

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5059-01
Bill No.: SJR 18
Subject: Motor Fuel; Taxation and Revenue - General; Roads and Highways;
 Transportation Department; Political Subdivisions; Counties; County Government
Type: Original
Date: March 15, 2016

Bill Summary: This proposal amends the Constitution to modify state highway maintenance by instituting a motor fuel tax and restoring certain state highways to local control.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0 or (\$90,072) or (more than \$7,100,000)	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0 or (\$90,072) or (more than \$7,100,000)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Road Fund	\$0 or (\$349,097,011)	\$0 or \$55,805,977	\$0 or \$55,805,977
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or (\$349,097,011)	\$0 or \$55,805,977	\$0 or \$55,805,977

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0 or \$388,958,424	\$0 or (\$353,083,154)	\$0 or (\$353,083,154)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of the Secretary of State (SOS)** assume each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, sub-section 115.063.2, RSMo, requires the state to pay the costs. The cost of the special election has been estimated to be \$7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and sections 116.230-116.290, RSMo. The Secretary of State's Office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session.

Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements.

The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue).

In FY 2015, the General Assembly changed the appropriation so that it was no longer an estimated appropriation and the Secretary of State's Office was appropriated \$1.19 million to publish the full text of the measures. Due to this reduced funding, the Secretary of State's office reduced the scope of the publication of these measures.

ASSUMPTION (continued)

In FY 2015, at the August and November elections, there were 9 statewide Constitutional Amendments or ballot propositions that cost \$1.1 million to publish (an average of \$122,000 per issue).

Despite the FY 2015 reduction, the Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2017. This reflects the decision made by the Joint Committee on Legislative Research, that the potential cost of elections should be reflected in the fiscal note. The next scheduled statewide primary election is in August 2016, and the next scheduled general election is in November 2016 (FY 2017). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2017.

Officials from the **Office of Administration - Office of Budget and Planning (B&P)** assume this proposal increases the gasoline fuel tax by \$0.015 and the diesel fuel tax by \$0.035 starting in tax year 2017. Based on FY '15 gasoline fuel tax collections of \$511.1M, B&P estimates that 3,006.7M gallons of gasoline were taxed. Based on FY '15 diesel fuel tax collections of \$189.6M, B&P estimates there were 1,115.2M gallons of diesel taxed. Using these estimates, B&P calculates that an increase of \$0.015 on the gasoline tax will generate \$45.1M in revenue and an increase of \$0.035 on the diesel tax will generate \$39.0M in revenue.

Based on these calculations, B&P estimates the increased taxes will generate \$29.3M in new state revenue in FY '17 and \$58.6M in FY '18 and thereafter. The increased tax will also raise local funds of \$12.8M in FY '17 and \$25.6M in FY '18 and thereafter.

Officials from **Department of Transportation (MoDOT)** assume this proposal would increase the motor fuel tax on gasoline and gasohol by 1.5 cents per gallon and diesel by 3.5 cents per gallon. This proposal would also transfer control and maintenance of the state highways designated as supplementary state highways prior to January 1, 2017 to the county highway commission in which the supplementary state highway is located.

ASSUMPTION (continued)

This proposal would also distribute a portion of the motor fuel tax increase to the county highway commissions based on the lesser of the average percentage of the current state road fund as was expended on the supplementary system in the three fiscal years prior to the enactment of this legislation or the average dollar amount expended on the supplementary system in the three fiscal years prior to the enactment of this legislation.

Potential yields do not include indexing to the Consumer Price Index (CPI) and are based on fiscal year 2015 net diesel gallons taxed of 979,356,595 and net gasoline and gasohol gallons taxed of 3,029,689,472.

Fiscal Impact

<u>Yield from Increasing Gas Tax</u>	<u>1.5-Cents</u>
State (70%)	\$31,811,740
Cities (15%)	\$6,816,801
<u>Counties (15%)</u>	<u>\$6,816,801</u>
Total	\$45,445,342

<u>Yield from Increasing Diesel Tax</u>	<u>3.5-Cents</u>
State (70%)	\$23,994,237
Cities (15%)	\$5,141,622
<u>Counties (15%)</u>	<u>\$5,141,622</u>
Total	\$34,277,481

<u>Total Yield from Increasing Motor Fuel Tax</u>	
State (70%)	\$55,805,977
Cities (15%)	\$11,958,423
<u>Counties (15%)</u>	<u>\$11,958,423</u>
Total	\$79,722,823

MoDOT would transfer responsibility for 25,712 centerline miles of state supplemental highways to county governments. MoDOT would retain responsibility for the remaining 8,180 centerline miles of state-owned primary highways.

