F I S C A L   I M P A C T   R E P O R T

SPONSOR Smith **ORIGINAL DATE** 02/03/12 **LAST UPDATED** **HB**

SHORT TITLE Eliminate Hold Harmless Provisions **SB** 271

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16		
($9,400.0)	($18,000.0)	($28,700.0)	($40,100.0.0)	Recurring	Local Governments
$8,734.0	$17,334.0	$28,034.0	$39,434 .0	Recurring	General Fund
$666.0	$666.0	$666.0	$666.0	Recurring	Local Governments Road Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

No Response From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 271 provisions, beginning in 2013, the Food and Medical Hold Harmless distributions to counties and municipalities would be eliminated over a 15-year period ending in FY2026. The bill provides for supplemental distributions for local government gross receipts bond in case of a shortfall. Lastly, the bill provides for a fixed distribution to the Local Governments Road Fund which expires in 2027.

Currently, the hold-harmless has four statutory provisions – (1) municipalities of under 10,000 population and with per capita taxable gross receipts less than the statewide average for which the municipalities receive a hold-harmless distribution for food and medical services based on their current local option rate plus 1.225% state share GRT. (2) municipalities of under 10,000 population and with per capita taxable gross receipts greater than the statewide average and municipalities over 10,000 population for which the municipalities receive a hold-harmless distribution for food and medical services based on their local option rate as of January 1, 2007 plus 1.225% state share GRT. (3) counties of under 48,000 population for which the county receive a hold-harmless distribution for food and medical services based on their current local option rate; and (4) of over 48,000 population for which the county receive a hold-harmless distribution for food and medical services based on their local option rate as of January 1, 2007. In all cases, the current distributions will be gradually decreased on the schedule as follows:

FY2013	93%	FY2020	47%
FY2014	87%	FY2021	40%
FY2015	80%	FY2022	33%
FY2016	73%	FY2023	27%
FY2017	67%	FY2024	20%
FY2018	60%	FY2025	13%
FY2016	53%	FY2026	6%
		FY2027 and thereafter	0%

FISCAL IMPLICATION

These estimates were developed during the interim by TRD and should conform to the current revenue estimate. The RP500 report was used to calculate the initial totals. Medical price inflation rate for the full 15-year period was obtained from Global Insight (GI) as the ratio between real and nominal consumption of health care. Food CPI is explicitly modeled by GI. Population trends by five-year periods are added to the price inflation to get the food and medical deduction base.

TECHNICAL ISSUES

The Bill does not phase out or repeal the associated 3.25 percent administrative fee deducted by TRD.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

- Adequacy: Revenue should be adequate to fund needed government services.
- Efficiency: Tax base should be as broad as possible and avoid excess reliance on one tax.
- Equity: Different taxpayers should be treated fairly.
- Simplicity: Collection should be simple and easily understood.
- Accountability: Preferences should be easy to monitor and evaluate

This bill is in alignment with the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations

SS/amm:svb