

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0952-01
Bill No.: SJR 15
Subject: Appropriations; Bonds-General Obligation and Revenue; Education, Elementary and Secondary; General Assembly; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Treasurer, State
Type: Original
Date: March 8, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0	(\$38,670)	\$1,092,125,088
Total Estimated Net Effect on General Revenue Fund	\$0	(\$38,670)	\$1,092,125,088

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Education First Bond Interest and Sinking Fund	\$0	\$0	\$0*
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0*

***Offsetting Transfers In and Out Total Up to \$506,700,000**

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	Up to \$500,000,000

FISCAL ANALYSIS

ASSUMPTION

The following agencies indicated there would be no fiscal impact to their respective agencies: **Missouri House of Representatives, Missouri Senate, Office of Administration - Division of Accounting, Department of Revenue - State Tax Commission.**

Officials from the **Office of State Treasurer** stated the bond would require arbitrage calculations, but that can be absorbed into existing workloads.

Officials from the **Office of the Secretary of State (SOS)** assume statewide newspaper publication of state statutes cost approximately \$1,289 per column inch based on an estimate provided by the Missouri Press Service. Three printings are required by the Constitution and state statute; therefore publication cost would total \$3,867 per column inch. SOS estimates the total number of column inches for this amendment to be 10 inches including title header and certification paragraph. ($\$3,867 \times 10 = \$38,670$). Costs are based on 2004 figures and are subject to change.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal would require the state board of education to determine the criteria for districts to draw the money from the fund on a matching basis to be determined by the board. No more than 25% of the revenue from such bonds shall be expended in any three-fiscal-year period. DESE would

ASSUMPTION (continued)

require 1.0 FTE director to determine the criteria and evaluate district proposals based on the criteria. **Oversight** assumes that due to the limitations on expenditures of bond revenue, the amount of capital improvements would also be limited. **Oversight** assumes the duties associated with this proposal could be accomplished with existing resources. If additional personnel is needed, requests may be made through the appropriation process.

Officials from the **Office of Administration - Division of Budget and Planning** state that the proposed legislation should not result in additional costs or savings to the Division of Budget and Planning.

The Division of Budget and Planning (BAP) provided the following assumptions regarding this proposal:

This proposal creates mechanisms for bond issuances for capital improvements for certain educational facilities, and provides the revenues to pay off the associated debt.

The proposal creates a one percent surcharge on taxable income. In calendar year 2003, \$72.9 billion of taxable income was reported in Missouri. Therefore, this surcharge would generate \$729 million annually, to be transferred from general revenue to certain designated funds on a monthly basis.

The proposal also creates an additional ½-cent sales tax. Based on revenue generated in FY 04 from the 1/8-cent conservation sales tax, this additional tax would generate approximately \$370 million annually.

In total, this proposal would generate \$1.099 billion annually. BAP notes these new taxes must remain in existence so long as there are outstanding bonds according to the proposal. Based on current interest rates, the revenue generated by the new taxes included in this proposal would greatly exceed the cost for debt service on the bonds (even if the full \$2 billion is issued on day one).

This proposal would increase general revenue since the income tax surcharge would be deposited to general revenue before being transferred to the education first bond interest and sinking fund. Since this is a constitutional amendment that must be approved by voters, total state revenue would not be impacted, and the 18e cap is not relevant.

ASSUMPTION (continued)

Officials from the **Department of Revenue - Division of Taxation** calculated the following administrative costs associated with this proposal:

Income Tax Surcharge on Missouri Adjusted Gross Income

When the surcharge is enacted two additional lines will need to be added to the return - one to calculate the surcharge and one to add the surcharge to the income tax for a total tax to be remitted. Legislation does not have provisions for collecting this surcharge if it is not paid and no provisions for withholding to cover the surcharge amount.

Personal Tax will need 4 additional tax season temporaries (2 for speed-up and 2 for giddy up) for keying of the additional lines. Personal Tax will also need 1 Tax Processing Tech in Property Tax Credit Claims for every 5,000 errors generated by this legislation for correspondence and errors maintenance. 1 Tax Processing Tech in individual income for every 19,000 additional errors generated and 1 Tax Processing Tech for every 2,4000 additional pieces of correspondence. If DOR is responsible for delinquency collections, this legislation will increase delinquent accounts that are sent to the PA and Personal Tax will need 1 Tax Processing Tech 1 to file petitions, refer to collection agencies and to set up payment plans.

