

Joint City-County Planning Task Force

June 11 8:00 a.m.

Greene County Archives & Election Center 1126 Boonville Ave.

Meeting #19

Task Force Members present:

Tim Smith, Greene County Administrator
Greg Burris, Springfield City Manager (via conference call)
Collin Quigley, Springfield Assistant City Manager
Cindy Stein, Greene County Auditor
Mary Mannix Decker, Springfield Finance Director
Martha Mundt, Greene County Budget Director
Jerry Moyer, Greene County Court Administrator
Jim Arnott, Greene County Sheriff

The meeting began at 8:00 a.m. with a welcome from Tim Smith, Greene County Administrator, and Collin Quigley, Springfield Assistant City Manager. Mr. Smith asked the members to review the notes from the May 28, 2014 meeting, and asked for a motion of approval. Martha Mundt, Greene County Budget Director, made a motion to approve the notes. Mary Mannix Decker, Springfield Finance Director, seconded the motion and the notes were approved.

Ms. Decker began the discussion of Sales Tax Fluctuations / Budget Preparations for the City of Springfield. The City develops a forecast of the revenue, monitors the revenue they receive, and then manages the revenue. Ms. Decker stated that the City begins working on the sales tax projections in February, since their fiscal year begins in July, and estimates 17 months into the future. This has become more difficult due to the changes in the economy. In reference to the Monthly Sales Tax Receipts, sales tax tracked fairly evenly between 2013 and 2014, however fluctuations were evident in March thru June. Delays in the Department of Revenue's (DOR) processing of sales tax have made it difficult to forecast revenues.

In managing the revenue, Ms. Decker explained that the City uses information from the DOR to track the taxpayers and determine those in the top 100. This provides the City with a better estimate at forecasting revenue.

Ms. Mundt stated that in regard to revenue and developing sales tax trends, Greene County is similar to the City. The fluctuations of the sales tax distribution, with its highs and lows, make it challenging. Of the various challenges, the biggest results from the processing delays from the DOR. This is especially evident with those businesses that file quarterly. The budget process begins six months prior to the end of the budget year, which runs January thru December, and attempts to forecast 12 months into the future. Delays in contributions make it difficult to determine trends. While the County had experienced a growth of revenue at the end of 2013 and the beginning of 2014, it was followed by a two month decrease but rebounded in the month of May. Ms. Mundt explained that they use a "12-month rolling average", which looks at an average annualized amount instead trying to determine a trend based on monthly revenue. Mr. Smith commented on the 12-month rolling average, and Ms. Mundt clarified that by using it the peaks and valleys are smoothed out, and it has proved to be a beneficial tool for budgeting.

Mr. Smith asked if there were other budget difficulties which they faced. Ms. Mannix Decker explained the Payment in Lou of Taxes (PILOT) program with City Utilities and how it makes forecasting difficult because the program is weather dependant. The City uses an average; however that can be too high or too low if the weather is mild.

Ms. Mundt explained the County's challenge of property tax inversely fluctuating with sales tax. Proposition C, which was established in 1984, allows for property tax to be reduced if sales tax increases. While these should level themselves out, their timing may not be consistent.

Another challenge Ms. Mundt explained, is how reimbursements from the State can fluctuate. As for State obligated expenses, the County is required to pay them regardless of the costs. With inflation, these expenses are often difficult to meet.

Staffing is another issue faced by the County. Ms. Mundt described the difficulty in maintaining the minimum amount of staff to provide services. The depletion in revenue does not allow for the budgeting of authorized and needed services. While the County was hopeful to be fully staffed by the end of the 2014, this does not appear to be a possibility.

Greg Burris, Springfield City Manager, asked Ms. Mundt for clarification on the County's inverse fluctuation of sales and property taxes. Ms. Mundt replied that to calculate the property tax levy, you must first estimate the sales tax based on performance. By using the sales tax numbers from the first half of the year, the property tax levy is then set. Cindy Stein, Greene County Auditor, stated there is a lag time of about one year. Mr. Smith added that Proposition C was not a one to one exchange but over time it is self-correcting.

