COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3610-02
Bill No.: SB 907
Subject: Transportation; Roads and Highways; Transportation Dept.; Taxation and Revenue - General; Motor Fuel; Revenue Dept.; Fees; 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	$273,666	($69,210,266)	($68,047,066)
State Highway Fund	($52,574)	$0	$0
State Road Fund	$135,264,384	$413,712,610	$420,504,895
State Transportation Fund	$14,361,490	$29,871,020	$31,064,740
Total Estimated Net Effect on All State Funds	**$149,846,966**	**$374,373,364**	**$383,522,569**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$41,171,000**	**$85,281,672**	**$86,457,740**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials with the **State Tax Commission (TAX) and the Department of Public Safety (DPS),** assume the proposal will have no fiscal impact to their agency.

Officials with the **Department of Natural Resources (DNR)** assume the department's average annual fuel consumption for its vehicle fleet is 590,000 gallons. An increase in the motor fuel tax from $.17 to $.22 per gallon, therefore, would cost the department an additional $29,500 per fiscal year.

DNR also assumes the department's FY 02 core budget amount appropriated from the State Highway Fund is $80,577. This bill would reduce those funds by 25% in each fiscal year beginning with fiscal year 2003 until in fiscal year 2007 the appropriations would be reduced to zero. The department uses these funds to complete reviews of environmental impact statements for transportation projects.

Oversight assumes that any loss of DNR Highway Fund appropriations would be replaced by General Revenue moneys.

Oversight also assumes that DNR could absorb the cost of motor fuel tax increases through DNR's operating budget.

Officials with the **State Auditor's Office (SAU)** assume the proposal will mean a loss of funding from the Highway Fund. They also assume the loss of funding will be replaced with General Revenue monies, however they were not able to estimate the amount of the funding deficiency.

Officials with the **State Treasurer's Office (STO)** assume 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.

The STO currently receives an appropriation of $477,230 personal service dollars from the
ASSUMPTION (continued)

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. The STO assumes a 25% reduction in each fiscal year would result in a loss of personal service dollars of $119,308 per year. 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.

Department of Economic Development – Division of Motor Carrier and Vehicle Safety (MCRS) assume the proposed legislation would be passed by the public in a November 2002 special election, resulting in implementation of the bill for FY 04. Since it is not possible to know how the initial $160 million appropriation for FY 04 would be allocated among the various agencies affected, it was assumed that MCRS would receive FY 04 appropriations equal to its current appropriation level, and that subsequent appropriations would be reduced equally for all agencies; i.e., appropriations would be reduced by 25% per fiscal year for MCRS until zeroed out in FY 08. Per the legislation wording, the first reduction to MCRS' funding level would occur in FY 05. It was assumed that a technical error existing in the proposed legislation would be corrected before being submitted to the voters (see Technical Memo). MCRS currently receives Federal Matching Funds from a Federal Grant - the "Motor Carrier Safety Assistance Program" (MCSAP). Because of the match requirement of this grant, it was assumed that the related federal appropriations would also be reduced by 25% per year until zeroed out. It was assumed that penalties assessed against carriers, which go into the Public School Fund, would also decrease by 25% per year. It is assumed that there would be no general revenue assumption of costs.

Oversight assumes that all Highway Fund appropriations that MCRS assumes will be lost would be replaced by General Revenue moneys. Therefore, **Oversight** assume that the proposal would have no fiscal impact on MCRS because GR monies would keep MCRS activities operational at its current level and per MCRS, federal match grants are indifferent as to whether they are matched with Highway Fund moneys or General Revenue moneys.

Officials with the **Department of Transportation (MoDOT)** assume the proposal would increase motor fuel taxes and remove the sunset clause for the previous $0.06 fuel tax increase that is currently scheduled to expire on April 1, 2008. The legislation would also increase motor vehicle sales and use taxes and motor vehicle registration fees. Appropriations currently made to other state agencies from highway funds would be capped at $160 million beginning the first fiscal year following voter approval of the proposal. Appropriations made to other state agencies would be reduced each year until fiscal year 2007 when the appropriations would be eliminated.

The legislation is generally favorable to MoDOT, providing additional funding for much-needed
ASSUMPTION (continued)

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 gains begin January 1, 2003 with the following assumptions: 4.5% motor vehicle sales & use tax growth in FY 03 with 3% growth in subsequent years; 1.2% motor fuel tax growth; other state agency cap amount is $192 million. Appropriations to other state agencies from the State Highways and Transportation Department Fund is submitted by the Governor in his legislative budget based on estimates provided by the Office of Administration. However, MoDOT believes the statutory cap on appropriations established in subsection 3 of section 226.200, RSMo, is $185 million.

MoDOT anticipates the proposal would generate additional revenue to fund transportation improvements beyond FY 2005. The additional revenue expected to be generated from the proposal through FY 2009 is: 2006-$372,860,000; 2007-$416,385,000; 2008-$480,799,000; 2009-$716,640,000.