Information Technology will need to add the two lines with edits to the MINIS mainframe and to Speed-up. It is estimated that it will take 6 programmers 2 months to complete or 2,076 hours for a cost of \$69,255.

Sales Tax ½ cent increase

MITS mainframe programming will be required to implement this legislation and to account for the additional sales tax. It is estimated that 173 hours of programming will be needed for a cost of \$5,771.

Taxation will have to notify approximately 150,000 sales tax accounts of the increase. Cost of postage 3 digit automated first class would be \$43,800 (150,000 x .292 per piece).

ASSUMPTION (continued)

Assumed costs:

Programming:	MIT\$	(\$ 5,771.00)- Covered from appropriations
	MINITS	(\$ 69,255.00)- Covered from appropriations
Postage		\$ 43,800.00
4 TPTs		<u>\$131,112.00</u>
Total Potential		\$174,912.00

According to officials from the **Office of Administration - Division of Accounting**, the first debt service payment is likely to be made from General Revenue. It appears the surcharge cannot be imposed until there are bonds outstanding. Annual debt service on \$100 million assuming 25 year, level debt service at today's rates would be \$6.7 million.

Oversight assumes, due to the bid process, bonds would not be issued until FY 2008.

This proposal would increase total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Income</u> - ABC Education Assessment	\$0	\$0	\$729,000,000
<u>Income</u> - ½ Cent Sales Tax	\$0	\$0	\$370,000,000
<u>Cost</u> - Department of Revenue			
Personal Costs (4 TPT)	\$0	\$0	(\$131,112)
Postage	\$0	\$0	(\$43,800)
<u>Cost</u> - Secretary of State			
Publication costs	\$0	(\$38,670)	\$0
<u>Transfer Out</u> - To Education First Bond			
Interest and Sinking Fund - Debt Service	\$0	\$0	(Up to <u>\$6,700,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$38,670)</u>	<u>\$1,092,123,088</u>

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
EDUCATION FIRST BOND INTEREST AND SINKING FUND			
<u>Income</u> - Sale of Bonds	\$0	\$0	Up to \$500,000,000
<u>Transfer In</u> - General Revenue - Debt Service on Sale of Bonds	\$0	\$0	Up to \$6,700,000
<u>Transfer Out</u> - Disbursements to School Districts for Capital Improvements	\$0	\$0	Up to \$500,000,000
<u>Cost</u> - Debt Service	<u>\$0</u>	<u>\$0</u>	(Up to <u>\$6,700,000</u>)
ESTIMATED NET EFFECT ON EDUCATION FIRST BOND INTEREST AND SINKING FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
SCHOOL DISTRICTS			
<u>Transfer In</u> - Funding for Capital Improvements	\$0	\$0	Up to \$500,000,000
NET EFFECT ON SCHOOL DISTRICTS	<u>\$0</u>	<u>\$0</u>	Up to <u>\$500,000,000</u>

FISCAL IMPACT - Small Business

Small businesses could be affected by this proposal with contracts for school capital improvements.

DESCRIPTION

This proposal allows the general assembly to issue bonds in the aggregate of \$2 billion for the purpose of technology and infrastructure upgrading, repairing, remodeling, or rebuilding the elementary and secondary public schools and building additions and additional buildings where necessary.

Creates the Education First Trust Fund (Section A, Article IX, Section 11.1)

- in the treasury
- retain the proceeds of the bond sales
- provide matching money to school districts
- will not retain interest earnings
- exempt from the biennial transfer (Constitutionally created fund)

Creates the Education First Bond Interest and Sinking Fund (Section A, Article IX, Section 11.4)

- in the treasury
- contain bond principal and interest repayments
- shall contain one years debt service and interest at all times
- will not retain interest earnings - Is this required for arbitrage?
- exempt from the biennial transfer (Constitutionally created fund)

Adds a surcharge entitled the "ABC Education Assessment" to the state income tax in an amount equal to 1% of Missouri taxable income for as long as bonds are outstanding

Adds a sales tax of ½ cent for as long as bonds are outstanding.

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

Department of Revenue
 Division of Taxation
 State Tax Commission
Missouri House of Representatives
Missouri Senate
Office of Secretary of State
 Division of Elections
 Division of Administrative Rules
Office of Administration
 Division of Accounting
 Division of Budget and Planning
Office of State Treasurer
Department of Elementary and Secondary Education



Mickey Wilson, CPA
Director
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