

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4345-02
Bill No.: HB 1874
Subject: Motor Fuel; Taxation and Revenue - Sales and Use; Transportation; Revenue Dept.
Type: Original
Date: March 27, 2012

Bill Summary: This proposal implements a seven tenths of one percent sales tax on gasoline and credits an additional seven tenths of one percent sales tax on other goods to be used for transportation purposes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	\$0 or (More than \$7,000,000)	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$7,000,000)	\$0	\$0

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Highway Fund	\$200,000,000	\$413,000,000	\$426,000,000
Road Fund	\$15,000,000	\$30,000,000	\$31,000,000
State Road Bond Fund	\$10,000,000	\$21,000,000	\$22,000,000
State Transportation Fund	\$1,000,000	\$1,000,000	\$1,000,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$226,000,000	\$465,000,000	\$480,000,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	\$15,000,000	\$33,000,000	\$33,000,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Transportation (DHT)** assume this proposal eliminates the motor fuel tax but increases the diesel tax to 27-cents and implements a 0.7% sales tax dedicated to transportation to be deposited into the State Highways and Transportation Department Fund.

It should be noted, DHT's response is based on FY 2011 revenues and growth for the current fiscal forecast.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to the Division of Budget and Planning.

This proposal increases the excise tax on diesel fuel from 17¢ per gallon to 27¢ per gallon. The proposal eliminates the 17¢ tax on all other motor fuel, making motor fuel subject to sales taxation. The proposal also creates an additional 0.7% general sales tax for transportation purposes.

This proposal would reduce revenues by \$720M, the approximate motor fuel tax in FY10 and FY11. This implies an estimated 4.2 billion gallons of taxable fuel is sold annually.

According to the DOR, an estimated 1.1 billion gallons of diesel is sold annually in Missouri. The new 27¢ tax would generate revenues of \$297M.

Motor fuel subject to a state excise tax is exempt from sales tax under RSMo 144.030. Because gasoline would no longer be subject to an excise tax, approximately 3.1 billion gallons of fuel would now be subject to sales tax. For this analysis, BAP assumes the retail price of gas is \$3.00 per gallon. Excluding the federal excise tax of 18¢ and the state excise tax of 17¢ suggests a taxable retail price of \$2.65. This implies taxable sales of \$8.215B. At the current state sales tax rate of 4.225% and assuming no other exemptions apply, this would increase revenues by \$347M. (Technical Note: this sales tax rate includes the portions for MDC and DNR; it is unclear whether all the new funds would go to the road fund per Art IV 30(b), or would be allocated to the conservation fund and the parks/soils funds per Art IV, 43 & 47.)

At the rate of 3%, \$1,810M of gross GR sales tax was collected in FY11. This implies additional sales tax of \$422M at 0.7%. At the rate of 0.125%, MV sales taxes for Conservation totaled \$7.683M this implies additional MV sales taxes of \$43M. The additional 0.7% tax on the taxable gasoline sales noted above would generate \$58M. Thus, the proposed sales tax could generate \$523M.

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ASSUMPTION (continued)

This proposal would generate \$297M + \$347M + 523M, for a total of \$1,167M; the net increase would be \$447 M.

Officials from the **Department of Revenue (DOR)** assume, according to Section 142.803, the tax of \$0.17 per gallon on motor fuel ends December 31, 2012. Beginning January 1, 2013, no tax shall be imposed on motor fuel, except diesel fuel, which will be taxed at \$0.22 per gallon. Also, according to Section 144.020, beginning on or after January 1, 2013, in addition to the tax levied and imposed under subsection 1 of this section, a tax equivalent to 9/10th of 1.0% shall be imposed for transportation purposes. All revenues derived from the sales tax imposed under this subsection shall be deposited in the State Highways and Transportation Department Fund created in section 226.200, and shall be appropriated solely for transportation purposes.

According to the response from DOR they would need to make form changes, as well as programming changes to the various tax systems. They would also require additional programming and fuel tax systems forms will be needed. The cost to perform this would be \$17,808.

