

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2936-03
Bill No.: SB 710
Subject: Transportation; Roads and Highways; Transportation Dept.; Taxation and Revenue - General; Highway Patrol; Revenue Dept.; Licenses - Motor Vehicle
Type: Original
Date: February 5, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	\$14,599,267	(\$42,252,940)	(\$39,941,232)
State Highway Fund	(\$79,532)	(\$28,042)	(\$56,084)
State Gaming Fund	(\$1,539)	(\$3,078)	(\$6,156)
State Road Fund	\$134,511,994	\$368,879,618	\$372,935,238
State Transportation Fund	\$74,701,815	\$154,338,580	\$159,431,030
Total Estimated Net Effect on <u>All</u> State Funds	\$223,732,005	\$480,934,138	\$492,362,796

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$50,785,152	\$110,270,852	\$111,752,275

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

FISCAL ANALYSIS

ASSUMPTION

Officials with the **State Tax Commission (TAX), Department of Public Safety (DPS), State Auditor's Office (SAU), Department of Public Safety – Division of Water Safety (DWS)** assume the proposal will have no fiscal impact to their agency.

Officials with the **Department of Natural Resources (DNR)** assumed increased costs would be realized from the increase in the motor fuel tax. In addition, beginning with the first fiscal year following voter approval of this act and for all fiscal years thereafter, the total amount of appropriations from the state highways and transportation department fund for DNR shall be zero.

DNR also assumes the department's average annual fuel consumption for its vehicle fleet is 590,000 gallons. Assuming the department's current rate of fuel consumption continues indefinitely into the future, an increase in the motor fuel tax from \$.17 to \$.19 per gallon would cost the department an additional \$11,800 annually. An increase in the motor fuel tax to \$.21 two years following the initial increase in the motor fuel tax would cost the department an additional \$23,600 annually. An increase in the motor fuel tax \$.23 four years following the initial increase in the motor fuel tax would cost the department an additional \$35,400 annually.

DNR notes their department's FY 02 core budget amount appropriated from the State Highway Fund is \$80,577. This bill would reduce those funds to zero. The department uses these funds to complete reviews of environmental impact statements for transportation projects. **Oversight** assumes these appropriations would be made up with General Revenue moneys.

Oversight assumes any additional costs incurred by the increase in motor fuel tax could be absorbed by DNR's annual budget.

Officials with the **State Treasurer's Office (STO)** note the proposal states that this act shall become effective after voter approval. This proposal raises various taxes and removes agency funding from the Highways and Transportation Fund(with the exception of the Highway Patrol).

ASSUMPTION (continued)

The State Treasurer's Office (STO) currently receives an appropriation of \$477,230 personal service dollars from the Highways and Transportation Fund. STO calculated for FY 2003 budget request: Core \$458,699, 2% within grade of \$9,174 and a 1 step grade advancement of \$9,357. These appropriations from the Highways and Transportation Fund would need to be replaced with General Revenue appropriations.

Since this proposal has a referendum clause the revenue impact of this proposal would be reflected in the fiscal year following voter approval.

Officials with the **Department of Transportation (MoDOT)** assume the proposal increases sales and use taxes, motor vehicle license fees, and motor fuel taxes. The legislation also eliminates appropriations currently made to other state agencies from highway funds, with the exception of appropriations to the Missouri Highway Patrol. The legislation is favorable to MoDOT, providing additional funding for much-needed transportation improvements. If additional funding is received, MoDOT may require additional employees and incur associated

additional expense and equipment and/ or capital improvement and rental costs if necessary to manage the additional workload resulting from the increased funding.

MoDOT revenue gain begins January 1, 2003; 4.5% motor vehicle sales & use tax growth in FY 03 with 4% growth in subsequent years; 3.5% general state sales tax growth in FY 03 with 4% growth in subsequent years; 1.5% motor vehicle license revenue growth; 1.2% motor fuel tax growth; 3% Highway Patrol appropriation growth; other state agency cap amount is \$192 million.

