

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1170-02
Bill No.: SCS for HB 542
Subject: Agriculture and Animals; Agriculture Department; County Government; General Assembly; Taxation and Revenue - Property
Type: Original
Date: April 26, 2013

Bill Summary: This proposal modifies provisions relating to agriculture.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|-------------------------------|-------------------------------|----------------------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| General Revenue | \$27,495 to (\$72,505) | \$72,325 to (\$27,675) | Less than \$104,825 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$27,495 to (\$72,505) | \$72,325 to (\$27,675) | Less than \$104,825 |

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

Note: No fiscal impact is shown for § 348.521; however, changes to this section increases the state's overall financial exposure from \$20,000 to \$50,000 per loan if defaulted.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| Agriculture Protection* | \$0 | \$0 | \$0 |
| Career and Technical Education Board * | \$0 | \$0 | \$0 |
| Urban Agricultural Zone Fund* | \$0 | \$0 | \$0 |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

* Revenues and expenditures net to zero

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|-------------------------|-------------------------|-------------------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| Local Government | \$0 to (Unknown) | \$0 to (Unknown) | \$0 to (Unknown) |

FISCAL ANALYSIS

ASSUMPTION

§§ 64.196, 323.100 and 413.225 - Propane Meters and Metrology Lab Fees:

In response to similar legislation filed this year, HCS #2 for HB 927, the following responded:

Oversight assumes this section of the proposal will increase propane meter fees from \$10/meter to \$25/meter on January 1, 2014 and from \$25 to \$50/meter on January 1, 2015 and from \$50 to \$75/meter on January 1, 2016. The propane meter testing fee will be set at \$75 thereafter.

Officials from the **Department of Agriculture (AGR)** assume the propane meter and metrology laboratory programs will become more self sufficient from fees collected and deposited to the Agriculture Protection Fund (APF) as a result of this section of the proposal. AGR assumes a savings to General Revenue in the amount of the increased fee revenues.

AGR assumes the following changes to propane meter and metrology lab fees.

Propane Meters:

Estimated FY14 revenue increase for APF = 433 propane meters (one-third of total will be inspected in the first 6 months) X \$15/meter additional revenue = \$6,495

- **Total FY14 additional revenues = \$6,495**

Estimated FY15 revenue increase for APF:

- 867 propane meters (two-thirds of total will be inspected at the \$25/meter rate in the first 6 months of the FY) X \$15/meter additional revenue = \$13,005
- 433 propane meters at the \$50/meter rate (one-third of total will be inspected in the last 6 months of the FY) X \$40/meter additional revenue = \$17,320
- **Total FY15 additional revenues = \$30,325**

Estimated FY16 revenue increase for APF:

- 867 propane meters (two-thirds of total will be inspected at the \$50/meter rate in the first 6 months of the FY) X \$40/meter additional revenue = \$34,680
- 433 propane meters at the \$75/meter rate (one-third of total will be inspected in the last 6 months of the FY) X \$65/meter additional revenue = \$28,145
- **Total FY16 additional revenues = \$62,825**

ASSUMPTION (continued)

Metrology Laboratory:

Metrology calibration fees will increase from \$60/hour to \$120/hour on January 1, 2014.

Estimated **FY14** revenue increase for APF = 350 hours X \$60/hour additional revenue = **\$21,000.**

FY 15 and **FY16** revenues = 700 hours X \$60/hour additional revenue = **\$42,000.**

AGR state General Revenue funds used by the metrology laboratory program will decline by the same amounts.

Table 1: Total Revenue Changes for Propane Meter and Metrology Laboratory Programs

| | Propane | Metrology | Total |
|-------|----------|-----------|-----------|
| FY 14 | \$6,495 | \$21,000 | \$27,495 |
| FY 15 | \$30,325 | \$42,000 | \$72,325 |
| FY 16 | \$62,825 | \$42,000 | \$104,825 |

Source: Department of Agriculture

These increased fee revenues will replace General Revenue currently used by AGR to operate these programs.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this section of the proposal would allow the Department of Agriculture Director to adjust certain weights and measures fees annually based on the total expenses for administering the programs so that fees will cover the expenses for the following year. This section would have no impact on BAP, but could have an unknown fiscal impact on the 18e calculation and total state revenues.

