

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3935-01
Bill No.: SB 821
Subject: Department of Revenue: Motor Vehicles
Type: Original
Date: January 27, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$4,886)	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	(\$4,886)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Highway Funds	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	(Unknown)	(Unknown)	(Unknown)

* Could exceed \$100,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Insurance** and the **Department of Public Safety - Highway Patrol** each assume no fiscal impact from the proposal.

Officials of the **Department of Revenue** state this legislation changes the definition of salvage vehicle so that the vehicle wrecked, damaged or destroyed must be of a manufacturer's model year designation of or later than the year in which the vehicle was wrecked, damaged or destroyed or within the three years preceding such date and have been damaged to the extent that the total cost of repairs to rebuild or reconstruct the vehicle to its condition immediately before it was damaged exceeds eighty percent of the fair market value of the vehicle immediately preceding the time it was damaged. DOR will have to modify its criteria for issuing salvage titles and prior salvage brand in accordance with this change in definition.

DOR's Motor Vehicle Bureau assumes they will need to revise policies, procedures and notify dealers, leinholders, and salvage dealers of this model year designation and the increase in damage percentage from seventy five to eighty percent of fair market value. DOR assumes a cost of \$4,886 in the first fiscal year for forms, envelopes and postage resulting from this proposal.

ASSUMPTION (continued)

DOR officials also state that a search of the GRS file indicates there are currently 54,797 salvage title records on file with a purchase date during calendar year 2005. Applying the proposed salvage vehicle definition to these vehicles would reduce this number to only 9,457 vehicles (83% reduction) actually requiring a salvage title (this does not take into account the change in the percentage of damage from 75% to 80%). Accordingly, there will be:

- An unknown decrease in the amount of salvage title fees (\$8.50 + \$2.50 processing fees), as rebuilders who purchase these vehicles from individuals will not have to obtain salvage titles before rebuilding. Individuals who retain ownership of their salvaged vehicle will no longer need to retitle the vehicle because it will no longer be deemed "salvaged" by the insurance company in most cases. (Insurance companies who acquire the vehicle due to a total loss claim will obtain original titles instead of salvage so there will be no revenue loss for those transactions);
- Unknown decrease in DOR 551 forms purchased (at \$25 each) to convert a title from salvage to original since the salvage title won't be required in many cases; and
- A potential reduction in revenue from sales tax on parts used to rebuild a vehicle. (Currently, to convert a salvage title to an original title, the applicant must obtain a 551 form and submit proof of purchase for all parts used. Often times, taxes haven't been paid on the parts and are paid at the time application for title is made. Under this proposal, there will be fewer salvage titles obtained so the vehicles can be sold on original titles without presenting any parts receipts).

DOR states the reduction in revenue from this proposal would impact the Highway Funds as well as Cities and Counties. DOR assume the total lost revenue from this proposal could exceed \$100,000.

This proposal may reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs - Department of Revenue (DOR)</u>			
Mailing of notification to dealers, leinholders and salvage dealers	<u>(\$4,886)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$4,886)</u>	<u>\$0</u>	<u>\$0</u>
 HIGHWAY FUNDS			
<u>Loss - in revenue to DOR from decrease in salvage title fees, processing fees, fees to convert a title from salvage to original and potential reduction in sales tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO HIGHWAY FUNDS	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
CITIES AND COUNTIES			
<u>Loss - in revenue from decrease in salvage title fees, processing fees, fees to convert a title from salvage to original and potential reduction in sales tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO CITIES AND COUNTIES	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>

FISCAL IMPACT - Small Business

Small salvage vehicle businesses could be fiscally impacted as a result of this proposal.

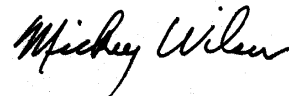
DESCRIPTION

Under the current law, the definition of salvage vehicle includes a motor vehicle that has been damaged to the extent that the cost of repairs to rebuild it exceeds 75% of the fair market value of the vehicle. This act changes the damage threshold from 75% to 80%. In addition, this act restricts the 80% damage threshold to vehicles which have a manufacturer's model year designation of or later than the year in which the vehicle was damaged or any of the three preceding years.

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 Revenue
Department of Public Safety - Highway Patrol
Department of Insurance



Mickey Wilson, CPA
Director
January 27, 2006