

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2282-03  
Bill No.: SB 540  
Subject: Motor Fuel; Taxation and Revenue - General; Transportation  
Type: Original  
Date: March 17, 2015

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Bill Summary: This proposal would raise the tax on motor fuel by six cents per gallon over a period of years and adjust it annually for inflation.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>Fully Implemented</b>
General Revenue *	(\$125,656)	(\$36,308)	(\$36,679)	(\$37,056)
<b>Total Estimated Net Effect on General Revenue *</b>	<b>(\$125,656)</b>	<b>(\$36,308)</b>	<b>(\$36,679)</b>	<b>(\$37,056)</b>

\* In FY 2019 and following years, this proposal would provide annual increases to the motor fuel tax based on changes in the federal Consumer Price Index.

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>Fully Implemented</b>
Road *	\$54,961,558	\$109,923,117	\$164,884,675	\$169,006,792
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>\$54,961,558</b>	<b>\$109,923,117</b>	<b>\$164,884,675</b>	<b>\$169,006,792</b>

\* In FY 2019 and following years, this proposal would provide annual increases to the motor fuel tax based on changes in the federal Consumer Price Index.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>Fully Implemented</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
General Revenue	1 FTE	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
<b>Local Government *</b>	<b>\$23,554,954</b>	<b>\$47,109,908</b>	<b>\$70,664,860</b>	<b>\$72,431,482</b>

\* In FY 2019 and following years, this proposal would provide annual increases to the motor fuel tax based on changes in the federal Consumer Price Index.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would increase the motor fuel tax from the current \$0.17 per gallon by an additional \$0.02 per gallon per year, for three years following.

After three years the tax would be further increased by an amount based on the Consumer Price Index for All Urban Consumers for the United States. BAP officials also assume the proposal would result in new revenues being deposited into numerous state funds. Based on the analysis provided by the Department of Revenue (DOR) and the Missouri Department of Transportation (MODOT), BAP officials estimated this proposal would ultimately increase state revenues by \$235.5 million at the end of the first three years of the proposal, and by an additional unknown amount in subsequent years.

BAP officials note an increase of this size would require a popular vote under Article X, Section 18(e) of the Missouri Constitution, unless tax reductions that combined with this proposal would reduce the fully implemented impact of all proposals combined is less than about \$90 million.

BAP officials deferred to MODOT and DOR for additional revenue and cost information.

Officials from the **Department of Revenue (DOR)** assume this proposal would have an unknown positive impact to Total State Revenue, and deferred to the Missouri Department of Transportation for the estimated impact to Total State Revenue.

DOR officials noted this legislation would increase the motor fuel tax by two cents per gallon each year for three years, and would then adjust it annually by the percent increase in inflation. The proposal would increase the tax rate to \$0.19 per gallon until 12 months after the effective date of the act, then to \$0.21 cents per gallon beginning 12 months after the effective date until 24 months from the effective date, and then to \$0.23 cents per gallon beginning 24 months after the effective date until 36 months from the effective date of the act. The proposal would require the tax rate to be adjusted each year beginning 36 months from the effective date by the increase in inflation. The proposal also includes an emergency clause.

ASSUMPTION (continued)

Administrative impact

DOR officials assume each rate change would require forms development or revision, and would require the Department to notify 642 licensees at a cost of (642 Licensees x \$0.555) = \$356.

DOR officials stated many consumers apply for non-highway use refunds of the motor fuel tax creating instances of claims being made at different tax rates. This would require programming changes to the motor fuel tax system. DOR officials also assume this proposal would increase processing time for motor fuel refunds as the Department would be required to examine each fuel ticket to ensure compliance with the one year time limit and to identify the date of the ticket to determine the tax rate.

DOR officials assume Excise Tax would require three additional Revenue Processing Technicians I (Range 10, Step L) for processing refunds timely to avoid interest payments on refunds.

**Oversight** assumes the notifications required in this proposal could be included in regular DOR communications with licensees, and notes this proposal would allow one annual adjustment to the fuel tax rate. Oversight assumes the proposal could be implemented with one additional employee. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

**Oversight** assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT impact

**DOR** officials provided an estimate of the IT cost to implement this proposal of \$89,424 based on 1,192 hours of programming to make changes to DOR systems.

**Oversight** will include the DOR estimate of IT cost in this fiscal note.

Officials from the **Missouri Department of Transportation (MODOT)** assumed increasing the 17-cent state motor fuel tax in 3 annual increments of 2 cents per year, effective January 1, 2016, 2017 and 2018 and indexing for inflation in years thereafter would provide the following estimated revenues to the state of Missouri, cities and counties.

	two cents	four cents	six cents
State (70%)	\$54,961,558	\$109,923,117	\$164,884,675
Cities (15%)	\$11,777,477	\$23,554,953	\$35,332,430
Counties (15%)	\$11,777,477	\$23,554,953	\$35,332,430
Total	\$78,516,512	\$157,033,023	\$235,549,535

MODOT officials stated their calculations were based on fiscal year (FY) 2014 that resulted in net gasoline and gasohol gallons taxed of 2,968,425,681 and net diesel gallons taxed of 957,399,899. The distribution is based on current Missouri Constitution requirements that all state motor fuel tax increases after April 1, 1992 be distributed: A. 70% to state; B. 15% to cities; and C. 15% to counties.

