

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1860-01  
Bill No.: SB 430  
Subject: Motor Fuel; Department of Revenue; Taxation and Revenue - General;  
Department of Transportation; Transportation  
Type: Original  
Date: March 13, 2019

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Bill Summary: This proposal increases the motor fuel tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Fully Implemented (FY 2023)</b>
General Revenue	(Could exceed \$195,997)	(Could exceed \$198,897)	(Could exceed \$203,810)	(Could exceed \$211,496)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Could exceed \$195,997)</b>	<b>(Could exceed \$198,897)</b>	<b>(Could exceed \$203,810)</b>	<b>(Could exceed \$211,496)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Fully Implemented (FY 2023)</b>
State Road Fund (0320)	\$59,637,210	\$119,274,420	\$178,911,631	\$193,710,383
Highway Fund (0644)	(\$31,842)	(\$63,683)	(\$95,525)	(\$127,367)
Gaming Commission (0286)	(\$4,246)	(\$8,491)	(\$12,737)	(\$16,983)
Conservation Commission (0609)	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$59,501,122</b>	<b>\$119,102,246</b>	<b>\$178,703,369</b>	<b>\$193,466,033</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Fully Implemented (FY 2023)</b>
Federal Funds	(\$2,123)	(\$4,246)	(\$6,368)	(\$8,491)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>(\$2,123)</b>	<b>(\$4,246)</b>	<b>(\$6,368)</b>	<b>(\$8,491)</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Fully Implemented (FY 2023)</b>
General Revenue	2 FTE	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 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>				
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Fully Implemented (FY 2023)</b>
<b>Local Government</b>	<b>\$26,087,830</b>	<b>\$52,175,660</b>	<b>\$78,263,490</b>	<b>\$84,785,447</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume Section B contains an emergency clause allowing for the enactment of §142.803 to become effective immediately upon passage and approval. For the purpose of this fiscal note, B&P will assume that this proposal will become effective July 1, 2019. Depending on the date the bill is passed and delivered to the Governor, the effective date could be sooner.

B&P notes, however, that this proposal increases taxes beyond the limit allowed under the Missouri Constitution Article X, Section 18(e). Depending on the passage of other proposals that impact the calculation under Article X, Section 18(e), this proposal may have to go to a public vote. If this were to occur, enactment could be significantly later than the July 1, 2019 assumption B&P has used for this fiscal note.

Section 142.803 increases the tax on motor fuels from the current \$0.17 per gallon to \$0.19 effective immediately upon passage and approval of the proposal. After twelve months, the motor fuel tax shall be increased to \$0.21. After twenty-four months the motor fuel tax shall be increased to \$0.23. After thirty-six months the fuel tax shall be adjusted annually for inflation.

Inflation shall be calculated using the average CPI for the twelve month period ending three months prior to the required adjustment compared to the average CPI for the twelve month period beginning nine months after the effective date of this proposal.

Table 1 shows the current and proposed tax rates for motor fuels.

Tax Year	Gas/Diesel Current Law	Gas/Diesel Proposed
July 2019 - June 2020	\$0.17	\$0.19
July 2020 - June 2021	\$0.17	\$0.21
July 2021 - June 2022	\$0.17	\$0.23
July 2022	\$0.17	\$0.23 + inflation

Based on FY 2018 motor fuel tax collections of \$729.9 million, B&P estimates that 4,293.6 million gallons of motor fuel were taxed. Using this estimate, B&P calculates that a \$0.02 increase on the motor fuel tax will generate \$85.9 million in revenue.

For the purpose of this fiscal note, B&P will reflect the first inflation adjustment in July 2022 by utilizing the Federal Reserve's 2% inflation target.

ASSUMPTION (continued)

Therefore, B&P estimates the increased motor fuel tax will generate \$59.8 million for the State Road Fund and \$26.1 million for local funds in FY 2020. By FY 2023, B&P estimates that this proposal will generate \$194.3 million for the State Road Fund and \$84.8 million for local funds. B&P notes that revenues will increase incrementally beyond FY 2023 depending on future inflation. Table 2 shows the estimate revenue impact by fiscal year.

Fiscal Year	State Road Fund	Local Funds	Total
2020	\$59.8	\$26.1	\$85.9
2021	\$119.6	\$52.2	\$171.8
2022	\$179.4	\$78.3	\$257.7
2023	\$194.3	\$84.8	\$279.1

Officials at the **Department of Revenue (DOR)** assume §142.803 increases the motor fuel tax from seventeen cents per gallon to nineteen cents per gallon until twelve months from the effective date of this act. Beginning twelve months from the effective date of this act the motor fuel tax shall be twenty-one cents per gallon until twenty-four months from the effective date of this act. Beginning twenty-four months from the effective date of this act the motor fuel tax shall be twenty-three cents per gallon until thirty-six months from the effective date of this act. Beginning thirty-six months from the effective date of this act, the motor fuel tax shall be adjusted annually by the percent increase in inflation.

Since the effective date of this act is not specifically stated, the Department assumes the effective date to be August 28, 2019.

