

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4963-05
Bill No.: SCS for SB 734
Subject: Taxation and Revenue - General, Motor Fuel
Type: Original
Date: May 8, 2018

Bill Summary: This proposal increases the motor fuel tax from \$0.17 a gallon to \$0.27 a gallon.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2026)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2026)
State Road Fund	\$0	\$0 or \$292,632,732	\$0 or \$292,707,172	\$0 or \$293,203,411
Total Estimated Net Effect on Other State Funds	\$0	\$0 or \$292,632,732	\$0 or \$292,707,172	\$0 or \$293,203,411

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2026)
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2026)
State Road Fund	0	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
Total Estimated Net Effect on FTE	0	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE

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 2019	FY 2020	FY 2021	Fully Implemented (FY 2026)
Local Government	\$0	\$0 or \$127,800,000	\$0 or \$127,800,000	\$0 or \$128,000,000

FISCAL ANALYSIS

ASSUMPTION

§142.803 Motor Fuel Tax

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal increases the motor fuel (gasoline and diesel) tax by \$0.10 per gallon. This proposal requires voter approval, to be held at the November 2018 general election. If approved by voters, the fuel tax increase would begin July 1, 2019. This section would also increase the alternative fuel taxes from compressed natural gas (CNG), liquefied natural gas (LNG), and propane from \$0.17 to \$0.27 beginning 1/1/2026.

This proposal requires that the state portion of revenues generated by this proposal be used for the actual costs of the highway patrol. This proposal also requires that all motor and alternative fuels be taxed at the same rate beginning 1/1/2026.

Based on FY 2017 motor fuel tax collections of \$715.0 million, B&P estimates that 4,205.9 million gallons of motor fuel were taxed. Therefore, B&P estimates the increased motor fuel tax will increase the State Road Fund by \$292.8 million in FY 2020 and thereafter. The increased tax will also raise local funds of \$127.8 million in FY 2020 and thereafter.

Based on FY 2017 collections of \$183,000 for compressed natural gas/propane and \$141,000 for liquefied natural gas, B&P estimates that a total increase of \$0.10 on the alternative fuels could generate up to \$0.6 million in revenue, once fully implemented in FY 2027. B&P notes that under this proposal, taxpayers could still purchase an alternative fuel decal rather than pay the fuel tax at the pump.

Therefore, B&P estimates that this proposal will generate \$293.3 million once fully implemented for the actual costs of the highway patrol. Once fully implemented, this proposal will also generate \$128.0 million for locals. B&P notes that during FY 2017, the Highway Patrol was appropriated \$335.4 million of which \$33.9 million came from General Revenue, \$238.4 million came from the Highway Fund, \$27.2 million came from Federal Funds, and \$36.0 million came from other funds.

Officials at the **Missouri Department of Transportation** defer to the Department of Revenue for fiscal impact.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume a tax is levied and imposed on all motor fuel used or consumed in this state as follows:

1. Motor fuel, seventeen cents per gallon until June 30, 2019. For all fiscal years beginning on or after July 1, 2019, such tax shall be twenty-seven cents per gallon. The state portion of the revenue generated by the increase in the rate of tax beginning July 1, 2019, shall be used for the actual cost of the state highway patrol in administering and enforcing any state motor vehicle laws and traffic regulations.
2. Compressed natural gas fuel, five cents per gasoline gallon equivalent until December 31, 2019, eleven cents per gasoline gallon equivalent from January 1, 2020, until December 31, 2024, seventeen cents per gasoline gallon equivalent from January 1, 2025 until December 31, 2025, and then twenty-seven cents per gasoline gallon equivalent thereafter.
3. Liquefied natural gas fuel, five cents per diesel gallon equivalent until December 31, 2019, eleven cents per diesel gallon equivalent from January 1, 2020, until December 31, 2024, seventeen cents per diesel gallon equivalent from January 1, 2025, until December 31, 2025, and then twenty-seven cents per diesel gallon equivalent thereafter.
4. Propane gas fuel, five cents per gallon until December 31, 2019, eleven cents per gallon from January 1, 2020, until December 31, 2024, seventeen cents per gallon from January 1, 2025, until December 31, 2025, and then twenty-seven cents per gallon thereafter.