MODOT officials also stated that in 2017, state transportation revenues would be insufficient to match federal funds. Federal funds provide a \$4 to \$1 investment that Missouri would lose, estimated at about \$167 million in 2017 and \$400 million in 2018 and following years.

ASSUMPTION (continued)

**Oversight** will include the MODOT estimate of additional revenue in this fiscal note; however, since the proposal includes a future rate increase mechanism based on future increases in the federal cost of living index, Oversight will also include a projected 2.5% increase for FY 2019, as an example of the impact the fully implemented proposal could have.

	FY 2018 (above)	FY 2019 with 2.5% increase
State	\$164,884,675	\$169,006,792
Cities	\$35,332,430	\$36,215,741
Counties	\$35,332,430	\$36,215,741

**Oversight** also notes the annual increases would continue indefinitely.

**Oversight** also notes the MODOT estimate does not account for the recent trend toward reduced motor fuel volume sales and the resultant reductions in motor fuel tax revenues. If the trend toward lower sales continues or if the increased tax rate would lead to reduced sales in the future, future motor fuel tax revenues could be lower than anticipated.

Oversight will also disregard, for fiscal note purposes, any potential increase in the MODOT reimbursement to DOR for collection costs.

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 greater than 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.

ASSUMPTION (continued)

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.

<u>FISCAL IMPACT - State</u> <u>Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented
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**GENERAL REVENUE FUND**

<u>Cost - DOR</u>				
Salaries	(\$19,700)	(\$23,640)	(\$23,876)	(\$24,115)
Benefits	(\$10,048)	(\$12,058)	(\$12,178)	(\$12,300)
Equipment and expense	(\$6,484)	(\$610)	(\$625)	(\$641)
IT cost	<u>(\$89,424)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	(\$125,656)	(\$36,308)	(\$36,679)	(\$37,056)
FTE change for DOR	1 FTE	1 FTE	1 FTE	1 FTE

**ESTIMATED NET EFFECT  
ON GENERAL REVENUE  
FUND**

	<u>(\$125,656)</u>	<u>(\$36,308)</u>	<u>(\$36,679)</u>	<u>(\$37,056)</u>
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Estimated Net FTE Effect on General Revenue Fund	1 FTE	1 FTE	1 FTE	1 FTE
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**ROAD FUNDS**

<u>Additional revenue</u>				
Motor fuel tax rate increase *	<u>\$54,961,558</u>	<u>\$109,923,117</u>	<u>\$164,884,675</u>	<u>\$169,006,792</u>

**ESTIMATED NET EFFECT  
ON ROAD FUNDS \***

	<u>\$54,961,558</u>	<u>\$109,923,117</u>	<u>\$164,884,675</u>	<u>\$169,006,792</u>
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\* In FY 2019 and following years, this proposal would provide annual increases to the motor fuel tax based on changes in the federal Consumer Price Index.



<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented
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**LOCAL GOVERNMENTS**

<u>Additional revenue</u> - Cities Motor fuel tax rate increase *	\$11,777,477	\$23,554,953	\$35,332,430	\$36,215,741
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<u>Additional revenue</u> - Counties Motor fuel tax rate increase *	<u>\$11,777,477</u>	<u>\$23,554,953</u>	<u>\$35,332,430</u>	<u>\$36,215,741</u>
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**ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS \***

	<b><u>\$23,554,954</u></b>	<b><u>\$47,109,908</u></b>	<b><u>\$70,664,860</u></b>	<b><u>\$72,431,482</u></b>
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\* In FY 2019 and following years, this proposal would provide annual increases to the motor fuel tax based on changes in the federal Consumer Price Index.

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which purchase fuel subject to the motor fuel tax.

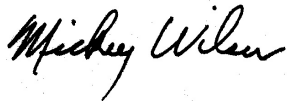
FISCAL DESCRIPTION

Currently, there is a 17.3 cents per gallon tax on motor fuels. This proposal would increase the tax by two cents per gallon immediately and by an additional four cents over the next two years. Once fully phased in, the rate of tax would be 23.3 cents per gallon, and the tax would be adjusted annually for inflation beginning three years after the effective date of the act.

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 Revenue  
Department of Transportation



Mickey Wilson, CPA  
Director  
March 17, 2015

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Assistant Director  
March 17, 2015