The Department utilized total motor fuel collections for FY 2018 (\$731,581,385) at a rate of seventeen cents per gallon to determine the impact to Total State Revenue.

		FY20	FY21	FY22	FY23	FY24
		19¢	21¢	23¢	23.46¢	23.92¢
Total Collection	100%	\$ 71,723,665	\$ 157,792,064	\$ 243,860,462	\$ 274,701,638	\$ 294,827,298
		FY20	FY21	FY22	FY23	FY24
County Aid Road Trust Fund	15%	\$ 10,758,549.79	\$ 23,668,809.53	\$ 36,579,069.27	\$ 41,205,245.68	\$ 44,224,094.75
Counties and Cities and Villages	15%	\$ 10,758,549.79	\$ 23,668,809.53	\$ 36,579,069.27	\$ 41,205,245.68	\$ 44,224,094.75
State Road Fund	70%	\$ 50,206,565.66	\$ 110,454,444.46	\$ 170,702,323.26	\$ 192,291,146.49	\$ 206,379,108.82

**DOR's** Excise Tax Section requires 1 Revenue Processing Technician I (\$24,360) for the increased review of the motor fuel refund claims and requires 1 Revenue Processing Technician I (\$24,360) for the increase in reporting and registration what would be required. Form changes

ASSUMPTION (continued)

and system changes may be required. Funds may be required or requested in order to notify approximately 450 licensees of annual rate changes.

**Oversight** will show the DOR FTE in the fiscal note.

**Oversight** will use B&P's revenue estimate in the fiscal note.

Officials at the **Missouri Highway Patrol (MHP)** assume this proposal would increase the costs of the MHP. The following increase in fuel costs to the Patrol are based on the Patrol's FY 2018 fuel usage of 2,122,767 gallons of fuel.

First twelve months (\$0.02 per gallon increase) - \$42,457 additional expenditure  
Second twelve months (\$0.04 per gallon increase) - \$84,911 additional expenditure  
Third twelve months (\$0.06 per gallon increase) - \$127,367 additional expenditure

The Patrol buys fuel from a variety of funds, broken down as follows:

General Revenue:	10%
Highway:	75%
Gaming:	10%
Federal:	5%

The Patrol assumes this would have an effective date of July 1, 2019, since the legislation mentions it being an emergency act and in full force upon passage and approval. The legislation also states that beginning 36 months from its effective date, the tax rate will be adjusted annually for inflation (which is currently running at about 2.9%).

Officials at the **Missouri Department of Transportation (MODOT)** defers to DOR for the revenue impact. MODOT states they use \$7,370,000 gallons of gas annually at the \$.02, it would cost the State Road Fund \$147,400 per year in additional fuel tax.

Officials at the **Department of Conservation (MDC)** assume an unknown negative fiscal impact on the Department but less than \$100,000 annually due to increase in costs.

**Oversight** will show the MDC costs out of the Conservation Commission Fund.

ASSUMPTION (continued)

**Oversight** contacted the Office of Administration about the state's fleet vehicles. The Division of General Services maintains the state's fleet vehicles. We were not able to get the information on the number of gallons they use annually but note that many state funds would be impacted. Oversight, for the simplicity of the fiscal note, will show the impact to General Revenue as Could Exceed \$100,000 annually.

**Oversight** confirmed with the DOR that all the state agencies pay the motor fuel tax and therefore we will show the impact to the funds of the increased tax.

**Oversight** notes this proposal contains an emergency clause. For the simplicity of the fiscal note we will assume the effective date is July 1, 2019.

**Oversight** notes this chart shows the amount of tax collected and number of gallons sold on motor fuel each of the last five fiscal years.

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Motor Fuel Tax Collected	\$710,035,563	\$734,682,957	\$725,918,660	\$704,792,974	\$704,921,584
Gallons	4,176,679,783	4,321,664,453	4,270,109,765	4,145,841,024	4,146,597,553

Source: Department of Revenue's Annual Report

**Oversight** has inquired from the DOR why they used \$731,581,385 for FY 2018 vs the amount reported in their annual report. DOR provided to Oversight the FY 2017 and FY 2018 gallons taxed of each type of fuel. Oversight therefore, will use the estimates provided by B&P as we were able to verify their calculations.

**Oversight** currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

**Oversight** notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax

ASSUMPTION (continued)

filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
<b>GENERAL REVENUE</b>				
<u>Cost - DOR</u> §142.803 p. 5				
Personal Service	(\$48,720)	(\$49,207)	(\$49,699)	(\$52,234)
Fringe Benefits	(\$27,457)	(\$40,217)	(\$40,367)	(\$41,140)
Equip & Exp	<u>(\$15,574)</u>	<u>(\$982)</u>	<u>(\$1,007)</u>	<u>(\$1,139)</u>
<u>Total Cost -</u>	(\$91,751)	(\$90,406)	(\$91,073)	(\$94,513)
FTE Change	2 FTE	2 FTE	2 FTE	2 FTE
 <u>Revenue Reduction -</u> MHP §142.803 increased motor fuel tax paid p. 6	(\$4,246)	(\$8,491)	(\$12,737)	(\$16,983)
 <u>Revenue Reduction -</u> OA §142.803 increased motor fuel tax paid p. 6	(Could exceed <u>\$100,000</u> )	(Could exceed <u>\$100,000</u> )	(Could exceed <u>\$100,000</u> )	(Could exceed <u>\$100,000</u> )
 <b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	 <b><u>(Could exceed \$195,997)</u></b>	 <b><u>(Could exceed \$198,897)</u></b>	 <b><u>(Could exceed \$203,810)</u></b>	 <b><u>(Could exceed \$211,496)</u></b>
 Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE	2 FTE



