

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2024-25		FY 2025-26	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$18,996,087	\$1,850,000	\$11,065,813	\$4,670,000
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$18,996,087	\$1,850,000	\$11,065,813	\$4,670,000

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 950 would make changes so that on and after January 1, 2025, occupation taxes under the bill for cities and villages would be collected by the Tax Commissioner. The Tax Commissioner would collect the occupation tax concurrently with collection of the state sales and use tax in the same manner as the state sales and use tax is collected. The Tax Commissioner would remit monthly the proceeds of the occupation tax to the city or village imposing the tax, after deducting 3% as an administrative fee necessary to defray the cost of collecting the tax and the expenses incident thereto. The Tax Commissioner would keep full and accurate records of all money received and distributed. All receipts from the administrative fee would be deposited in the state General Fund.

The Department of Revenue (DOR) estimates the following increase in General Fund revenues as a result of this bill:

- FY 24-25: \$1,850,000
- FY 25-26: \$4,670,000
- FY 26-27: \$4,910,000
- FY 27-28: \$5,150,000

The DOR also estimates costs of \$27,561,280 to be paid to the Office of the Chief Information Officer (OCIO) as a result of DOR implementing occupation tax collection under this bill. This cost would be spread out over two fiscal years with the project estimated to take 18 months to complete. Estimated OCIO maintenance costs after the first fiscal year would be \$923,520. Additionally, the DOR estimates costs for additional personnel to implement the bill.

There is no basis to disagree with these estimates.

The City of Lincoln estimates revenue reductions due to the 3% administrative fee that goes to state General Funds under the bill.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 950	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Neil Sullivan	DATE: 2/21/2024	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Revenue assessment of fiscal impact from LB 950, except that the administrative cost may be overstated.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 950	AM:	AGENCY/POLT. SUB: City of Lincoln
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the City of Lincoln assessment of fiscal impact from LB 950.		

State Agency Estimate

State Agency Name: Department of Revenue				Date Due LFO:			
Approved by: James R. Kamm				Date Prepared: 02/20/2024		Phone: 471-5896	
	FY 2024-2025		FY 2025-2026		FY 2026-2027		
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	
General Funds	\$18,996,087	\$ 1,850,000	\$11,065,813	\$ 4,670,000	\$1,688,120	\$ 4,910,000	
Cash Funds							
Federal Funds							
Other Funds							
Total Funds	\$18,996,087	\$ 1,850,000	\$11,065,813	\$ 4,670,000	\$1,688,120	\$ 4,910,000	

LB 950 changes the provisions relating to the collection of occupation taxes. Beginning January 1, 2025, the collection of occupation taxes imposed by cities of the metropolitan class, cities of the primary class, cities of the first class, cities of the second class and villages will be transferred to the Nebraska Department of Revenue (DOR). Occupation tax will be collected concurrently and in the same manner as state sales and use tax. DOR will remit the proceeds to each city or village monthly. DOR to deduct 3% from the proceeds as an administrative fee as necessary to defray the cost of collecting the tax and the expenses associated with the collection. The administrative fee will be deposited in the state General Fund.

To implement LB 950, DOR must develop an entirely new tax program and processing system that would accommodate the reporting of the numerous types of occupation taxes and various tax rates imposed by cities and villages. DOR must also develop the new tax forms required to collect the occupation taxes. Some cities may impose occupation taxes on occupations and businesses that are not currently obligated to collect and remit sales tax; DOR will need to create a new licensing application for those businesses.

DOR will be responsible for processing occupation tax returns and payments, distributing the payments to cities and villages, collection of delinquent accounts, auditing occupation tax accounts, licensing new accounts, and other related tasks. An occupation tax is imposed by a city ordinance, so DOR will be required to obtain all city ordinances and coordinate the timing of the start date to report the collection of the occupation tax, based on its effective date. The bill does not set uniform start dates for occupation taxes that are in place for adoption of new local sales taxes.

It is estimated that this bill will increase General Fund revenues by \$1.85 million in FY 24-25, \$4.67 million in FY 25-26, \$4.91 million in FY 26-27 and \$5.15 million in FY 27-28.

The OCIO estimates that the initial development will cost \$27,561,280. Maintenance for the system is estimated to be \$923,520 annually in subsequent years. The OCIO estimates that it would take 18 months to complete the project.

Major Objects of Expenditure							
Class Code	Classification Title	24-25 FTE	25-26 FTE	26-27 FTE	24-25 Expenditures	25-26 Expenditures	26-27 Expenditures
A21211	Fiscal Compliance Analyst	0.5	1.0	1.0	\$23,600	\$47,200	\$47,200
X29222	Revenue Agent	2.0	1.5	1.5	\$86,400	\$64,800	\$64,800
S01011	Office Technician	1.5	3.0	3.0	\$45,600	\$91,300	\$91,300
S29112	Revenue Op Clerk II	1.5	3.5	3.5	\$56,700	\$132,200	\$132,200
A29621	Revenue Tax Specialist	1.0	2.0	2.0	\$62,100	\$124,100	\$124,100
A01014	Administrative Specialist	0.5	1.0	1.0	\$21,800	\$43,700	\$43,700
A07082	Information Technology Business Systems Analyst/Coordinator	1.5	3.0	1.0	\$107,500	\$214,900	\$71,600
Benefits.....					\$133,200	\$237,000	\$189,700
Operating Costs.....					\$18,374,187	\$10,110,613	\$923,520
Travel.....							
Capital Outlay.....					\$85,000	\$0	\$0
Capital Improvements.....							
Total.....					\$18,996,087	\$11,065,813	\$1,688,120

The DOR will also need 1 FTE Fiscal Compliance Analyst, 3.5 FTE Revenue Agents (2 FTE will be needed during the first year and 1.5 FTE will be needed for following years), 3.5 FTE Revenue Operations Clerks II, 3 FTE Office Technicians, 2 FTE Revenue Tax Specialists, 1 FTE Administrative Specialist, and 3 Information Technology Business Systems Analyst/Coordinators to implement the bill.

The operative date for this bill is January 1, 2025.

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2024

LB⁽¹⁾ 950

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ City of Lincoln

Prepared by: ⁽³⁾ Tammy Wissing Date Prepared: ⁽⁴⁾ 2/5/24 Phone: ⁽⁵⁾ 402 441-8304

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2024-25</u>		<u>FY 2025-26</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	<u>(9,375)</u>	_____	<u>(12,500)</u>
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	<u>(637,500)</u>	_____	<u>(850,000)</u>
TOTAL FUNDS	<u>_____</u>	<u>(646,875)</u>	<u>_____</u>	<u>(862,500)</u>

Explanation of Estimate:

The bill amends statute sections 15-202 and 15-203 and provides that effective January 1, 2025, certain occupation taxes currently imposed and collected by the City of Lincoln will be collected by the Tax Commissioner concurrently with and in the same manner as the state sales and use tax. The bill also provides that the Tax Commissioner shall deduct 3% as an administrative fee prior to remitting the proceeds to the City. The above estimated revenue loss reflects the loss due to the 3% administrative fee. Based on the language of this bill the operational cost to the city is primarily unchanged because it's interpreted the city is still responsible for managing the occupation tax accounts and administering enforcement as specified in the Lincoln Municipal Code.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25</u>	<u>2025-26</u>
	<u>24-25</u>	<u>25-26</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____