

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0968-02  
Bill No.: Perfected SCS for SB 199 & 207  
Subject: Transportation Department; Taxation and Revenue- Sales and Use; Contracts and Contractors  
Type: Original  
Date: February 26, 2007

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Bill Summary: This proposal exempts contractors from paying sales taxes on materials used in Department of Transportation projects.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$17,836,500)	(\$12,870,000)	(\$9,433,500)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$17,836,500)</b>	<b>(\$12,870,000)</b>	<b>(\$9,433,500)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road Fund	\$37,010,738	\$26,705,250	\$19,574,512
School District Trust	(\$5,945,500)	(\$4,290,000)	(\$3,144,500)
Conservation	(\$743,188)	(\$536,250)	(\$393,063)
Parks and Soil	(\$594,550)	(\$429,000)	(\$314,450)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$29,727,500</b>	<b>\$21,450,000</b>	<b>\$15,722,499</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

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

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

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Local Government</b>	<b>(\$11,891,000)</b>	<b>(\$8,580,000)</b>	<b>(\$6,289,000)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Missouri Department of Transportation (MoDOT)** assume this legislation exempts 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 contracts is labor, 50 percent is materials; 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's Budget and Planning (BAP)** in a previous version of this proposal assumed this proposal will decrease General and Total State Revenues. BAP defers to MoDOT to provide an estimate of this proposal. This proposal will have no impact on BAP.

ASSUMPTION (continued)

**Oversight** calculated the revenue impact to include a tax loss impact to local government with a 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. This savings is passed on to MoDOT as it is calculated into the materials cost submitted by the vendors. Combined gains 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 from this proposal.

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

	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2010</b>
Materials Cost	\$594,550,000	\$429,000,000	\$314,450,000
GR Fund 3%	\$17,836,500	\$12,870,000	\$9,433,500
School Fund 1%	\$5,945,500	\$4,290,000	\$3,144,500
Conservation Fund .125%	\$743,188	\$536,000	\$393,063
Parks and Soil Fund .1%	\$594,550	\$429,000	\$314,450
Local 2%	\$11,891,000	\$8,580,000	\$6,289,000
Total Savings to Road Fund	\$37,010,738	\$26,705,250	\$19,574,512

Officials at the **Department of Revenue** assume no fiscal impact for their department from this proposal.

Officials at the **City of Centralia** and **St. Louis County** assume no fiscal impact from this proposal.

Officials at the **Platte County** assume there may be a potential loss in revenue from unrealized retail sales tax. However, the amount is unknown.

Officials at the **City of Kansas City** assume the City would lose revenue from sales taxes on construction materials purchased in Kansas City and used to construct, repair or remodel facilities for MDOT or the State Highways and Transportation Commission. The actual amount of such construction materials that would be purchased within Kansas City is unknown, but it is reasonable to assume that contractors repairing or constructing state highways within and around the City would purchase cement, gravel, asphalt and other construction materials in the metropolitan area.

No other Cities or Counties responded to **Oversight's** request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
<u>Loss</u> - General Revenue Fund			
Exemption for MoDOT projects	<u>(\$17,836,500)</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$17,836,500)</u></b>	<b><u>(\$12,870,000)</u></b>	<b><u>(\$9,433,500)</u></b>
<b>OTHER STATE FUNDS</b>			
<u>Savings</u> - Road Fund			
Exemption for MoDOT projects	\$37,010,738	\$26,705,250	\$19,574,512
<u>Loss</u> - School District Trust Fund			
Exemption for MoDOT projects	(\$5,945,500)	(\$4,290,000)	(\$3,144,500)
<u>Loss</u> - Conservation Fund			
Exemption for MoDOT projects	(\$743,188)	(\$536,250)	(\$393,063)
<u>Loss</u> - Parks and Soil Fund			
Exemption for MoDOT projects	(\$594,550)	(\$429,000)	(\$314,450)
<b>ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS</b>	<b><u>\$25,119,738</u></b>	<b><u>\$21,450,000</u></b>	<b><u>\$15,722,499</u></b>
<b>FISCAL IMPACT - Local Government</b>			
	FY 2008 (10 Mo.)	FY 2009	FY 2010

**CITIES AND COUNTIES**

Loss - Cities and Counties

Exemption for MoDOT projects	<u>(\$11,891,000)</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>
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**ESTIMATED NET EFFECT ON  
LOCAL GOVERNMENT**

	<u>(\$11,891,000)</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>
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FISCAL IMPACT - Small Business

Businesses that sell to MoDOT would be expected to be impacted as a result of this proposal.

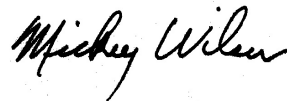
FISCAL DESCRIPTION

This act exempts contractors from paying sales taxes on materials used in Department of Transportation projects.

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

Missouri Department of Transportation  
Department of Revenue  
Office of Administration's Budget and Planning  
St. Louis County  
City of Centralia  
Platte County  
Kansas City



Mickey Wilson, CPA  
Director  
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