

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3328-03
Bill No.: SCS for HCS for HB 1137
Subject: Agriculture and Animals; Environmental; Natural Resources Dept.
Type: Original
Date: May 8, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$94,675)	(\$14,936,700)	(\$14,164,295)
Total Estimated Net Effect on General Revenue Fund	(\$94,675)	(\$14,936,700)	(\$14,164,295)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various State Funds	(\$38,658)	\$14,776,700	\$14,104,294
Total Estimated Net Effect on <u>Other</u> State Funds	\$38,658	\$14,776,700	\$14,104,294

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	(\$7,411,545) to Unknown	(\$7,075,343) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture** assume this proposal will not fiscally impact their agency.

Officials from the **Department of Natural Resources (DNR)** assume it would need 0.5 FTE (Energy Specialist I/II) to perform the duties required by this proposal. Duties would include: providing staff support to The Clean American Fuel Board (convening meetings, preparing and annually updating reports); promulgating rules in accordance with the policies and procedures established by the board; issuing grants for infrastructure projects and education/outreach; preparing and reviewing application forms and determining eligibility for the various rebate amounts and issuing the rebates. It is assumed that funds from General Revenue would be appropriated to the Alternative Fuel Vehicle Revolving Fund. It is assumed the grants, rebates and costs to administer this program would be paid from the Alternative Fuel Vehicle Revolving Fund. The total impact to General Revenue cannot be determined as it is subject to appropriations.

Oversight assumes this would be accomplished during the normal budgetary process. Therefore, Oversight assumes the initial administrative impact of this proposal is \$0.

VL:LR:OD (12/02)

ASSUMPTION (continued)

Officials from the **Secretary of State's Office** assume many bills considered by the General Assemble 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 \$1,500. 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, they also recognize that many such bills may be passed by the General Assembly in a give year ant that collectively the costs may be in excess of what their office can sustain with their core budget. Therefore, they 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 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.

Officials from the **Department of Transportation (MoDOT)** state under current law, an exemption from local sales tax is permitted for half of the purchase amount of diesel fuel used solely for agricultural purposes. This legislation completely exempts purchases of diesel fuel for agricultural purposes from local sales taxes. Because the use of the diesel fuel is intended solely for agricultural purposes and not for transportation on the public highways of the state, this fuel, even if taxed, would not produce state revenues derived from highway users. MoDOT assumes, therefore, the proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** assume this proposal creates the Clean American Fuel board and Alternative Fuel Vehicle Fund. It will provide refunds and tax credits on purchases or rentals of hybrid vehicles; it will not have an impact on Taxation.

Section 144.030, provides a full exemption on motor fuel used for agricultural purposes, and Section 144.062, provides an exemption from sales tax for contractors on projects under contract with MoDOT and the transportation commission.

During FY 2005, the department collected approximately \$160,000 in sales taxes (state only) on refunds of clear diesel fuel sold for agriculture purposes. When calculating refunds, the excise tax area bases the tax rate on the state rate only, therefore, the amount of revenues collected using local rates is undeterminable. The exemption would create a loss of these revenues.

ASSUMPTION (continued)

Currently the retailer charges sales tax (both state & local) on $\frac{1}{2}$ of the purchase price of dyed diesel fuel purchased for agricultural purposes. DOR cannot determine how much sales tax is currently being collected on these purchases, therefore, cannot provide an estimate of lost revenues on dyed diesel fuel.

Kerosene is subject to motor fuel tax. If it is used for non-highway purposes, then a refund may be claimed. Sales tax is then charged against the refund unless it was used for home heating purposes.

This exemption would lessen the burden on the retailer collecting sales tax. Also, DOR excise personnel would not have to calculate the price per gallon and the sales tax on refunds of motor fuel for agricultural purposes. This would reduce the process time on those particular refunds.

Officials from the **Office of Administration - Budget and Planning (BAP)** states that the proposal would not fiscally impact their agency. BAP states the Department of Revenue estimates that \$160,000 was collected in diesel fuel taxes in FY 2005. BAP assumes a similar amount would be collected in FY 2006. Therefore, BAP assumes a loss to general revenue resulting from this proposal.