The growth rates for sales and use taxes have been revised to match the growth rates provided by the Office of Administration (OA). In addition, the estimate for the limit on appropriations to other state agencies has been changed from \$190 million to \$192 million to match OA's estimate. However, MoDOT believes the limit on appropriations to other state agencies is not clearly defined and falls somewhere within the \$185 million to \$192 million range.

Oversight assumes that the amount of Highway Fund Appropriations to other agencies that is being eliminated is the same amount that MoDOT shows as a savings to the Road Fund and is shown as a cost to the General Revenue Fund in the same amount.

Oversight assumes the DOR's projection of Motor Vehicle Registration Fee Revenue to be more reasonable than MoDOT's projection and therefore incorporated the DOR's revenue impact for this item into MoDOT's total State Road Fund projection.

Officials with the **Missouri State Highway Patrol (MHP)** note that the proposed legislation

ASSUMPTION (continued)

would result in fiscal impact for the Patrol's Motor Equipment Division because of the increase in the state fuel tax. According to the Motor Equipment Division, over the past three years, the average amount of motor fuel consumed in Highway Patrol vehicles was 1,709,873 gallons. Based on this average, the estimated increased fuel cost for the Patrol is as follows.

Year one: $1,709,8783 \times .02 = \$17,099$
Year two: $1,709,8783 \times .02 = \$34,198$
Year three: $1,709,873 \times .04 = \$68,396$
Year four: $1,709,873 \times .04 = \$68,396$
Year five: $1,709,873 \times .06 = \$102,592$
Year six: $1,709,873 \times .06 = \$102,592$
Subsequent years = \$102,592

Based on current gasoline appropriations, the Highway fund is 82% of the total amount of appropriations, GR is 9% of the total amount and Gaming is 9% of the total amount. Since the proposed legislation would not go into effect until the first quarter following voter approval, the amount for FY2003 is calculated to show half of the fiscal year.

The increase in each year would be:	Highway (82%)	General Revenue (9%)	Gaming (9%)
Year one:	\$14,021	\$1,539	\$1,539
Year two:	\$28,042	\$3,078	\$3,078
Year three:	\$56,084	\$6,156	\$6,156
Year four:	\$56,084	\$6,156	\$6,156
Year five:	\$84,126	\$9,233	\$9,233
Year six:	\$84,126	\$9,233	\$9,233
Subsequent years:	\$84,126	\$9,233	\$9,233

According to the Patrol's Budget and Procurement Division, the Patrol would no longer be capped at the FY01 appropriations it received from Highway funds. Overall, this is not a fiscal impact, and would only be an issue as far as what funding sources might be available to the Patrol in future years. Also, the proposed legislation would result in an increase in Total State Revenue because the increase in the gas tax, as well as the increase in annual registration fees for motor vehicles, would probably generate more revenue for the state.

Officials with the **Department of Economic Development – Division of Motor Carrier and Vehicle Safety** assumes that appropriation amounts currently authorized to MCRS from the Highway Fund will remain unchanged, with the only difference being the source of funding for the appropriation. This consistency in the appropriation amounts was used as the basis for projecting that there will be no decrease in MCRS's ability to leverage federal monies, which require a 20 percent state match (currently provided with Highway Funds). Barring appropriation authority to the contrary, it was assumed that the inability of MCRS to use Highway Funds would

ASSUMPTION (continued)

also include an inability to access the Grade Crossing Safety Account (GCSA) funds, in particular the \$100,000 currently available through an appropriated transfer for use by the Railroad Safety Section in the event railroad assessment funds do not cover eligible expenses. Failure to access the GCSA, when needed and appropriate for administrative expenses, could result in the requirement for a reduction in staff for the Railroad Safety Section. An assumption was made that the appropriated transfer from the GCSA to the Railroad Expense Fund would be shifted to General Revenue from the Highway Fund.