Notwithstanding any provision of law to the contrary, beginning on January 1, 2026, all motor fuels and alternative fuels, including, but not limited to, gasoline, diesel fuel, electricity, hydrogen, propane, compressed natural gas, and liquefied natural gas, shall be taxed at the same rate. The Department of Agriculture, in cooperation with the Department of Revenue, shall where necessary, promulgate a rule on or before December 31, 2023, to implement the provisions of this subsection.

ASSUMPTION (continued)

Fiscal Year	Increased Revenue
FY 2019	\$0
FY 2020	\$287,739,558
FY 2021	\$287,762,244
FY 2022	\$287,762,244
FY 2023	\$287,762,244
FY 2024	\$287,762,244
FY 2025	\$287,898,367
FY 2026	\$288,488,231

DOR will require form changes and programming to implement the provisions of this legislation. The programming changes are estimated to cost \$75,168 (\$75 hour x 1,002.24 hours). The Excise Tax Section will require one Revenue Processing Technician I (26,340) to review the increased number of motor fuel refund claims. The Excise Tax Section will require one Revenue Processing Technician I (\$26,340) for increased reporting and registration that will be required.

Oversight will show the FTE and computer costs in the fiscal note.

Officials at the **Missouri Highway Patrol (MHP)** assume the proposed legislation would generate approximately \$411 million in additional Highway revenue, of which \$288 million would go to the Patrol and \$123 million would be for municipal and county road projects. In its FY 2018 budget, the Patrol currently has approximately \$240 million in Highway funding, so this would be an additional \$48 million in Highway funding that could be available to the Patrol, subject to appropriation. As stated in the legislation, it is critical that the money be used "for the actual cost of the state highway patrol in administering and enforcing any state motor vehicle laws and traffic regulations."

Oversight notes that currently the Missouri Highway Patrol (MHP) receives some of the funding collected from the State Road Fund. This proposal creates additional funding for the Missouri Highway Patrol so that all money collected from the increase in the motor fuel tax would go to the MHP.

ASSUMPTION (continued)

The MHP received the following appropriation authority in HB 8 for FY 2018 from the State Road Fund.

\$ 6,568,077 for MHP administration
 \$87,566,159 for MHP fringe benefits
 \$78,957,722 for the enforcement program
 \$ 9,100,000 statewide interoperable communication system
 \$ 4,837,264 for gasoline expenses of patrol cars
 \$ 6,573,075 purchase of vehicles, aircraft and watercraft
 \$ 5,088,123 crime lab
 \$ 1,418,298 law enforcement academy
 \$12,133,703 vehicle & driver safety program
 \$ 100,000 refunding motor vehicle inspection stickers
 \$212,342,421 TOTAL

Oversight notes this portion of the proposal would increase the fuel tax from \$0.17 per gallon to \$0.27 per gallon starting July 1, 2019 (FY 2019) on all types of fuel. This chart shows the amount of tax collected and number of gallons sold on motor fuel each of the last five fiscal years.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Motor Fuel Tax Collected	\$726,918,660	\$704,792,974	\$704,921,584	\$708,241,405	\$708,063,819
Gallons	4,270,109,765	4,145,841,024	4,146,597,553	4,166,125,912	4,165,081,288

Source: Department of Revenue

Oversight notes the five year average number of gallons of motor fuel sold is 4,178,751,108. Oversight notes that per the Department of Revenue, the money in the Motor Fuel Tax Fund is distributed 12% to counties, 15% to cities and the remaining 73% to the State Road Fund.

