

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0968-05
Bill No.: HCS for SCS for SB 199 & 207
Subject: Transportation Department; Taxation and Revenue- Sales and Use; Contracts and Contractors
Type: Original
Date: April 27, 2007

Bill Summary: This proposal exempts 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	(\$2,712,000)	\$23,180,250	\$16,026,512
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	(\$2,712,000)	\$17,925,000	\$12,174,499

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 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	\$1,585,000	(\$6,746,000)	(\$4,432,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Section 142.814 Exemption of motor fuel- buses

In response to similar legislation filed this year (HB 247) the following groups responded as follows:

Officials at the **Department of Elementary and Secondary Education (DESE)** and **Missouri Department of Transportation (MoDOT)** assume this section would create a savings to school districts and a loss to state revenues. DESE calculated the total miles traveled by school district owned and contracted buses was 126,067,918 for the 2005-2006 school year. By dividing total miles by an average of 7 miles per gallon, this yields 18,009,703 gallons of fuel used annually. Multiplying gallons of fuel used by 17 cents per gallon (the current Missouri fuel tax) results in an estimated annual fuel tax exemption for school districts of \$3,062,000. Adding the 1% growth rate the impact would be in FY 2008 \$2,577,000; FY 2009 \$3,122,000; FY 2010 \$3,154,000. These figures include the lost revenue to cities and counties.

The above estimate assumes that school bus contractors have arrangements or can make arrangements so that the Missouri fuel tax will not be paid by the school bus contractors thereby reducing the cost of bus transportation to school districts. For example, it is a practice by some school districts to purchase the fuel used by contractors.

Officials at the **Department of Revenue (DOR)** states there is no impact on Taxation. Even

ASSUMPTION (continued)

though school districts are exempt from federal tax, they are not exempt from state fuel tax. Taxation currently collects approximately \$800,000 to \$1,000,000 a year in state tax on dyed diesel fuel sold to school districts. It would create a loss of these revenues.

Officials at the **Parkway Public School District** estimate a savings of \$50,000 a year.

Oversight assumes this section is a loss to the Road Fund.

Section 142.817 Exemption of motor fuel tax - public transit

In response to similar legislation filed this year (HB 247) the following groups responded as follows:

Officials at the **Missouri Department of Transportation (MoDOT)** assume this section exempts motor fuel used for certain public transportation purposes from motor fuel tax.

MoDOT calculated that in Fiscal Year 2006 that transit authorities consumed an estimated 9,943,211 gallons of gasoline at the State Gas Tax Rate of \$.17 per gallon for a total of \$1,690,346 in gas tax being paid. MoDOT then calculated the loss of that money for the state, cities and counties.

Officials at the **Department of Revenue (DOR)** assume no fiscal impact to the DOR from this section. DOR assumes this legislation establishes an exemption. Exemptions reduce state tax due, therefore it will reduce state revenues.

Officials at the **City of Kansas City** state this bill applies to a city transportation authority. The City of Kansas City does not operate a transportation authority, those mass transit services are provided by the Kansas City Area Transportation Authority, which is partially funded by Kansas City. Any savings enjoyed by the KC ATA may be indirectly enjoyed by the City of Kansas City through greater services for the money now spent for transportation services if the KC ATA has additional funds available.

Oversight assumes the motor fuel tax exemption will be a loss to the Road Fund.

Section 144.062 Sales Tax Exemption on MoDOT projects

In response to a previous version of this legislation the following responded:

ASSUMPTION (continued)

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.

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
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.

ASSUMPTION (continued)

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 MoDOT 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
GENERAL REVENUE FUND			
<u>Loss</u> - General Revenue Fund			
Exemption for MoDOT projects (Section 144.062)	<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>
ROAD FUND			
<u>Savings</u> - Road Fund			
Exemption for MoDOT projects (144.062)	\$0	\$26,705,250	\$19,574,512
<u>Loss</u> - Road Fund			
Motor Fuel Tax- Mass Transit (142.817)	(\$825,000)	(\$1,238,000)	(\$1,238,000)
<u>Loss</u> - Road Fund			
Motor Fuel Tax - Buses (142.814)	<u>(\$1,887,000)</u>	<u>(\$2,287,000)</u>	<u>(\$2,310,000)</u>
ESTIMATED NET EFFECT ON ROAD FUND	<u>(\$2,712,000)</u>	<u>\$23,180,250</u>	<u>\$16,026,512</u>

SCHOOL DISTRICT TRUST FUND

<u>Loss - School District Trust Fund</u> Exemption for MoDOT projects (144.062)	<u>\$0</u>	<u>(\$4,290,000)</u>	<u>(\$3,144,500)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>(\$4,290,000)</u>	<u>(\$3,144,500)</u>
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CONSERVATION FUND

<u>Loss - Conservation Fund</u> Exemption for MoDOT projects (144.062)	<u>\$0</u>	<u>(\$536,250)</u>	<u>(\$393,063)</u>
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ESTIMATED NET EFFECT ON CONSERVATION FUND	<u>\$0</u>	<u>(\$536,250)</u>	<u>(\$393,063)</u>
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PARKS AND SOIL FUND

<u>Loss - Parks and Soil Fund</u> Exemption for MoDOT projects(144.062)	<u>\$0</u>	<u>(\$429,000)</u>	<u>(\$314,450)</u>
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ESTIMATED NET EFFECT ON PARK AND SOIL FUND	<u>\$0</u>	<u>(\$429,000)</u>	<u>(\$314,450)</u>
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FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL FUNDS			
<u>Savings - School Districts</u>			
Motor Fuel Tax- buses (142.814)	\$2,577,000	\$3,122,000	\$3,154,000
<u>Loss - Cities and Counties</u>			
Exemption for MoDOT projects (Section 144.062)	\$0	(\$8,580,000)	(\$6,289,000)
<u>Loss - Cities</u>			
Motor Fuel Tax - Mass Transit (142.817)	(\$169,000)	(\$254,000)	(\$254,000)
<u>Loss- Cities</u>			
Motor Fuel Tax- Buses (142.814)	(\$387,000)	(\$468,000)	(\$473,000)
<u>Loss - Counties</u>			
Motor Fuel Tax- Mass Transit (142.817)	(\$133,000)	(\$199,000)	(\$199,000)
<u>Loss - Counties</u>			
Motor Fuel Tax - Buses (142.814)	(\$303,000)	(\$367,000)	(\$371,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>\$1,585,000</u>	<u>(\$6,746,000)</u>	<u>(\$4,432,000)</u>

FISCAL IMPACT - Small Business

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

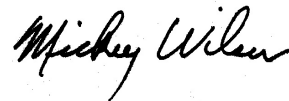
FISCAL DESCRIPTION

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
Parkway School District
Office of the Secretary of State
Department of Elementary and Secondary Education



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Director
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