MoDOT's average annual expenses on supplemental highways over the last three fiscal years (2013-2015) was \$377 million.

ASSUMPTION (continued)

MoDOT assumes the department would make a one-time payment (\$377 million) to counties for the road ownership transfer. This is an assumption since the proposal doesn't specify if it's a one-time or annual payment.

Fiscal impact assuming a one-time payment:

Year 1: MoDOT gains \$55.8 million of fuel tax revenue & loses \$377 million to counties; cities gain \$12 million of fuel tax revenue; counties gain \$389 million of funding (\$12 million fuel tax and \$377 million one-time payment).

Year 2 and beyond: MoDOT gains \$55.8 million of fuel tax revenue, plus we would lower expenses by \$377 million per year for a total funding increase of \$432.8 million each year. Cities and counties gain \$12 million each per year from the increased fuel tax.

If it is assumed MoDOT will make an annual payment to counties, the fiscal impact will be the same as Year 1 for all years. Instead of MoDOT paying for the costs to maintain the supplemental roads, MoDOT would pay counties to do it.

Officials from the **Department of Revenue (DOR)** assume the legislation proposes to increase the motor fuel tax by one and one-half cents (\$0.015) and the diesel fuel tax by three and one-half cents (\$0.035). The legislation requires DOR to collect the proceeds from this tax and retain up to one percent for the cost of collection.

Section 32

Beginning January 1, 2017, the county highway commission assumes responsibility for the control and maintenance of supplementary highways. The highways and transportation commission distributes funds to the county highway commission.

Administrative Impact:

Business Tax / Excise Tax:

Excise tax requires one (1) Revenue Processing Technician I (Range 10, Step L) to ensure refunds are processed timely to avoid paying interest on refunds.

Rate change information would need to be sent to approximately 642 licensees at a cost of approximately \$350.

ASSUMPTION (continued)

Many consumers apply for non-highway use refunds of the motor fuel tax. There will be many instances of claims being made at different tax rates, which will require programming to the motor fuel tax system with an estimated cost of \$90,072 (OA-ITSD 1,200.96 hours @ \$75 per hour).

The legislation increases processing time of motor fuel refunds as each fuel ticket will not only need to be examined to see if it meets the one year time limit but also to identify the date of the ticket to determine the tax rate.

Generally, fuel receipts do not indicate the tax rate on them. DOR assumes that if a fuel tax invoice is reviewed that is dated on or after the effective date of the tax increase, they could actually be refunding fuel tax at the current rate when in fact the fuel was purchased at the previous tax rate. Unless all retailers and wholesalers are required to print the tax rate on the fuel receipts, it is possible DOR will be refunding revenue it did not receive. This may put a burden on retailers to comply.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb some of the costs related to this proposal and will reflect a cost of \$90,072 for IT expenses.

Officials from **St. Louis County** assume there will be a significant increase in costs if the county became responsible for maintaining all lettered routes which are currently maintained by MoDOT. The proposed tax increase would normally net the county about \$700,000 to \$1,000,000 per year in additional County-Aid Road Trust (CART) funds under the current rules. However, the change in jurisdiction over the supplemental routes in the second part of the proposed amendment would negatively impact the county's CART distribution as it would change the CART mileage ratios (rural counties would gain an even bigger share of total CART mileage compared to ours). This tax increase, in conjunction with the changes to the supplemental system, would not increase St. Louis County's CART revenue significantly. However, stating "No fiscal impact" would be not be accurate, as statewide tax increases should theoretically increase funding to St. Louis County in a proportion similar to elsewhere in the state. The funding transfer in the proposal would not cover the capital investment required by any county to maintain a larger system.

Officials from **Boone County** assume the proposal would add 220 miles of lettered routes to their system. The maintenance costs on paved roads averages \$14,225 per miles per year. This equates to an additional \$3,173 million annual cost, not counting purchases of additional equipment and hiring of staff to do the work.

ASSUMPTION (continued)

Officials from **Cass County** assume the proposal would have a negative fiscal impact to counties.