Mr. Smith explained how the budget cycle is another difference between the City and County. The City and State are on the same fiscal calendar year (July thru June), while the County is on a regular calendar year (January thru December). Ms. Mundt added that this is a timing challenge due to when the legislation goes into effect. The County is still in the budget planning process when future legislative cuts are seen.

With no further discussion, Ms. Mannix Decker began the joint presentation of the potential impacts if the proposed sales tax exemptions are passed in the 2014 legislative session. The proposed sales tax legislation, if signed into law, would allow some purchases which are subject to sales tax to become tax-exempt. This would erode sales tax for both the City and the County. To further explain, Ms. Mannix Decker stated that many exemptions were added in the final days of the legislative session without an opportunity for public hearings or fiscal notes. In using the Governor's fiscal analysis, the estimate for total local impact on the City of Springfield and Greene County is \$18.1 million (\$10.7 million for the City and \$7.4 million for the County). Ms. Mannix stated many felt this estimate is overstated, but even if the amount is half it would still equal \$9 million. If these exemptions pass, commitments made to local voters would be overridden. These exemptions would affect the City's General Fund, the ¼-cent Capital Improvements Fund, the 1/8-cent Transportation Fund, and the Police-Fire Pension Fund. The County's General Fund, Road and Bridge Fund, Law Enforcement Sales Tax, E-911, and the Parks Tax Fund would all be affected.

Ms. Mannix Decker continued by explaining a few of the bills. The first, Senate Bill (SB) 584, is the most extensive, covering state and local exemption for electricity, machinery, equipment, parts and material used, or consumed in connection with, or to facilitate the storage or processing of data. "Processing" is defined as any action or process performed upon, or using data in any form. Due to the broad nature of this proposal, Mr. Burris asked if there were any businesses that would not qualify. Ms. Mannix Decker stated she could not think of any that would not. Ms. Mundt stated that she had called the State in regard to these questions and was told that with the broad and generic description of processing, many businesses may claim exemption. The estimated impact of the data processing exemption for the City is over \$4.6 million and \$3.2 million for the County.

Ms. Mannix Decker explained how the energy portion of the exemption would impact the City with an estimated \$960,000 and \$633,000 for the County. The exemption for the recreation/amusement venues would impact the City an estimated \$1 million and \$738,000 for the County.

Another component of SB 584, explained by Ms. Mannix Decker, is the burden of proving tax liability for businesses now falls to the Director of Revenue, instead of the tax payer. Mr. Burris asked if this were enacted, would the DOR have to hire additional staff. Ms. Mannix Decker replied, yes, they would. DOR would be busier with claims since there is no downside to businesses claiming exemption.

Moving onto SB 612, Ms. Mannix Decker explained this legislation would require DOR to notify sellers if the application of sales tax law has changed due to administrative or judicial decision. With this legislation, the seller is no longer liable for additional taxes until notified by DOR. This exemption is estimated to impact the City over \$3 million and \$2.1 million for the County.

In addition, SB 612 would exempt commercial laundries which process at least 500 pounds of textiles per hour and at least 60,000 pounds per week. This impact is estimated to be \$61,000 for the City and \$42,000 for the County. Mr. Burris asked why these businesses were being singled out. Ms. Mannix Decker stated that she did not know why some of the proposals were so specialized. Mr. Burris speculated that it might be more of a lobbying factor.

Ms. Mannix Decker continued with SB 693. This proposal is to exempt local sales tax for vehicles 10 years or older, and which cost less than \$15,000. The estimated impact for the City is \$794,000 and \$548,000 for the County. This exemption would also impact State Highway funds by decreasing the amount available for local distribution. This would be a significant impact to Greene County's Highway Department.

Ms. Mannix Decker explained these exemptions would have a total impact of \$10.7 million on the City. In addition, these tax exemptions would apply to all sales tax passed by Springfield voters. These include: General Sales Tax (reduction of \$5 million or 7%), Capital Improvements Sales Tax (reduction of \$1.3 million or 13%), Transportation Tax (reduction of \$630,000 or 7%), and Pension Sales Tax (reduction \$3.8 million or 13%). Mr. Burris asked if these reductions were annually, and Ms. Mannix Decker confirmed that they were annual numbers.