This proposal would begin July 1, 2019 after a successful vote of the people. **Oversight** will show the impact as \$0 (people don't approve the increase) to the estimates provided by B&P.

Officials at the **Office of the Secretary of State (SOS)** assume that 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.

ASSUMPTION (continued)

Unless a special election is called for the purpose, Referendums are submitted to the people at the next general election. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people. If a special election is called to submit a Referendum to a vote of the people, Section 115.063.2 RSMo. requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

The Secretary of State's office 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 Section 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. Through FY 2013, the appropriation had 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 2015, the General Assembly changed the appropriation so that it was no longer an estimated appropriation. In FY 2017 the Secretary of State's Office was appropriated \$2.6 million to publish the full text of the measures. In FY 2017, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$2.4 million to publish (an average of \$400,000 per issue). 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 notes this proposal requires the election to be held in November 2018 at the general election. Therefore, Oversight will not show any special election costs in this proposal.

Officials from the **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

ASSUMPTION (continued)

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.

FISCAL IMPACT -
State Government

	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2026)
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**STATE ROAD
 FUND**

Additional Revenue
 given to MHP - from
 increase in the fuel
 tax from 17 to 27
 cents §142.803

	\$0	\$0 or 292,800,000	\$0 or \$292,800,000	\$0 or \$293,300,000
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Cost - DOR

Personal Service	\$0	\$0 or (\$53,207)	\$0 or (\$53,739)	\$0 or (\$56,480)
Fringe Benefits	\$0	\$0 or (\$37,378)	\$0 or (\$37,536)	\$0 or (\$38,351)
Equipment & Expenses	\$0	\$0 or (\$1,515)	\$0 or (\$1,553)	\$0 or (\$1,758)
Computer and Mailing Expenses	<u>\$0</u>	<u>\$0 or (\$75,168)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>\$0</u>	<u>\$0 or (\$167,268)</u>	<u>\$0 or (\$92,828)</u>	<u>\$0 or (\$96,589)</u>
FTE Change - DOR	0 FTE	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE

**ESTIMATED NET
 EFFECT ON THE
 STATE ROAD
 FUND**

	<u>\$0</u>	<u>\$0 or \$292,632,732</u>	<u>\$0 or \$292,707,172</u>	<u>\$0 or \$293,203,411</u>
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Estimated Net FTE
 Change on the
 General Revenue
 Fund

	0 FTE	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
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<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2026)
LOCAL POLITICAL SUBDIVISION FUNDS				
<u>Additional Revenue</u> Cities and Counties - increase in the fuel tax from 17 to 27 cents §142.803	<u>\$0</u>	<u>\$0 or \$127,800,000</u>	<u>\$0 or \$127,800,000</u>	<u>\$0 or \$128,000,000</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS	<u>\$0</u>	<u>\$0 or \$127,800,000</u>	<u>\$0 or \$127,800,000</u>	<u>\$0 or \$128,000,000</u>

FISCAL IMPACT - Small Business

Small businesses that purchase motor fuel may be negatively impacted.

FISCAL DESCRIPTION

Beginning July 1, 2019, this act provides that the rate of tax on motor fuel shall be increased from \$0.17/gallon to \$0.27/gallon over a period of four years, with an annual increase of two and one-half cents per gallon. The state portion of the revenue generated from such increases shall be used for the actual cost of the State Highway Patrol in administering and enforcing any state motor vehicle laws and traffic regulations.

This act also provides that, beginning January 1, 2026, the rate of tax on alternative fuels shall be identical to the rate of tax on motor fuel.

This act contains a referendum clause. This act shall only become effective upon the passage and approval by the voters of a constitutional amendment allowing the General Assembly to provide for the funding of the Highway Patrol by law.

FISCAL DESCRIPTION (continued)

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 Revenue
Missouri Department of Transportation
Missouri Highway Patrol
Office of Administration
 Division of Budget and Planning
Office of the Secretary of State

Ross Strope



Acting Director
May 8, 2018