$0	($123,000)
NET EFFECT ON BLIND PENSION FUND	**$0**	**$0**	**($123,000)**
SENIOR Rx FUND			
Savings - Department of Health and Senior Services			
Program Savings	$5,200,000	$6,200,000	$6,500,000
ESTIMATED NET EFFECT ON SENIOR Rx FUND	**$5,200,000**	**$6,200,000**	**$6,500,000**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006

POLITICAL SUBDIVISIONS

Revenue			
State reimbursements *	$0	$0	Unknown
Revenue reduction			
Reduced tax collections *	$0	$0	(Unknown)
Cost to counties			
Additional administrative cost to county collector, assessor, and clerk.*	$0	$0	(Unknown)
Cost to other political subdivisions			
Additional administrative and reporting cost. *	$0	$0	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**$0**	**$0**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would create the Missouri Homestead Preservation Act:

a. if a county or city not within a county shall increase the amount of property tax due on any parcel of residential real property by more than five percent as a result of a reassessment, then the taxing authority would be required to exempt a portion of the assessed valuation of the property such that the tax due on the property does not increase by more than five percent.

b. If a political subdivision suffered a loss of revenue by reason of such exemption, the political subdivision would be entitled to restitution from the state.

c. The general assembly would be required to appropriate funds to be distributed to the affected political subdivision.

d. The property tax due would mean the actual tax liability to the owner or owners of a property, excluding:

    (1) Increases due to new construction or improvements;
    (2) Increases due to a voter approved new or modified tax levy; and
    (3) Increases due to a change in the assessed valuation as a result of a change in ownership of the property.

e. Any taxpayer could sue in a circuit court of proper venue to enforce the provisions of this section, and, if the suit is sustained, would receive from the applicable unit of government his or her costs including reasonable attorneys' fees.

f. This proposal would become effective January 1, 2006, and shall apply to all taxable years beginning after December 31, 2003.

DESCRIPTION (continued)

This proposal would also amend the rebate provisions for the Senior Rx program. Under current law, pharmaceutical manufacturers participating in the Missouri Senior Rx Program are required to pay a rebate of 15% on all drugs. This proposal would set the rebate at 15% for brand name drugs and 11% for generic drugs. The proposal has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. The proposal contains an emergency clause.

SOURCES OF INFORMATION

Secretary of State
Cole County Assessor
Department of Revenue
Office of Administration
    Division of Budget and Planning
Department of Elementary and Secondary Education
State Tax Commission
Department of Social Services
Department of Health and Senior Services

Mickey Wilson

Mickey Wilson, CPA
Director
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