

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6404-04  
Bill No.: Perfected HCS for HB 2141  
Subject: Motor Fuel; Taxation and Revenue - Sales and Use; Agriculture, Department of;  
Weights and Measures  
Type: Original  
Date: April 30, 2014

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Bill Summary: This proposal would change the laws regarding alternative fuels.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
General Revenue	(Less than \$100,000)	\$0 or (Up to \$1,000,000)	\$0 or (Up to \$1,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Less than \$100,000)</b>	<b>\$0 or (Up to \$1,000,000)</b>	<b>\$0 or (Up to \$1,000,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 14 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Agriculture Protection	(\$21,800 - \$25,000)	Up to \$6,400	Up to \$12,800
Blind Pension	\$0	(Unknown)	(Unknown)
Motor Fuel Tax	Unknown	Unknown	Unknown
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$25,000) to Unknown</b>	<b>Could exceed \$6,400</b>	<b>Could exceed \$12,800</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</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 2015</b>	<b>FY 2016</b>	<b>FY 2017</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 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

### **FISCAL ANALYSIS**

#### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have a statewide impact and would have an impact on the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted this proposal would create tax rates for compressed natural gas and liquefied natural gas as a motor fuel, and would remove them from existing requirements. The tax on compressed natural gas would be five cents per gasoline gallon equivalent from the effective date of the proposal until December 31, 2019, then eleven cents until December 31, 2024, and seventeen cents per equivalent thereafter. The tax on liquefied natural gas fuel would be five cents per diesel gallon equivalent from the effective date of the proposal until December 31, 2019, then eleven cents until December 31, 2024, and seventeen cents per equivalent thereafter.

BAP officials assume this proposal would increase motor fuel tax revenues, but stated they do not have data on the current or potential usage of these fuels.

BAP officials noted the proposed legislation would require the Department of Agriculture to establish fees for testing of compressed natural gas meters, liquefied natural gas meters, electrical charging stations, and hydrogen fuel meters, and assume this requirement could result in an unknown increase to Total State Revenues.

Officials from the **Department of Revenue (DOR)** noted this proposal would provide motor fuel taxes on Compressed Natural Gas fuel at five cents per gasoline gallon equivalent until December 31, 2019, then eleven cents from January 1, 2020 until December 31, 2024, and seventeen cents after December 31, 2024. Motor fuel tax on Liquefied Natural Gas fuel would be five cents per diesel gallon equivalent until December 31, 2019, eleven cents from January 1, 2020 until December 31, 2024, and seventeen cents after December 31, 2024.

Fiscal impact

DOR officials stated because the Department does not currently track the number of gallons of Compressed Natural Gas and Liquefied Natural Gas sold, it is unclear whether this legislation would impact Total State Revenue.

ASSUMPTION (continued)

Administrative impact

DOR officials assume Excise Tax would be required to make programming changes to the motor fuel tax system to allow for two new fuel types. Conversion to gasoline and diesel equivalent gallons would need to be made either through system programming or through the use of some type of conversion schedule.

DOR officials noted the Department currently collects two fees, the agricultural inspection fee and the transport load fee. It is unclear if those two fees would apply to sales of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG). If one or both do not apply, then additional programming would be needed to exempt those products.

DOR officials also noted changes would need to be made to motor fuel forms, and additional forms would be needed. Letters would need to be sent out to approximately 750 licensees informing them each time the rate changes, and additional companies would be required to register for a motor fuel tax license and file with the Department. DOR officials estimated postage costs would be (750 licensees x \$0.555 per mailer) = \$416.

**Oversight** assumes the notifications to existing licensees would be included with regular licensee communications from DOR and will not include any mailing cost in this fiscal note. Oversight notes DOR did not include any administrative costs other than mailing and assumes any other administrative costs are minimal and could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$56,020 based on 2,052 hours of programming to make changes to DOR systems.

**Oversight** notes the DOR comments above indicate additional programming could be required for fees related to motor fuels and will include an unknown cost less than \$100,000 in this fiscal note for programming.

Officials from the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact of this proposal.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** assume this proposal would require the Weights and Measures Division to inspect compressed natural gas meters, liquefied natural gas meters, electrical charging stations, and hydrogen fuel meters, and would allow device test fees to be charged for the inspections.

AGR officials stated Missouri currently has 4 stations with 8 retail Compressed Natural Gas (CNG) dispensers, and stated it is unknown how quickly the use of alternative fuels would grow in the marketplace. AGR officials assume the number of compressed natural gas meters would double from current levels in FY 2016, and would double again in FY 2017 but did not project adoption rates beyond FY 2017.

AGR officials anticipate the fee per dispenser would be \$50 and the number of dispensers would double each year going forward. AGR officials assume the following fee revenue would be generated if the number of dispensers increases as expected.

2015: 8 stations X 8 dispensers each X \$50 per dispenser = \$3,200 if fees charged in FY 2015.  
2016: 16 stations X 8 dispensers each X \$50 per dispenser = \$6,400 if fees charged in FY 2016.  
2017: 32 stations X 8 dispensers each X \$50 per dispenser = \$12,800 if fees charged in FY 2017.