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 they were appropriated $115,229,042 from Highway funds in its FY02 operating budget and it is our understanding that the FY03 overall cap for Highway funding is $192,872,519. In FY04, that overall cap would drop to $160,000,000 (a 17.04% decrease), and would then be reduced by an additional $40,000,000 per year (a 20.74% decrease) until it was at zero. The Patrol is assuming that its own operating budget would be reduced by those same percentages each year, and with no alternate funding source mentioned, we assume this would be fund switched to General Revenue. appropriated $115,229,042 from Highway funds in its FY02 operating budget and it is our understanding that the FY03 overall cap for Highway funding is $192,872,519. In FY04, that overall cap would drop to $160,000,000 (a 17.04% decrease), and would then be reduced by an

additional $40,000,000 per year (a 20.74% decrease) until it was at zero. The Patrol is assuming that its own operating budget would be reduced by those same percentages each year, and with no alternate funding source mentioned, we assume this would be fund switched to General Revenue.

ASSUMPTION (continued)

Based on the Patrol's FY02 operating budget, then, we assume the following:

FY04 – 1st decrease of 17.04% - $19,635,029 would be fund switched from Highway to General Revenue (leaving just under $96 million in Highway funding for the Patrol for FY04)

FY05 – 2nd decrease of 20.74% - $23,898,503 would be fund switched from Highway to General Revenue (leaving just under $72 million in Highway funding for the Patrol for FY05)

FY06 – 3rd decrease of 20.74% - another $23,898,503 would be fund switched from Highway to General Revenue (leaving just under $48 million in Highway funding for the Patrol in FY06)

FY07 – 4th decrease of 20.74% - another $23,898,503 would be fund switched from Highway funding to General Revenue (leaving just under $24 million in Highway funding for the Patrol for FY07)

FY08 – 5th decrease of 20.74% - the final $23,898,504 would be fund switched from Highway to General Revenue (leaving $0 in Highway funding for the Patrol for FY08 and beyond)

The Patrol has not shown the impact on our leasing and capital improvement budgets, since they are handled in separate House Bills and are not appropriated to the Patrol, but assumes they would be affected in a similar manner.

Oversight assumes the Patrol's loss of Highway funding would be compensated with General Revenue moneys, thus leaving no fiscal impact for the Patrol.

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

ADMINISTRATIVE IMPACT

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.

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.

ASSUMPTION (continued)

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 $530 to ensure these changes on incorporated.

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.

Programming modifications will also be required for our Over-the-Counter driver license system. The current contract vendor charges $100 an hour and will require 90 hours of programming. 90 hours x $100 = **$9,000** The proposal will also require approximately 100 hours of testing to ensure that all correct fees have been applied to the system by an in-house Management Analysis Specialist II. This will take approximately 100 hours. 115 hours x $25 per hour = **$2,875**

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.

REVENUE IMPACT

Shift from Highway Funds to General Revenue or other fund as appropriated by General Assembly, will have to occur some time between the effective date of this bill and FY07. This will require a total budgetary shift for personal services and E&E from highway funds to GR as indicated below. This proposal does not specify which departments would be allowed to continue receiving highway funds until FY07. Exactly when the shift would occur is UNKNOWN

ASSUMPTION (continued)

General Revenue (decrease)	($47,215,394)
Highway Fund - increase	$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	**FY04**	**FY05**
$0	**$67,627,289**	**$68,303,562**

Driver License Fee Increases
There would be an increase in revenue from the increased driver license fees for Class E & F licenses (new and renewal). The revenue increase is estimated based on statistics from our Missouri Transportation Accounting System. In addition, these projections were made based on the new six year driver's license which went into effect July 1, 2000. The estimated revenue impact is as follows:

FY03	**FY04**	**FY05**
$0	**$2,821,480**	**$2,821,480**

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.

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

FY03	**FY04**	**FY05**
$0	$17,207,919	$17,207,919

Special Note: This amount could decrease because currently Missouri already ranks in the top

15 states in the nation for heavy vehicle registration fees. This proposal raises those fees even higher, which will probably cause carriers who can legally due so, to shift their registration to another state with lower fees.

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

Officials with the **Secretary of State's Office (SOS)** assume this proposal creates a State Highways and Transportation Department Fund, sets a state motor fuel tax, and changes licensing fees for motor vehicles. The Department of Revenue, Director of Revenue and Motor Vehicle Divisions; and the Department of Transportation are all affected by this bill. The Director of Revenue is charged with promulgating rules to administer these changes, so rules may be published in the Code of State Regulations and the Missouri Register. These rules may require as many as approximately 54 pages in the Code of State Regulations. For any given rule, roughly one and a half as many pages (81) are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in Code. The estimated cost of a page in the Missouri Register is $23. The estimated cost of a page in the Code of State Regulations is $27. Therefore, the printing costs for the Missouri Register are $1,863 ($23 x 81). The printing costs for the Code are $1,458 ($27 x 54). The total printing costs are $3,321 ($1,863 + $1,458) These costs are estimated. The actual costs could be more. The proposal would be on the ballot for the November 2002 general election.