Oversight assumes these costs could be absorbed with current appropriations however, if there are additional proposals that would require more resources this could be accomplished during the normal budget process.

Also, DOR indicated cities and counties fuel tax distributions will be reduced. A portion will be made up through the higher collections on diesel fuel but the annual sales of gasoline, kerosene and gasoline blended fuels subject to fuel tax is about 3.1 billion versus 1.1 billion for diesel fuel. However, the cities and counties will have an increase in their local sales tax revenue due to gasoline, gasoline blended fuels and kerosene now being subject to sales tax. The DOR does not know if the inclusion of motor fuel as a taxable item will make up for the decrease in the amount of fuel tax the cities and counties currently receive. Under current fuel tax distribution process, cities and counties receive a share of the tax on all gasoline, kerosene and gasoline blended fuels sold in the state. However under this proposal, they would receive local sales tax revenue on what is actually sold in their city or county.

Another area this proposal will affect is the amount of revenue each qualifying county receives under section 142.827. Currently each distributor that delivers gasoline to marinas located in counties that have 100 miles or more of shoreline files monthly reports of those deliveries to DOR. Prior to August 15th of each year, DOR compares the number of gallons of gasoline claimed by consumers for marina use in each qualifying county to the number of gallons of gasoline delivered to the marinas in that county. The fuel tax on any unclaimed gallons is then refunded to the county. The counties will no longer receive a distribution in regard to unclaimed

ASSUMPTION (continued)

refunds as there will no longer be a tax on gasoline. However, the counties should see an increase in their sales tax collections from the marinas.

Also, according to DOR, motor fuels would still be subject to the petroleum inspection fee, and transport fee which are collected in the same manner as the motor fuel tax. In addition, consumer motor fuel refunds will be reduced. In FY 11 Excise Tax processed approximately 11,400 refunds on gasoline and gasoline blends. Although the state excise tax would be eliminated, the federal tax would not. On motor fuel sales, the sales tax would have to be calculated on the price of the motor fuel less federal tax. Retailers would need to program their registers to account for this.

The language also says “in addition to” the tax in subsection 144.020.1 the DOR assumes the state sales tax rate would be 5.125 percent (4.0%+0.1%+0.125%+0.9%). Because local sales tax follows the same base as the state (unless otherwise stated in a local tax authorizing statute) the DOR assumes local sales taxes will apply to the sale of fuel as well.

Officials from the **Secretary of State’s Office** assume each year, a number of bills may be considered by the General Assembly that would refer to a vote of the people the issue in the legislation. Unless a special election is called for the purpose, Referendums are submitted to the people at the next general election. 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. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people.

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. 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 2011, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.02 million to publish (an average of \$170,000 per issue). Therefore, the Secretary of State’s office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, 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 change

ASSUMPTION (continued)

the amount or eliminate the estimated nature of our appropriation.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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 2013. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2012 (FY 2013). It is assumed the subject within this proposal could be on that ballot; 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 2013.

To estimate the expense the state would incur for reimbursing local political subdivisions for a special election, Oversight requested expense estimates from all election authorities for an election. Eighty-six out of the one hundred fifteen election authorities responded to Oversight's request. From these respondents; the total election expense that would have to be reimbursed by the state government is over \$7 million. Therefore, Oversight will reflect a potential cost borne by the state in FY 2012 of over \$7 million for reimbursement to the local political subdivisions. Oversight assumes the Governor could call for a special election to be held prior to November 2012 regarding this joint resolution; however, if a special election is not called, the subject will be voted on at the general election in November, 2012.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
<u>Expense</u> - reimbursement of local political subdivisions for special election costs	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
HIGHWAY FUND			
<u>Gain</u> - Department of Transportation 27 cent diesel fuel tax	\$91,000,000	\$183,000,000	\$183,000,000
<u>Gain</u> - Department of Transportation 4.0% current sales tax on gasoline	\$127,000,000	\$256,000,000	\$256,000,000
<u>Gain</u> - Department of Transportation 0.7% new sales tax on gasoline	\$22,000,000	\$45,000,000	\$45,000,000
<u>Gain</u> - Department of Transportation 0.7% general sales tax	\$211,000,000	\$432,000,000	\$444,000,000
<u>Loss</u> - Department of Transportation 17 cent gasoline fuel tax	<u>(\$251,000,000)</u>	<u>(\$503,000,000)</u>	<u>(\$502,000,000)</u>
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>\$200,000,000</u>	<u>\$413,000,000</u>	<u>\$426,000,000</u>
ROAD FUND			
<u>Gain</u> - Department of Transportation 0.7% general MV sales & use tax	<u>\$15,000,000</u>	<u>\$30,000,000</u>	<u>\$31,000,000</u>
ESTIMATED NET EFFECT ON ROAD FUND	<u>\$15,000,000</u>	<u>\$30,000,000</u>	<u>\$31,000,000</u>