DED – MCRS also assumes that the appropriated transfer from Highway Funds to the DED Admin Fund would be shifted to General Revenue. Amounts shown reflect FY 2002 appropriation amounts, adjusted by 2.5 percent for each fiscal year, and do not reflect any decrease in federal funds based on the assumption that MCRS will be able to meet match requirements to obtain maximum federal funding levels. The amount shown for FY 2004 reflects FY 2002 appropriations multiplied by 1.025 (FY 2003 amount), then multiplied again by 1.025 (FY 2004 amount). As applicable, the FY 2005 amount is arrived at by multiplying the FY 2004 amount by 1.025. Should the amount of funding available through the general sales tax increase be insufficient to cover current MCRS appropriation levels, then a revised fiscal note would be required. Railroad Safety Funds, with the exception of the GCSA transfer amount, will be unaffected by this fiscal note. A total of 11.55 FTE are currently funded by federal funds through the MCSAP grant. If match funds (either Highway or General Revenue) are not available, these staff positions will need to be eliminated. It is assumed that the General Revenue pick-up of costs will allow for retention of these positions.

Oversight notes that **DED** currently receives Core funding for personal services and expense and equipment for 53.45 FTE (Highway) and authority to transfer up to \$100,000 annually from the Grade Crossing Safety Account (a portion of the Highway Fund) to the Railroad Expense Account.

Oversight assumes that if MCRS is unable to access the entire \$100,000 of GCSA funds, it still should receive a amount reduced proportional to any decrease in appropriations formerly received via the highway fund. Therefore, although MCRS may not have access to the full \$100,000 amount of GCSA funds, complete funding deficiency from this account would not occur.

Oversight assumes that any lost Highway Fund appropriation for DED will be compensated via General Revenue expenses.

Officials with the **Department of Revenue (DOR)** assume the following:

ADMINISTRATIVE IMPACT

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ASSUMPTION (continued)

Division of Taxation

The Business Tax section will have to notify 150,000 businesses of the general revenue tax increase. There will also need to be notification letters sent to the 800 motor fuel licensees and to all cities and counties. These notifications will be implemented through updating current forms and billing letters. The Division of Taxation will not request additional funds for the forms and billing letters; however, will require postage of \$40,414 for FY03, \$40,414 for FY05 and \$40,414 for FY07.

Information Technology Bureau (Taxation)

The MITS system will need program changes, including testing requirements to ensure proper tax rates have been applied to the system, produce a mass mailing utilizing a new form letter to inform taxpayers of the increase in the state sales tax rate and provide new rate card. These changes are all table rate changes and can be modified with minimal impact.

Division of Motor Vehicle and Drivers Licensing

Driver and Vehicle Service Bureau

This proposal will require various changes to the Driver and Vehicle Services Bureau policies, procedures, forms and postage. The DVSB will incur cost in the amount of \$25,942 to ensure these changes on incorporated. (This also includes a forms destruction cost do to current forms inventory and implementation date of this proposal of \$4,412.)

The sales tax increase will also generate rejects for the improper amount of tax being submitted. This will have **unknown impact** as the DVSB can not determine the number of actual rejects this proposal will generate.

Information Technology Bureau

Programming modifications will need to be made to our General Registration System and the Field Automated System for Titling and Registration. Programming modifications for the in-house General Registration System will require \$5,769.

A cost analysis was requested from the current contract vendor, UNISYS, Inc. for programming changes necessary to the FASTR system. The vendor indicated that the estimated cost of programming would be \$6,000.

Highway Reciprocity Commission

The current system used in the Highway Reciprocity Commission to collect fees and generate distributions for interstate use of highways will require completed programming issues that cannot be accomplished with existing personnel. To effectively implement this legislation the HRC will require two Senior Programmers for 200 hours at a rate of \$71 per hour. HRC will incur a cost of \$28,400 to implement this legislation.