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

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 44 inches. Therefore, the total cost from the General Revenue fund would be $192,720 ($4,380 x 44). The proposal would be on the ballot for the November 2002 general election.

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.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Revenue – New Sales Tax	$57,256,800	$119,094,400	$123,857,600
Loss – MV Sales Tax Shifted From GR	($56,750,000)	($117,000,000)	($120,600,000)
Costs – All Agencies Drawing Highway Fund Appropriations	$0	($71,304,666)	($71,304,666)
Costs – Dept. of Revenue Equipment and Expense	($40,414)	$0	$0
Cost - Secretary of State Newspaper Advertisements	($192,720)	$0	$0
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	**$273,666**	**($69,210,266)**	**($68,047,066)**
STATE HIGHWAY FUND			
Cost – Dept. of Revenue Equipment and Expense	($52,574)	$0	$0
ESTIMATED NET EFFECT TO STATE HIGHWAY FUND	**($52,574)**	**$0**	**$0**
STATE ROAD FUND			
Revenues – MoDOT			
MV Sales Tax	$8,229,634	$16,953,428	$17,461,508
MV Use Tax	$1,168,500	$2,407,000	$2,479,000
Motor Fuel Tax	$69,116,250	$140,305,000	$142,410,000
Increased Registration and Driver's License Fees	$0	$65,742,516	$66,249,721

Savings – MoDOT			
MV Sales Tax Shifted From GR	$56,750,000	$117,000,000	$120,600,000
Elimination of Highway Fund Appropriations	$0	$71,304,666	$71,304,666
ESTIMATED NET EFFECT TO STATE ROAD FUND	**$135,264,384**	**$413,712,610**	**$420,504,895**

STATE TRANSPORTATION FUND

Revenues – MoDOT			
Sales Tax	$14,314,200	$29,773,600	$30,964,400
MV Sales Tax	$47,290	$97,420	$100,340
ESTIMATED NET EFFECT TO STATE TRANSPORTATION FUND	**$14,361,490**	**$29,871,020**	**$31,064,740**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Revenues – Counties and Municipalities			
Motor Fuel Tax	$29,621,250	$60,130,000	$61,040,000
Motor Vehicle Sales Tax	$1,182,250	$2,435,500	$2,508,500
Motor Vehicle Use Tax	$389,500	$802,000	$826,000
Motor Vehicle Registration and Driver's License Fees	$9,978,000	$21,914,172	$22,083,240
ESTIMATED NET EFFECT TO COUNTIES AND MUNICIPALITIES	**$41,171,000**	**$85,281,672**	**$86,457,740**

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

JT:LR:OD (12/00)

This act raises various fees and diverts other highway revenues to fund transportation projects.

MOTOR FUEL TAX - This act raises the motor fuel tax by 5 cents. The motor fuel tax is currently 17 cents per gallon and will become 22 cents per gallon if the act is approved by the voters. This act also repeals the 2008 sunset on the 17-cent gas tax imposed in 1992.

SALES TAX - This act raises the general sales tax and the sales and use tax imposed on motor vehicles by 1/4 percent.

REGISTRATION FEES - This act raises the registration fees on passenger cars and motorcycles
<u>DESCRIPTION</u> (continued)

by the following amounts:

Less than 12 horsepower (HP) - From $18 to $30; 12 - 24 HP - From $21 to $30; 24 - 36 HP - From $24 to $45; 36 - 48 HP - From $33 to $45; 48 - 60 HP - From $39 to $60; 60 - 72 HP - From $45 to $60; Over 72 HP - From $51 to $60; Motorcycle - From $8.50 to $11.50; Motor tri-cycle - From $10 to $13

This act increases registration fees on trucks and buses approximately 25% to 33%.

DRIVER'S LICENSES - This act increases commercial driver's licenses from $30 to $35 and increases regular driver's licenses from $15 to $20.

DIVERSION FROM OTHER AGENCIES - This act phases out the amount of revenues non-highway agencies receive from the State Highways and Transportation Department Fund over a five year period. After fiscal year 2007, these agencies will no longer receive highway revenue funds.

REFERENDUM CLAUSE - This act will be submitted to the voters in November 2002 or at a special election called by the Governor. If approved, the act will become effective the first fiscal year following 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 Motor Carrier and Railroad Safety
Office of State Treasurer
Office of the State Auditor
Division of Public Safety
    Missouri State Highway Patrol
Office of Secretary of State
Department of Natural Resources

Mickey Wilson

Mickey Wilson, CPA

Acting Director
February 5, 2002

JT:LR:OD (12/00)