Oversight assumes the increased fee rates of the propane meter and metrology lab programs will result in a savings to general revenue equal to the increased fee revenue received by the Agriculture Protection Fund.

This section of the proposal could increase Total State Revenues.

ASSUMPTION (continued)

§ 178.550 - Career and Technical Education Advisory Council:

In response to similar legislation from 2013, SB17, officials from the **Department of Elementary and Secondary Education (DESE)** state that it is not possible to calculate a fiscal impact for this due to uncertainty as to whether or not the Missouri Department of Elementary and Secondary Education would continue to be regarded by the U.S. Office of Education as the “eligible agency” responsible for the administration of career and technical education under the “Carl D. Perkins Career and Technical Education Improvement Act of 2006,” as is currently the case. The loss of the determination of “eligible agency” would result in the reduction of \$26 million in federal funding now provided through this act. To maintain career technical funding at the current level would require an additional \$26 million of state revenue.

DESE states until the make up of the council is determined, we cannot estimate costs; however, we do not anticipate significant costs.

Oversight notes that the Carl D Perkins Vocation and Technical Education Act (Perkins Act) was first authorized by the federal government in 1984 and reauthorized in 1998. In 2006, the act was reauthorized through 2012, after passing almost unanimously in Congress. The Perkins Act provided \$1.14 billion in federal support for career and technical education programs in all 50 states in 2012. According to the Arne Duncan, U.S. Secretary of Education, the Perkins Act will be reformed and updated prior to reauthorization.

Oversight assumes the board to be created by this section of the proposal would be an avenue to align with current recommendations for reform of the Perkins Act. Even if the Perkins Act is not reauthorized, the board would be in place to oversee and coordinate career and technical education. Administrative costs of the board are not expected to exceed \$100,000 per year.

§ 196.311 - Eggs:

Officials from the **Department of Agriculture** and **Department of Health and Senior Services** each assume this section of the proposal would not fiscally impact their respective agencies.

Oversight assumes there is no direct fiscal impact from this section of the proposal on state or local government funds.

ASSUMPTION (continued)

§ 267.655 - Missouri Livestock Disease Control and Eradication Law

In response to similar legislation filed this year, HB 927, the following responded:

According to officials from **Office of Administration - Division of Budget and Planning** , since this section imposes a civil penalty of up to \$1,000 for violations of the Missouri Livestock Disease Control and Eradication Law it could increase Total State Revenue by an unknown amount.

According to officials from the **Department of Agriculture**, any monies collected through civil penalties would be deposited into the County School Fund.

Oversight assumes the number of cases resulting in additional civil penalties impacting total state revenue would be minimal and, for fiscal note purposes only, show no direct fiscal impact from this section of the proposal.

§ 262.900 - Urban Agricultural Zones:

In response to similar legislation filed this year, SB 228, the following responded:

Officials at the **Office of Administration - Budget and Planning** assumed this proposal creates a mechanism for certain municipalities to create Urban Agricultural Zones (UAZ) to encourage agricultural production and community education. This proposal directs sales taxes on products sold within the UAZ into the Urban Agricultural Zone Fund, except those sales taxes that are constitutionally dedicated, or for school districts, or on motor vehicles. Therefore, this proposal will reduce General Revenue by an unknown amount.

Real property in the UAZ is to be exempt from assessment and taxation for the first ten years. This proposal could reduce local revenues, including those for schools. This could also reduce Total State Revenue if Blind Pension Fund receipts decline.

Grower-UAZs are provided water at wholesale rates and provided discounts on hook-ups. This may reduce municipal revenues if the municipality is the water provider.

Oversight assumes this substitute limits the sales taxes to local sales taxes and therefore, will not reflect an impact to General Revenue from this part of the proposal.

ASSUMPTION (continued)

Officials at the **Department of Agriculture (AGR)** assumed the fiscal impact of this proposal is unknown. It is not possible to estimate with any accuracy the number of UAZ that will be formed, their location, the types of agricultural products that will be produced, or the amount of sales tax revenue realized from the sale of products in the UAZ.