ASSUMPTION (continued)

REVENUE IMPACT

Shift from Highway Funds to General Revenue or other fund as appropriated by General Assembly. For purposes of this fiscal note, the department of revenue assumes the current highway funds will be allocated from General Revenue. This will require a total budgetary shift for personal services and E&E from highway funds to GR as indicated below:

	FY03 (6 mos)	FY04	FY05
General Revenue (decrease)	\$0	(\$47,215,394)	\$0
Highway Fund - increase	\$0	\$47,215,394	

Vehicle Registration Fee Increases

There would be an increase in revenue from the increase registration fees for the different classes of motor vehicles. The revenue increase is estimated based on statistics from our General Registration System. The estimated revenue impact is as follows:

FY03 (6 mos)	FY04	FY05
\$53,101,109	\$107,269,405	\$108,342,099

Highway Reciprocity Commission

This proposal also increases vehicle registration fees in coordination with the Highway Reciprocity Commission, Interstate Vehicles. The Highway Reciprocity Commission provided the following totals based on the proposed increases to interstate vehicles. The revenue increase for registration fees will not be realized until FY04 because HRC registrations are all due in

December. Since the effective date of this language is January 1, 2003, the majority of new registration fees would not be realized until December 2003 (FY04).

Total Increase to Revenue based on increased registration fees, trip permits and hunter permits.

FY03	FY04	FY05
\$0	\$29,000,000	\$29,000,000

Division of Taxation

The Division of Taxation actual figures based on \$.17 per gallon indicates that for CY2001 the net amount of motor fuel sold was 3,897,676,100 gallons. The net amount sold takes into consideration the amount of refunds given (including IFTA); therefore, indicates the NET amount that was sold during the CY2000. The Office of Administration, Budget & Planning will estimate revenue impact.

The Office of Administration, Budget & Planning will estimate revenue impact for revenue

ASSUMPTION (continued)

generated from the increase in sales tax and motor fuel tax.

Advertisement costs for the proposal are estimated by the **Office of the Secretary of State (SOS)**. Statewide newspaper publications of constitutional amendments cost approximately \$1,460 per newspaper column inch based on estimates provided by the Missouri Press Service, which is then multiplied by three (3) for three multiple printings of the text of the proposal, the introduction, title, fiscal note summary, and affidavit as required by the Constitution and State Statute. Therefore, the proposal would cost \$4,380 per column inch (\$1,460 x 3). The SOS estimates the total number of inches for the amendment to be 80 inches. Therefore, the total cost from the General Revenue fund would be \$350,400 (\$4,380 x 80). The proposal would be on the ballot for the November 2002 general election.

However, **Oversight** assumes this proposal to be similar in length to prior legislation. The SOS estimated prior legislation to consist of approximately 41 inches. **Oversight** assumes this proposal to be approximately 41 inches, therefore the total cost to the General Revenue Fund would be \$179,580 (\$4,380 x 41).

Oversight assumes the **Office of Administration's – Division of Budget and Planning (BAP)** assumption worksheet used to calculate motor fuel tax, motor vehicle sales and use tax, and new sales tax to be correct. **Oversight** used **BAP's** methodology to derive the yearly revenues and costs sighted in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Revenue</u> – New Sales Tax	\$71,570,800	\$148,867,200	\$154,822,400
<u>Loss</u> – MV Sales Tax Shifted From GR	(\$56,750,000)	(\$117,000,000)	(\$120,600,000)
<u>Cost</u> – MHP			
Increased Fuel Cost	(\$1,539)	(\$3,078)	(\$6,156)
<u>Cost</u> – SOS			
Newspaper Advertisements	(\$179,580)	\$0	\$0
<u>Cost</u> – Department of Revenue,			
Division of Taxation Postage	(\$40,414)	\$0	(\$40,414)
<u>Cost</u> – All Agencies Drawing Highway			
Fund Appropriations	\$0	(\$74,117,062)	(\$74,117,062)
 ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	 <u>\$14,599,267</u>	 <u>(\$42,252,940)</u>	 <u>(\$39,941,232)</u>

STATE HIGHWAY FUND

<u>Cost</u> – Highway Reciprocity Commission			
Updated Programming Costs	(28,400)	\$0	\$0
<u>Cost</u> – MHP			
Increased Fuel Cost	(14,021)	(28,042)	(56,084)
<u>Cost</u> – Department of Revenue, Division of Motor Vehicle and Drivers Licensing			
Programming Changes	(37,111)	\$0	\$0
ESTIMATED NET EFFECT TO STATE HIGHWAY FUND	<u>(\$79,532)</u>	<u>(\$28,042)</u>	<u>(\$56,084)</u>