Next, Ms. Mundt explained what these exemptions would mean for the County. The County's estimated impact would be \$7.4 million and would apply to all sales tax passed by Greene County voters. These include: General Sales Tax – General Fund (reduction of \$1.5 million or 4.3%) and Road & Bridge (reduction of \$1.5 million or 5.5%), Law Enforcement Sale Taxes (reduction of \$2.25 or 13%), E-911 Sales Tax (reduction of \$745,000 or 13.6%), and Parks Sales Tax (reduction of \$1.5 million or 14%). Ms. Mundt stated that financial conditions at the County had already stressed services, and if these exemptions take affect they would reduce services further. Colin Quigley, Springfield Assistant City Manager, asked whether this would impact bond payments for buildings which are under construction. Ms. Mundt said yes, the Danny Kinney facility is funded through bonds. Mr. Smith added that E-911 and General Revenue also use bonds.

After the presentation, discussion questions were proposed to the group. Mr. Smith asked if a detailed analysis was planned. Ms. Mannix Decker replied that more time is needed to make certain which of these bills would directly pertain to the City. Mr. Smith asked Ms. Mundt about her conversation with the State Budget Office. She replied that the vague language in SB 584 regarding data processing made it difficult to apply any numbers. The bill could be underestimated and the numbers could increase. Mr. Smith stated he was initially concerned the numbers were overestimated, but after further thought they might be underestimated. Ms. Mundt explained that no jurisdiction was specifically looked at in detail. This could mean some might be facing a greater impact than others.

Greene County Sheriff Jim Arnott asked Lobbyist Scott Marrs, who was in the audience, how these bills had been comprised. Mr. Marrs explained that there were some special interest items put onto these bills at the last minute; however they still made it through approval. As for the data processing bill, it had been proposed for the past 5 to 6 years, but had not been approved in previous drafts. Now with its broader definition, it is thought to create new jobs and new investments for the state by being tax exempt. Commissioner Bengsch, asked if the Governor was to veto the legislation, would there be a veto override. Mr. Marrs replied that the chance for a veto override is not as significant as in previous sessions. There will not be a big consensus from the legislative body because some of these bills are so broad. This could change, and a veto override might be attempted on some, but not with all of the bills.

Sheriff Arnott asked Mr. Marrs which bill would be most popular for veto override. Mr. Marr replied that in his opinion, it would be SB 584 where DOR must prove which businesses must be taxed. Mr. Smith asked what the next step would be if the bills are vetoed. Mr. Marrs suggested they see which ones are vetoed and then make assessments. Legislators will determine which will impact the most people on a veto override. From there, the City and County will need to make a major effort to alert legislators of the local impact and how it will affect them. Jerry Moyer, Greene County Court Administrator, agreed the group should see what passes and then talk with legislators regarding the local impact. Mr. Marrs suggested the group educate the legislators with the facts and be supportive of the process.

In closing, Mr. Burris expressed his appreciation to the County Commission for their level of concern, and he will brief the City Council on the outcome. With the City and County in an awkward situation, it will affect the local voters who in the past have supported local taxes. While the data processing bill was once a good one to get behind, it has now been amended and broadened. Other cities and counties throughout the state are also struggling with the same impacts. The City and County owe it to the voters to let them know the local impact.

Ms. Mundt added to Mr. Burris's comments by stating that all services, which had been highlighted with reductions, will put all cities and counties in an awkward situation by trickling down on the property tax side.

Mr. Smith closed by stating that legislators would need information from this group in regard to the impacts that will be felt locally.

The next Task Force meeting is scheduled for Wednesday, June 25, 2014 at 9:30 a.m., in the lower level of the Busch Building, 840 Boonville Ave.

With no additional discussion, the meeting dismissed at approximately 9:30 a.m.