FISCAL IMPACT -  
State Government  
 (continued)

Fully  
 Implemented  
 (FY 2023)

FY 2020                      FY 2021                      FY 2022

**STATE ROAD  
 FUND**

Additional Revenue  
 - MODOT §142.803  
 increase the motor  
 fuel tax p. 5

\$59,784,610              \$119,569,220              \$179,353,831              \$194,299,983

Revenue Reduction -  
 MODOT §142.803  
 increased motor fuel  
 tax paid p. 6

(\$147,400)              (\$294,800)              (\$442,200)              (\$589,600)

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

**\$59,637,210**              **\$119,274,420**              **\$178,911,631**              **\$193,710,383**

**STATE  
 HIGHWAY FUND**

Revenue Reduction -  
 MHP §142.803  
 increased motor fuel  
 tax paid p. 6

(\$31,842)              (\$63,683)              (\$95,525)              (\$127,367)

**ESTIMATED NET  
 EFFECT ON THE  
 STATE  
 HIGHWAY  
 FUNDS**

**(\$31,842)**              **(\$63,683)**              **(\$95,525)**              **(\$127,367)**

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
 <b>GAMING COMMISSION FUND</b>				
<u>Revenue Reduction -</u> MHP §142.803 increased motor fuel tax paid p. 6	<u>(\$4,246)</u>	<u>(\$8,491)</u>	<u>(\$12,737)</u>	<u>(\$16,983)</u>
<b>ESTIMATED NET EFFECT ON GAMING COMMISSION FUNDS</b>	<b><u>(\$4,246)</u></b>	<b><u>(\$8,491)</u></b>	<b><u>(\$12,737)</u></b>	<b><u>(\$16,983)</u></b>
 <b>FEDERAL FUNDS</b>				
<u>Revenue Reduction -</u> MHP §142.803 increased motor fuel tax paid p. 6	<u>(\$2,123)</u>	<u>(\$4,246)</u>	<u>(\$6,368)</u>	<u>(\$8,491)</u>
<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<b><u>(\$2,123)</u></b>	<b><u>(\$4,246)</u></b>	<b><u>(\$6,368)</u></b>	<b><u>(\$8,491)</u></b>

FISCAL IMPACT -  
State Government  
 (continued)

Fully  
 Implemented  
 (FY 2023)

FY 2020                      FY 2021                      FY 2022

**CONSERVATION  
 COMMISSION  
 FUND**

Revenue Reduction -  
 MDC §142.803  
 increased motor fuel  
 tax paid p. 6

(Less than  
\$100,000)

(Less than  
\$100,000)

(Less than  
\$100,000)

(Less than  
\$100,000)

**ESTIMATED NET  
 EFFECT ON THE  
 CONSERVATION  
 COMMISSION  
 FUND**

**(Less than  
\$100,000)**

**(Less than  
\$100,000)**

**(Less than  
\$100,000)**

**(Less than  
\$100,000)**

FISCAL IMPACT -  
 Local Government

Fully  
 Implemented  
 (FY 2023)

FY 2020                      FY 2021                      FY 2022

**LOCAL  
 POLITICAL  
 SUBDIVISIONS**

Additional Revenue  
 to Cities (15%) &  
 Counties (15%) from  
 increasing the tax  
 from 17 to 23 cents  
 per gallon §142.803,  
 then adjusting for  
 inflation p. 5

\$26,087,830                      \$52,175,660                      \$78,263,490                      \$84,785,447

**ESTIMATED NET  
 EFFECT ON  
 LOCAL  
 POLITICAL  
 SUBDIVISIONS**

\$26,087,830                      \$52,175,660                      \$78,263,490                      \$84,785,447

FISCAL IMPACT - Small Business

Small businesses the purchase fuel will be impacted by the increasing price.

FISCAL DESCRIPTION

Currently there is a 17 cent per gallon tax on motor fuel. This act increases the tax by two cents upon enactment, by another two cents one year after enactment, and by another two cents two years after enactment. Once fully phased-in, the rate of tax will be 23 cents per gallon. Beginning three years after the effective date of the act, the tax will be adjusted annually for inflation.

This act contains an emergency clause.

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 Natural Resources  
Department of Revenue  
Missouri Department of Transportation  
Missouri Highway Patrol  
Office of Administration Division of Budget and Planning



Kyle Rieman  
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March 13, 2019

Ross Strobe  
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March 13, 2019