FISCAL IMPACT - State Government
(continued)

FY 2013
(10 Mo.)

FY 2014

FY 2015

STATE ROAD BOND FUND

Gain - Department of Transportation
0.7% general MV sales & use tax

\$10,000,000

\$21,000,000

\$21,000,000

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

\$10,000,000

\$21,000,000

\$21,000,000

STATE TRANSPORTATION FUND

Gain - Department of Transportation
0.9% general MV sales & use tax

\$1,000,000

\$1,000,000

\$1,000,000

**ESTIMATED NET EFFECT ON
STATE TRANSPORTATION FUND**

\$1,000,000

\$1,000,000

\$1,000,000

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
LOCAL GOVERNMENT			
<u>Gain</u> - Cities			
27 cent diesel fuel tax	\$19,000,000	\$39,000,000	\$39,000,000
<u>Gain</u> - Counties			
27 cent diesel fuel tax	\$19,000,000	\$39,000,000	\$39,000,000
<u>Gain</u> - Cities			
4.0% current sales tax on gasoline	\$27,000,000	\$55,000,000	\$55,000,000
<u>Gain</u> - Counties			
4.0% current sales tax on gasoline	\$27,000,000	\$55,000,000	\$55,000,000
<u>Gain</u> - Cities			
0.7% new sales tax on gasoline	\$5,000,000	\$10,000,000	\$10,000,000
<u>Gain</u> - Counties			
0.7% new sales tax on gasoline	\$5,000,000	\$10,000,000	\$10,000,000
<u>Gain</u> - Cities			
0.7% general MV sales & Use tax	\$3,000,000	\$6,000,000	\$6,000,000
<u>Gain</u> - Counties			
0.7% general MV sales & Use tax	\$1,000,000	\$3,000,000	\$3,000,000
<u>Loss</u> - Cities			
17 cent gasoline fuel tax	(\$51,000,000)	(\$103,000,000)	(\$103,000,000)
<u>Loss</u> - Counties			
17 cent gasoline fuel tax	(\$40,000,000)	(\$81,000,000)	(\$81,000,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>\$15,000,000</u>	<u>\$33,000,000</u>	<u>\$33,000,000</u>

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LOCAL POLITICAL SUBDIVISIONS

<u>Income</u> - cost reimbursement from the State for special election	\$0 or More than \$7,000,000	\$0	\$0
<u>Expense</u> - cost for special election	\$0 or (More than \$7,000,000)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2013, this bill establishes a 0.7% sales tax on gasoline and increases the current sales tax on other goods by 0.7% to be deposited into the State Highways and Transportation Department Fund to be appropriated solely for transportation purposes.

The bill increases the excise tax on diesel fuel from 17 cents to 27 cents per gallon and eliminates the excise tax on all other motor fuel.

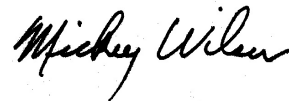
The bill contains a referendum clause and will be submitted to qualified voters in November 2012.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of Administration -
 Division of Budget and Planning
Department of Transportation
Department of Revenue
Secretary of State's Office



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