AGR officials assume a budget request would be submitted for FY 2016 to purchase the CNG dispenser testing equipment (\$25,000) and related personnel travel expenses (\$1,000 annually). Fees for CNG dispensers could be collected in FY 2016 after the purchase of the testing equipment.

AGR officials assume any additional inspection responsibilities could be assumed by existing staff; however, continued growth of alternative fuel meters and inspections could require additional staff in the future.

**Oversight** assumes this is an expansion of an existing Department of Agriculture Weights and Measures program for the purpose of regulating and measuring alternative fueling devices, and notes AGR did not request funding for CNG testing equipment in its FY 2015 budget request.

**Oversight** notes the Department of Agriculture FY 2015 Governor's Recommended Budget included \$133,383 for in-state travel and \$25,459 for out of state travel and assumes any travel costs related to this proposal could be absorbed with existing resources.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will assume the initial purchase of inspection equipment, and the assessment of testing fees to CNG dispenser stations and other alternative fueling stations would begin on the effective date of the proposal in FY 2015.

Officials from the **Department of Economic Development** and the **Department of Natural Resources** assume this proposal would have no fiscal impact on their organizations.

**Oversight** assumes the creation of a motor fuel tax system for compressed and liquified natural gas would increase motor fuel tax revenues over the current permit fee system but does not have any information as to the amount of motor fuel tax which could be generated. Oversight will include an unknown additional amount of motor fuel tax revenue in the Motor Fuel Tax Fund.

**Oversight** notes the additional Motor Fuel Tax Fund revenues would be distributed to the State Highways and Transportation Department Fund and to the agency fund Fuel Tax and Bonds Non-State Fund for distribution to all counties and incorporated cities but will not include those distributions in this fiscal note.

Amendments

Amendment 1 would authorize holders of current alternative fuel decals who own their fueling equipment to continue to do so.

**Oversight** assumes this provision would have no fiscal impact since it authorizes the continuation of a current program.

Amendment 2 would provide clarification and definitions to terms in the proposal.

**Oversight** assumes this provision would have no fiscal impact.

Amendment 3 would reauthorize the alternative fuel tax credit for six years, and would add electric vehicles recharging properties to the list of eligible properties.

ASSUMPTION (continued)

Section 135.710, RSMo. - Alternative Fuel Station Tax Credit:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed similar language in HCS for HB 1610 LR 5591-03 would have no fiscal impact to their organization. BAP officials assume these provisions would renew and modifies the Alternative Fuel Station tax credit for tax years 2015 to 2020. The provisions would also expand the list of qualifying properties to include certain electric vehicle recharging stations. The program is capped at \$1 million annually, and may therefore reduce General and Total State Revenues by this amount. BAP notes \$69,454 was redeemed under this program in FY 2012.

Officials from the **Department of Economic Development (DED)** assumed, in response to similar language in HCS for HB 1610 LR 5591-03, that due to inclusion of eligibility of private citizens for tax credits up to \$1,500, the department anticipates there will be a fiscal impact from this proposal. DED expects there could be a large number of installations of electric vehicle (EV) recharging stations by private citizens. If an individual is considering the purchase of an EV, it is safe to assume the individual will also purchase a charging station for his/her home to be able to charge the vehicle overnight.

Estimates of the cost for purchase and installation of EV recharging stations range from \$2,000 - \$2,300 for a Level 2 (dedicated outlet charging in approximately 6-7 hours). A faster charging residential installation could be up to \$10,000 according to one source. DED assumes most installations will be for the Level 2 mid-range station which would be very attractive if there is a tax credit of \$1,500. Until December 31, 2013, there was also a federal tax credit for such recharging stations. It is not known whether this tax credit will be renewed. Limited research into similar tax credits for private citizens in other states revealed a 20% of total cost of the installation or up to \$400 tax credit in Maryland and a 25% or \$750 credit in Oregon.

DED officials stated the market for EVs tripled from approximately 17,500 sold in the U.S. in 2011 to 53,000 new EVs in 2012. It is likely that the number of EVs will continue to increase dramatically as consumers become more exposed to EV technology and manufacturers release more makes and models of EVs that appeal to a broader range of consumers. However, for purposes of this fiscal note, a conservative estimate is that the number of EVs sold in the U.S. will be at only 17,500/year, although it is likely to be more. If the EVs are distributed proportionally with population among the states, Missouri could expect the following EV purchases and EV recharging stations:



ASSUMPTION (continued)

1,800 in 2014  
2,160 in 2015  
2,500 in 2016  
2,880 in 2017 and  
3,200 in 2018.

In addition, there are likely to be business entities installing EV recharging stations as well as other alternative refueling facilities, especially compressed natural gas (CNG) stations due to the lower cost of natural gas.

DED officials assume the Division of Energy would need to review applications and confirm eligibility and costs as well as whether a Missouri contractor (if located within 75 miles) was used for 51% of the costs of the station. We estimate one additional Energy Specialist III would be needed to perform these duties to be able to certify eligibility to the Department of Revenue.

