

MISSOURI STATE AUDITOR'S OFFICE FISCAL NOTE (10-15)

Subject

Initiative petition from Richard LaViolette regarding a proposed constitutional amendment to Article X, Section 4(b), Section 6.1-6.4, and Section 8. (Received November 15, 2010)

Date

December 3, 2010

Description

This proposal would amend Article X, Section 4(b), Section 6.1-6.4, and Section 8 of the Missouri Constitution.

The amendment is to be voted on in November, 2012.

Public comments and other input

The State Auditor's office requested input from the **Attorney General's office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's office**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Department of Transportation**, the **Office of Administration**, the **Office of State Courts Administrator**, the **Missouri Senate**, the **Secretary of State's office**, the **Office of the State Public Defender**, the **State Treasurer's office**, the **State Tax Commission**, **Clay County**, **Greene County**, **Jackson County Legislators**, **St. Charles County**, **St. Louis County**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirkwood**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's office** indicated they assume that the implementation of this proposal creates no fiscal impact. However, they assume that

because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated this language will have no fiscal impact on their department.

Officials from the **Department of Elementary and Secondary Education** indicated this proposal will have a significant negative impact on local school districts and a potential for a negative impact on state government.

Officials from the **Department of Higher Education** indicated that this initiative petition would have no direct, foreseeable fiscal impact on their department.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** indicated that this initiative, if passed, will have no cost or savings to their department.

Officials from the **Department of Mental Health** indicated they defer their response to the Office of Administration, Division of Facilities Management, Design and Construction who is responsible for managing state-owned and leased property utilized by their department.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this initiative petition.

Officials from the **Department of Revenue** indicated this initiative petition will have no fiscal impact on the department.

Officials from the **Department of Public Safety** indicated they assume this proposal, if adopted by the voters, will have no fiscal impact.

Officials from the **Department of Social Services** indicated this initiative petition would cut income to the Blind Pension Fund by approximately 19%. In fiscal year 2011, income to the fund is estimated to be approximately \$30,000,000. Department officials estimated lost income would total at least \$5,700,000 ($19\% \times \$30,000,000 = \$5,700,000$).

The officials said the Blind Pension Fund pays a monthly allowance to qualified blind citizens and also helps fund rehabilitative services for the blind. They assumed the state will continue to provide the services at the existing level, which would require General Revenue to make up the lost Blind Pension Fund revenue.

Officials from the **Missouri House of Representatives** indicated the proposed initiative petition has no fiscal impact to the operations budget of their agency.

Officials from **Department of Conservation** indicated no adverse fiscal impact to their department would be expected as a result of this proposal.

Officials from the **Office of Administration (OA)** indicated this proposed amendment that would exempt tangible personal property (Class 2) from assessment and taxation could reduce local and state revenues based on the following computations and comments.

The officials said the State Tax Commission (STC) has reported to OA - Division of Budget & Planning (B&P) that the 2010 assessed value for personal property is currently \$18.6 billion.

The primary source of receipts for the Blind Pension Fund (BPF) is a property tax of 3-cents per \$100 of assessed valuation.¹ OA officials calculated the exemption of tangible personal property will reduce BPF receipts by an estimated \$5.58 million.

OA officials said local revenues, most notably for schools but also for numerous municipal governments, will be reduced. They said the STC suggests \$6.27 per \$100 of assessed valuation is a reasonable estimate of the local average tax rate. Using this rate, OA officials estimated local receipts may decrease \$1.166 billion as a result of this amendment.

The officials also said while the state's General Revenue fund will not experience a loss of revenues as a direct result of this proposal, other impacts are possible, including

(1) State expenditures, in particular for education but also to assist other municipal governments, may need to increase. Full replacement of lost revenues would be difficult, given current budget realities, and could only occur if expenditures are reduced in other areas, and

(2) General revenue collections might increase through induced economic activity, particularly if taxpayers choose to use their property tax savings in consumption or income-generating pursuits, but B&P could not estimate these potential revenue impacts.

Officials from the **Office of State Courts Administrator** indicated there is no cost to the courts for this initiative petition.

Officials from the **Secretary of State's office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In fiscal year 2011, at the August and November elections, there were 6 statewide

¹ State Fund No. 0621. The tax is authorized by Section 209.130, RSMo.

Constitutional Amendments or ballot propositions that cost \$1.02 million to publish (an average of \$170,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this initiative petition will not have any significant impact on their office.

Officials from the **State Treasurer's office** indicated that with regard to this initiative petition, there will be no direct fiscal impact to their office. Please defer to the Office of Administration Budget and Planning and the Department of Revenue.

Officials from the **State Tax Commission** indicated this initiative petition will not have a fiscal impact on their agency. However, changes proposed by this petition will have an impact on local revenue and the blind pension fund.

They said the 2010 total assessed value for personal property is currently at \$18.6 billion and the aggregate property tax rate their staff used for estimating purposes is \$6.27 per hundred dollars of assessed value.

Based on these figures, the officials estimated total loss of revenue would be \$1,166 billion based on the following computation.

$\$18,600,000,000 \text{ assessed value} \times \$6.27 \text{ tax rate per hundred dollars of assessed value} = \$1,166,220,000.$

Officials from the **City of Jefferson** indicated the city estimates lost revenue of approximately \$4,000 per year should this initiative petition become law.

Officials from the **City of Kirkwood** indicated they cannot assess the impact based upon the description contained in the proposal.

Officials from the **City of St. Louis** indicated the proposed constitutional amendment would result in a catastrophic loss of revenue to the city estimated at over \$70 million annually based on the following comments and computations.

They said this initiative petition if enacted would, among other things, eliminate the personal property tax and a subclass merchants and manufacturing tax in the City of St. Louis. The officials estimated that the city's 2010 personal property assessments will generate approximately \$54,895,097 in tax revenues ($793,430,805 \times \$6.9187$) and the 2010 merchants and manufacturing tax is estimated to generate approximately \$15,430,546 in tax revenues ($267,649,802 \times \$5.7652$). The officials said these amounts are significant, and a loss of revenues of this magnitude would greatly affect the level of essential city services the city is able to deliver to its residents.

Officials from **Linn State Technical College** indicated that based on the information presented, there appears to be no fiscal impact to their college.

Officials from **Metropolitan Community College** indicated if the lost revenue is replaced, this legislation would have no fiscal impact on their college.

The State Auditor's office did not receive a response from the **Department of Agriculture**, the **Department of Health and Senior Services**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Governor's office**, the **Department of Transportation**, the **Missouri Senate**, **Clay County**, **Greene County**, **Jackson County Legislators**, **St. Charles County**, **St. Louis County**, the **City of Kansas City**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Rockwood R-VI School District**, **University of Missouri**, and **St. Louis Community College**.

Fiscal Note Summary

Prohibiting the levy of tangible personal property taxes by local governments would eliminate or reduce funding for local governmental services, including public schools. State governmental services to the blind could lose funding. The estimated revenue reduction to state and local governmental entities could exceed \$1.1 billion annually.