STATE GAMING FUND

<u>Cost</u> – MHP			
Increased Fuel Cost	<u>(\$1,539)</u>	<u>(\$3,078)</u>	<u>(\$6,156)</u>

STATE ROAD FUND

<u>Revenues</u> – MoDOT			
MV Sales Tax	\$10,286,162	\$21,186,502	\$21,821,602
MV Use Tax	\$1,460,500	\$3,008,000	\$3,098,000
Motor Fuel Tax	\$82,939,500	\$168,366,000	\$170,892,000
Registration Fee Increases	\$39,825,832	\$102,202,054	\$103,006,574
<u>Savings</u> – MoDOT			
MV Sales Tax Shifted From GR	\$0	<u>\$74,117,062</u>	<u>\$74,117,062</u>
ESTIMATED NET EFFECT TO STATE ROAD FUND	<u>\$134,511,994</u>	<u>\$368,879,618</u>	<u>\$372,935,238</u>

STATE TRANSPORTATION FUND

<u>Revenues</u> – MoDOT			
Sales Tax	\$17,892,700	\$37,216,800	\$38,705,600
MV Sales Tax	\$59,115	\$121,780	\$125,430
<u>Savings</u> – MoDOT			
MV Sales Tax Shifted From GR	<u>\$56,750,000</u>	<u>\$117,000,000</u>	<u>\$120,600,000</u>
ESTIMATED NET EFFECT TO STATE TRANSPORTATION FUND	<u>\$74,701,815</u>	<u>\$154,338,580</u>	<u>\$159,431,030</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Revenues – Counties and Municipalities</u>			
Motor Vehicle Sales Tax	\$1,477,875	\$3,044,500	\$3,135,750
Motor Vehicle Use Tax	\$486,500	\$1,003,000	\$1,033,000
Motor Fuel Tax	\$35,545,500	\$72,156,000	\$73,248,000
Registration Fees	<u>\$13,275,277</u>	<u>\$34,067,352</u>	<u>\$34,335,525</u>
 ESTIMATED NET EFFECT TO COUNTIES AND MUNICIPALITIES	 <u>\$50,785,152</u>	 <u>\$110,270,852</u>	 <u>\$111,752,275</u>

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal. Small businesses would pay the increase in sales tax on goods they purchase which are not intended for resale. Businesses would be required to collect the increase in sales tax from resale customers and remit the amount to the state. The cost for businesses to implement this change is unknown. Trucking and shipping companies will have to pay for increased registration fees.

DESCRIPTION

This act raises additional revenues for transportation purposes.

GASOLINE TAX - Phases in a 6-cent gas tax over 6 years beginning on the effective date of this act.

SALES TAX - Increases the General Sales Tax by 5/16 of one percent.

DIVERSION OF HIGHWAY REVENUES FROM AGENCIES - Eliminates funding from the State Highways and Transportation Fund to other state agencies except for the Highway Patrol.

This act also states that all state agencies whose revenues are eliminate from this fund will be compensated from the increase in the sales tax and other sources the General Assembly may decide to appropriate.

MOTOR VEHICLES SALES TAX - This section diverts the half of the sales tax on motor vehicles that is distributed to general revenue will be credited to the state transportation fund.

REGISTRATION FEES - Raises registration fees to meet the 2000 Consumer Price Index.

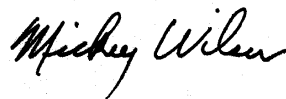
REFERENDUM CLAUSE - States that this act shall become effective on the first calendar quarter that begins 45 days or more after voter approval.

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
Department of Revenue
 Missouri Tax Commission
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Division of Motor Carrier and Railroad Safety
Office of the State Treasurer
Office of the State Auditor
Department of Public Safety
 Division of Water Safety
 Missouri State Highway Patrol
Office of Secretary of State
Department of Natural Resources

Mickey Wilson, CPA



Acting Director
February 5, 2002