

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0124-02
Bill No.: SB 207
Subject: Transportation Department; Taxation and Revenue- Sales and Use; Contracts and Contractors
Type: Original
Date: January 26, 2007

Bill Summary: Would exempt contractors from paying sales taxes on materials used in Department of Transportation projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$12,870,000)	(\$9,433,500)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$12,870,000)	(\$9,433,500)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road Fund	\$0	\$26,705,250	\$19,574,512
School District Trust	\$0	(\$4,290,000)	(\$3,144,500)
Conservation	\$0	(\$536,250)	(\$393,063)
Parks and Soil	\$0	(\$429,000)	(\$314,450)
Total Estimated Net Effect on Other State Funds	\$0	\$21,450,000	\$15,722,499

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	(\$8,580,000)	(\$6,289,000)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Missouri Department of Transportation (MoDOT)** assume this legislation would exempt contractors from paying sales tax on materials used in MoDOT projects. Section 144.062, RSMo., currently exempts sales of personal property and materials used for the purpose of constructing, repairing, or remodeling facilities for counties, other political subdivisions and certain exempt entities from the state sales tax. This bill would add the Department of Transportation as an exempt entity. Therefore, materials could be purchased by a contractor for a MoDOT project on a tax-exempt basis.

The sales tax which contractors currently pay on materials purchased for MoDOT projects is included in the project cost which is paid by MoDOT. Assuming that contractors would reduce their project costs due to the ability to purchase materials on a tax-exempt basis, this bill would result in a cost savings for MoDOT.

Based on 2007-2011 Statewide Transportation Improvement Program (STIP); 50 percent of construction contract cost is labor and 50 percent is materials; and assuming a July 1, 2008 effective date and a sales tax rate of 4.225%; the cost savings were calculated as follows:

Fiscal Year	STIP Awards	% Materials	Material Cost	Sales Tax Rate	Cost Savings
2008	\$1,189,100,000	50%	\$594,550,000	4.225%	\$25,119,738
2009	\$858,000,000	50%	\$429,000,000	4.225%	\$18,125,250
2010	\$628,900,000	50%	\$314,450,000	4.225%	\$13,285,513
2011	\$490,000,000	50%	\$245,000,000	4.225%	\$10,351,250
2012	\$490,000,000	50%	\$245,000,000	4.225%	\$10,351,250

MoDOT assumes there would be an additional amount of cost savings for the local sales tax; however, the amount would vary by city/county. Therefore the additional savings is unknown.

Officials at the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would decrease General and Total State Revenues. BAP defers to MoDOT to provide an estimate of this proposal. This proposal would have no impact on BAP.

ASSUMPTION (continued)

Officials at the **Department of Revenue** assume no this proposal would have fiscal impact on their organization.

Officials from the **Department of Conservation (MDC)** assume this proposal would have a negative fiscal impact on MDC funds since it appears to exempt highway construction materials and other DOT projects from sales tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

In response to a similar proposal (SB 199 LR 0968-01) officials at the **City of Centralia** and **St. Louis County** assumed no fiscal impact from the proposal.

No other Cities or Counties responded to our request for information.

Oversight estimated the fiscal impact to include a tax loss impact to local government with an average sales tax rate of 2%. The chart below shows the breakdown of the tax impact on the projected materials cost.

Oversight assumes this proposal would create a savings for the Road Fund of \$37 million in FY2008 and \$26.7 million for FY2009. Oversight also assumes the savings would be passed on to MoDOT as it is calculated into the materials cost submitted by the vendors. Combined savings in the Road Fund equal the losses to the General Revenue Fund, School District Trust Fund, Conservation Fund, Parks and Soils Fund and local city/county funds.

	Fiscal Year 2009	Fiscal Year 2010
Materials Cost	\$429,000,000	\$314,450,000
GR Fund 3%	\$12,870,000	\$9,433,500
School Fund 1%	\$4,290,000	\$3,144,500
Conservation Fund .125%	\$536,000	\$393,063
Parks and Soil Fund .1%	\$429,000	\$314,450
Local 2%	\$8,580,000	\$6,289,000
Total Savings to Road Fund	\$26,705,250	\$19,574,512

ASSUMPTION (continued)

Oversight assumes that a reduction in the federal reimbursement could occur as a result of the tax loss. The federal impact is unknown.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Loss</u> - General Revenue Fund			
Exemption for MoDOT projects	<u>\$0</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
OTHER STATE FUNDS			
<u>Savings</u> - Road Fund			
Sales tax exemption for MoDOT projects	\$0	\$26,705,250	\$19,574,512
<u>Loss</u> - School District Trust Fund			
Sales tax exemption for MoDOT projects	\$0	(\$4,290,000)	(\$3,144,500)
<u>Loss</u> - Conservation Fund			
Sales tax exemption for MoDOT projects	\$0	(\$536,250)	(\$393,063)
<u>Loss</u> - Parks and Soil Fund			
Sales tax exemption for MoDOT projects	<u>\$0</u>	<u>(\$429,000)</u>	<u>(\$314,450)</u>
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS	<u>\$0</u>	<u>\$21,450,000</u>	<u>\$15,722,499</u>

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
CITIES AND COUNTIES			
<u>Loss - Cities and Counties</u>			
Sales tax exemption for MoDOT projects	<u>\$0</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>\$0</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>

FISCAL IMPACT - Small Business

Businesses that sell to MoDOT could have a fiscal impact as a result of this proposal.

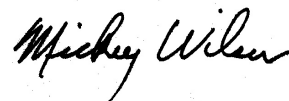
FISCAL DESCRIPTION

This proposal would exempt contractors from paying sales taxes on materials used in Department of Transportation projects. The sales tax exemption would go into effect July 1, 2008.

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

Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Transportation
Department of Revenue



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L.R. No. 0124-02
Bill No. SB 207
Page 7 of 7
January 26, 2007

January 26, 2007

SS:LR:OD (12/06)