Officials at the **Department of Revenue (DOR)** assumed they would need to make form and computer programming changes to various tax systems. These changes are estimated to cost \$41,765 for 1,544 FTE hours.

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume this proposal appears to allow a person or organization to develop an UAZ (urban agricultural zone) on a blighted area of land within a municipality. In general, tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. Given the subject matter, "blighted areas" are not likely to reap additional sales tax revenues; however, it is impossible to determine whether the blighted area might have generated revenues independent of this proposal. Ultimately, the impact of this proposal is dependent upon the unknown actions of persons and/or organizations as well as future sales tax revenues which cannot be predicted at this time. Therefore, any impact is unknown.

Officials from the **City of Columbia** state the city provides municipal water service. The city would expect to lose revenue from exemptions on paying water connections and usage fees and loss of property tax revenue, including taxes diverted to the school district.

In response to similar legislation filed this year (SB 228), officials at the **City of Kansas City (KC)** stated they are unable to determine the impact of this proposal, but revenue growth can be assumed to exist through increased agricultural activity in the city. With regard to section 4 requiring a municipality to sell water at a wholesale rate and reduce the cost to tap into the water system, this approach would undermine the cost-of-service basis for water rates and potentially result in a \$150 million dollar revenue loss. It would expose the city to an argument that water fees are a tax subject to the Hancock Amendment.

ASSUMPTION (continued)

KC assumed while the city would lose sales and real property tax revenues, a project need not be approved if those losses are not offset in their entirety (or exceeded) by increases in other revenues.

Oversight assumes that no city, county, school or other local political subdivision would be affected by this proposal unless an Urban Agricultural Zone (UAZ) was created in their area.

Oversight assumes it is unclear how many Urban Agricultural Zones would be created in this State. Additionally, any sales tax revenue generated in the UAZ will be required per this proposal to be transferred to the Urban Agricultural Zone Fund. Therefore Oversight will show the revenue reduction to General Revenue and the revenue increase to the UAZ Fund as \$0 (no UAZ created) to Unknown.

Oversight assumes that all money received by the Urban Agricultural Zone Fund will be used for administration of this program according to the guidelines established in this proposal.

Oversight assumes this proposal allows for the UAZ to purchase water at wholesale prices. Political subdivisions that own their own water and light departments would be affected by this proposal. Therefore Oversight will show the revenue reduction to Local Political Subdivision Funds as \$0 (no UAZ created) to Unknown.

Oversight assumes the creation of this new program outlined in this proposal may have an impact on the overall economy of the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

§ 348.521 - Livestock Feed and Crop Loan Guarantee:

In response to similar legislation filed this year, HB 412, the following responded:

Officials from the **Department of Agriculture** and **Department of Economic Development** each assume this section of the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this section of the proposal would increase the maximum loan amount for the Livestock Feed and Crop Input Loan Guarantee Program and could impact general revenue if loans are defaulted.

ASSUMPTION (continued)

BAP assumes the section does not change current statutory caps limiting the amount to be spent on loan guarantees at \$4 million.

Oversight assumes this section of the proposal permits the Missouri Agricultural and Small Business Development Authority to increase the maximum livestock feed and crop input loan guarantees from \$40,000 to \$100,000.

Oversight assumes in the event of a default on a livestock feed and crop input loan, the State of Missouri will provide a 50% first loss guarantee for the purchase of livestock feed used to produce livestock or inputs used to produce livestock feed. Currently the state liability is \$20,000 per loan and this section of the proposal will increase the state's liability to \$50,000 per loan.

Oversight assumes any livestock feed and crop input loan default would have a direct impact on the state General Revenue Fund. However, since the program's inception, no loan default has occurred. Therefore, **Oversight** assumes no direct fiscal impact on state or local government funds, but this section of the proposal would increase the state's overall financial exposure.

Bill as a Whole:

Officials from the **Office of Governor** assume there should be no added cost to the Governor's Office as a result of this measure. However, if additional duties are placed on the office related to appointments in other TAFP legislation, there may be the need for additional staff resources in future years.