Officials from the **Department of Natural Resources** and the **Department of Revenue** assume there would be no fiscal impact to their organizations from similar language in HCS for HB 1610 LR 5591-03.

**Oversight** notes, according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Alternative Fuel Station tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Amount Authorized	\$87,925	\$91,365	\$0
Amount Issued	\$87,925	\$91,365	\$0
Amount Redeemed	\$23,365	\$45,690	\$69,454

**Oversight** notes this credit began on August 28, 2008 for tax years starting January 1, 2009. The program required the alternative fuel stations to be built between January 1, 2009, and January 1, 2012, to qualify for the tax credit. This program has a sunset date that requires it to end on August 28, 2014.

ASSUMPTION (continued)

**Oversight** assumes this proposal reauthorizes the Alternative Fuel tax credit. This credit will begin with tax years starting January 1, 2015, and therefore the Fiscal Years impacted would be 2016 and 2017. Oversight assumes this proposal places a \$1 million cap on this proposal and therefore, Oversight will show the loss of revenue to the State as \$0 (no credits issued) or Up to \$1 million.

**Oversight** assumes this proposal may allow private citizens to claim the credit however, the cap on the proposal remains the same. Oversight assumes DED would be able to handle this credit with its existing staff.

Section 137.010, RSMo. - Taxation Definitions:

Officials from the Office of Administration - Division of Budget and Planning (BAP) assume this proposal would add certain equipment for the storage of certain propane or LP products to the definition of "real property". BAP notes this may lower the ratio used to calculate the assessed value of property. To the extent that local political subdivisions cannot adjust levies to make up any reduced revenues, this may result in lower local revenues, including revenues for school districts. The State Tax Commission may be able to provide additional information.

**Oversight** assumes this part of the proposal adds "propane or LP gas equipment" to the list of items that are considered to be real property. They are currently considered personal property. Changing from personal property to real property will reduce the assessment ratio causing a loss of assessed valuation, which in turn will reduce local government revenue. Additionally, it will result in a loss of ½ of 1% of the local government revenue reduction to the Blind Pension Fund. At this time it is unknown how much equipment qualifies for this reclassification and therefore it is unknown how large the loss of revenue to local government and the Blind Pension Fund would be. Oversight will reflect an Unknown loss for local governments and the Blind Pension Fund. Oversight notes this proposal would be effective in August 2014 and assessments have already been completed for 2014. The proposal could impact 2015 assessments which would result in property taxes paid in December 2015 (FY 2016)

ASSUMPTION (continued)

**Oversight** also notes that any estimate of revenue losses due to a reduction in the assessed valuation for specific items should be considered in the context of current state limitations on local government tax revenues. Based on our review of property tax rate information developed by the Office of the State Auditor, Oversight has determined that many local governments would be able to compensate for a reduction in assessed valuation by increasing tax rates within existing tax rate ceilings.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE FUND</b>			
<u>Cost - DOR</u> IT changes for motor fuel tax system	(Less than \$100,000)	\$0	\$0
<u>Revenue Reduction</u> - extension of the alternative fuel tax credit	<u>\$0</u>	\$0 or (Up to <u>\$1,000,000</u> )	\$0 or (Up to <u>\$1,000,000</u> )
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(Less than <u>\$100,000</u>)</b>	<b><u>\$0 or (Up to \$1,000,000)</u></b>	<b><u>\$0 or (Up to \$1,000,000)</u></b>
<b>AGRICULTURE PROTECTION FUND</b>			
<u>Additional income - AGR</u> Inspection Fees Section 413.225	Up to \$3,200	Up to \$6,400	Up to \$12,800
<u>Additional cost - AGR</u> CNG Testing Equipment Sections 413.225 and 413.226	<u>(\$25,000)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON THE AGRICULTURE PROTECTION FUND</b>	<b>(<u>\$21,800 - \$25,000</u>)</b>	<b><u>Up to \$6,400</u></b>	<b><u>Up to \$12,800</u></b>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>BLIND PENSION FUND</b>			
<u>Revenue Reduction</u> - Changing from personal tax to real property tax	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON BLIND PENSION</b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
<b>MOTOR FUEL TAX FUND</b>			
<u>Additional revenue</u> - DOR Motor fuel tax on alternative fuels	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<b>ESTIMATED NET EFFECT ON MOTOR FUEL TAX FUND</b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
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**LOCAL GOVERNMENT FUNDS**

<u>Revenue Reduction</u> - Local Governments from changing from personal tax to real property tax	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS</b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which buy or sell compressed or liquified natural gas as a motor fuel.

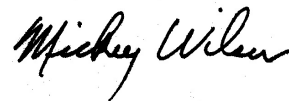
FISCAL DESCRIPTION

This proposal would modify measurement standards and tax rates for compressed and liquefied natural gas as a motor fuel ,and reauthorize the alternative fueling station tax credit. The proposal would also classify alternative fueling equipment as real property.

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 the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Agriculture  
Department of Economic Development  
Department of Natural Resources  
Department of Revenue  
Department of Transportation



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