Officials from the **Jackson County Election Board, Platte County Board of Elections** and **St. Louis County Directors of Elections** each assume the proposal will not have a fiscal impact on their respective organizations.

For purposes of this fiscal note, **Oversight** will use the Department of Transportation's estimated amount of revenue generated from the motor fuel tax and will also reflect a one-time payment to counties for road ownership transfer. Oversight will range the fiscal impact of this proposal from \$0 (motor fuel tax increase does not pass a vote of the people) to the estimates provided by MoDOT.

If the joint resolution is passed by voters, MoDOT will transfer responsibilities for the lettered highways to the counties. Oversight will assume that the savings that MoDOT realizes from no longer maintaining these roads will now be spent on state-owned highways.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (6 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Cost</u> - DOR - administrative cost to implement changes	\$0 or (\$90,072)	\$0	\$0
<u>Transfer Out</u> - Office of the Secretary of State - reimbursement of local election authorities for election costs if a special election is called	\$0 or (More than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or (\$90,072) or (more than <u>\$7,100,000</u>)	<u>\$0</u>	<u>\$0</u>
ROAD FUND			
<u>Revenue</u> - increased motor fuel tax	\$0 or \$27,902,989	\$0 or \$55,805,977	\$0 or \$55,805,977
<u>Savings</u> - MoDOT - no longer maintaining "letter" roads	\$0	\$0 or \$377,000,000	\$0 or \$377,000,000
<u>Costs</u> - MoDOT - assumed to use savings from no longer maintaining letter roads to better maintain state-owned roads	\$0	\$0 or \$377,000,000	\$0 or \$377,000,000
<u>Transfer</u> - to counties for road ownership transfer	<u>(\$377,000,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE ROAD FUND	\$0 to <u>(\$349,097,011)</u>	<u>\$0 or \$55,805,977</u>	<u>\$0 or \$55,805,977</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (6 Mo.)	FY 2018	FY 2019
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue</u> - Cities (15%)	\$0 or	\$0 or	\$0 or
Increased motor fuel tax	\$5,979,212	\$11,958,423	\$11,958,423
<u>Revenue</u> - Counties (15%)	\$0 or	\$0 or	\$0 or
Increased motor fuel tax	\$5,979,212	\$11,958,423	\$11,958,423
<u>Revenue</u> - Counties	\$0 or	\$0	\$0
Payment for road ownership transfer	\$377,000,000		
<u>Transfer In</u> - Cost reimbursement from the State for special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Expense</u> - Cost for special election	\$0 or (More than \$7,100,000)	\$0	\$0
<u>Expense</u> - to Counties for maintenance of "letter" roads	<u>\$0</u>	<u>\$0 or (\$377,000,000)</u>	<u>\$0 or (\$377,000,000)</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or \$388,958,424</u>	<u>\$0 or (\$353,083,154)</u>	<u>\$0 or (\$353,083,154)</u>

FISCAL IMPACT - Small Business

Small business which pay fuel taxes would be directly affected by this proposal.

FISCAL DESCRIPTION

This proposed Constitutional Amendment, if approved by voters, increases the motor fuel tax by three and one-half cents on diesel fuel and one and one-half cents on all other motor fuel. The new motor fuel taxes would be apportioned as the rest of the state road fund moneys are currently apportioned.

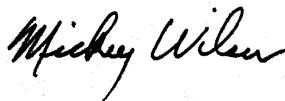
FISCAL DESCRIPTION (continued)

This proposed Constitutional Amendment would also repeal the provision which apportions funds for the supplementary state highways and replace it with procedures for the restoration of local control and maintenance of the supplementary state highways and provides funding at levels equal to the lesser of the average percentage of state road fund moneys expended on the transferred highways over the three fiscal years prior to the enactment of the proposed amendment or the average dollar amount expended on the transferred highways over the three fiscal years prior to the enactment of the proposed amendment.

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

Department of Transportation
Office of Administration
 Division of Budget and Planning
Department of Revenue
Office of Secretary of State
St. Louis County
Boone County
Platte County Board of Elections
St. Louis County Directors of Elections
Jackson County Election Board
Cass County



Mickey Wilson, CPA
Director
March 15, 2016

Ross Strobe
Assistant Director
March 15, 2016