Officials from the **University of Central Missouri, Missouri State University** and the **State Treasurer's Office** each assume the proposal would not fiscally impact their respective agencies.

| <u>FISCAL IMPACT - State Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|--|--|--|--|
| GENERAL REVENUE FUND | | | |
| <u>Savings - AGR</u> | | | |
| §§ 323.100 and 413.225 - Reduced general revenue appropriation for weights and measures programs | \$27,495 | \$72,325 | \$104,825 |
| <u>Transfer Out - To the Career and Technical Education Board Fund - (\$178.550)</u> | (Expected to be less than <u>\$100,000</u>) | (Expected to be less than <u>\$100,000</u>) | (Expected to be less than <u>\$100,000</u>) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | \$27,495 to <u>(\$72,505)</u> | \$72,325 to <u>(\$27,675)</u> | Less than <u>\$104,825</u> |

**AGRICULTURE PROTECTION
FUND**

| | | | |
|--|-------------------|-------------------|--------------------|
| <u>Revenue - AGR</u> | | | |
| §§ 323.100 and 413.225 - Increased fee revenue for Propane Meters and Metrology lab programs | \$27,495 | \$72,325 | \$104,825 |
| <u>Cost - AGR</u> | | | |
| §§ 323.100 and 413.225 - Operating expense of Propane Meters and Metrology lab programs | <u>(\$27,495)</u> | <u>(\$72,325)</u> | <u>(\$104,825)</u> |
| ESTIMATED NET EFFECT ON THE AGRICULTURE PROTECTION FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|--|------------------------------------|------------------------------------|------------------------------------|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Revenue Reduction</u> - Local Political Subdivisions - Loss of property taxes, sales taxes and also water sold at wholesale prices - § 262.900 (UAZs) | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> |

FISCAL IMPACT - Small Business

§ 196.311 - Eggs:

Small business farmers that sell such eggs could be positively impacted as a result of this section of the proposal.

§ 262.900 - Urban Agricultural Zones:

Small businesses participating in the UAZ could be impacted.

§§ 323.100 and 413.225 - Propane Meters and Metrology Lab Fees:

Small businesses that pay metrology and propane meter fees will now pay these fees at a higher rate.

§ 348.521 - Livestock Feed and Crop Loan Guarantee:

Direct fiscal impact to small business farmers could result from this section of the proposal.

FISCAL DESCRIPTION

§ 178.550 - Career and Technical Education Advisory Council:

This section of the proposal establishes the Career and Technical Education Student Protection Act and the Career and Technical Education Board to oversee and coordinate career and technical education and student organizations' activities in Missouri, replacing the State Advisory Committee for Vocational Education.

§ 262.900 - Urban Agricultural Zones:

This proposal authorizes a person or organization to apply to an incorporated municipality to develop an urban agricultural zone (UAZ) on a blighted area of land.

§§ 323.100 and 413.225 - Propane Meters and Metrology Lab Fees:

This section of the proposal sets the testing fees of all meters used for the measurement and sale of liquefied petroleum gas at \$10. On January 1, 2014, the fee will increase to \$25, and the fee will increase to \$50 on January 1, 2015. On January 1, 2016, and thereafter, the fee will be set at \$75. The Director must also publish any change to the testing fee schedule on the departmental website within 30 days of a change.

This section of the proposal also allows fees collected for registration, inspection, and calibration to be deposited into the Agriculture Protection Fund as set forth in section 261.200. Laboratory fees for metrology calibrations will be increased from \$25 to \$60 beginning August 28, 2013 and will be computed to the nearest 1/4 hour. On January 1, 2014, and thereafter, the Director of Agriculture shall fix a fee schedule for the ensuing year at a rate per hour that will not yield revenue greater than the total cost of operation.

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 Agriculture
Department of Economic Development
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Revenue
Office of Governor
Office of Administration - Division of Budget and Planning
State Treasurer's Office
University of Central Missouri
Missouri State University
City of Columbia
City of Kansas City



Ross Strope
Acting Director
April 26, 2013