In response to SB 744 from this year, officials from **St. Louis County** state when a fuel retailer sells diesel fuel for agricultural purposes and determines that 'motor fuel tax' is not to be charged, sales tax is then charged on the sale of diesel fuel. St. Louis County state it appears that the fiscal impact on their county would be minimal.

In response to SB 744 from this year, officials from the **City of Kansas City** assumed the proposal would have no adverse or beneficial fiscal impact on the city.

In response to SB 744 from this year, officials from **Jefferson County** assumed the proposal would have a minimum fiscal impact to their county.

In response to a similar proposal from this year (SB 739), officials from **Jasper County** assumed the proposal would not fiscally impact their county.

Oversight assumes there will be 10/12ths of a year of fiscal impact in FY 2007 with an effective date of August 28, 2006. Oversight assumes the \$160,000 in annual sales taxes that will no longer be collected as a result of this proposal will be divided between the four funds that comprise the state sales tax as shown below.

ASSUMPTION (continued)

<u>Fund</u>		<u>Percentage of rate</u>	<u>Percentage of \$160,000</u>
General Revenue	3.000%	71%	\$113,610
School District Trust Fund	1.000%	24%	\$ 37,870
Parks and Soils	.100%	2%	\$ 3,790
Conservation	.125%	3%	\$ 4,730
	4.225%	100%	\$160,000

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** assumed this would exempt contractors from paying sales tax on Missouri Department of Transportation (MoDOT) projects. This will decrease General and Total State revenues. BAP deferred to MoDOT to provide an estimate. This would have no impact on BAP.

In response to HCS for SB 629 officials of the **Department of Transportation (MoDOT)** assume this legislation exempts contractors from paying sales tax on materials used in MoDOT projects. Section 144.062, RSMo currently exempts sales of personal property and materials used for the purpose of constructing, repairing, or remodeling facilities for counties, other political subdivisions and certain exempt entities from the state sales tax. This bill would add the Department of Transportation as an exempt entity. Therefore, materials could be purchased by a contractor for a MoDOT project on a tax-exempt basis.

The sales tax which contractors currently pay on materials purchased for MoDOT projects is included in the project cost which is paid by MoDOT. Assuming that contractors would reduce their project costs due to the ability to purchase materials on a tax-exempt basis, this bill would result in a cost savings for MoDOT.

The proposed legislation would result in cost savings beyond the three-year period addressed by this fiscal note. An estimate for fiscal year 2010 is \$12,142,650.

Based on 2006-2010 Statewide Transportation Improvement Program (STIP); ½ of construction contracts is labor, ½ is materials; July 1, 2007 effective date (FY08); sales tax rate of 4.225%. The cost savings were calculated as follows:

<u>Fiscal Year</u>	<u>STIP Awards</u>	<u>% Materials</u>	<u>Materials Cost</u>	<u>Sales Tax Rate</u>	<u>Cost Savings</u>
2008	\$988,206,000	50%	\$494,103,000	4.225%	\$20,875,852
2009	\$943,379,000	50%	\$471,689,500	4.225%	\$19,928,881
2010	\$849,795,000	50%	\$424,897,500	4.225%	\$17,951,919

ASSUMPTION (continued)

There would be an additional amount of cost savings for the local sales tax, however the amount would vary by city/county. Therefore, the additional savings is unknown.

Officials of the **Department of Revenue (DOR)** assumed this exempts contractors from paying sales tax on materials purchased for use in MoDOT projects. This legislation would have no administrative impact on DOR.

Oversight calculated the revenue impact to include an impact to cities and counties. **Oversight** assumes this proposal would create a saving of \$34.3 million in FY08 and \$30.2 million in FY09 for the Road Fund. Combined losses in the General Revenue Fund, School District Trust Fund, Conservation Fund, Parks and Soils Fund and local city/county funds equal the savings in the Road Fund for this proposal.

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss</u> - to General Revenue Fund sales tax revenue from exemption of diesel fuel used for agricultural purposes	<u>(\$94,675)</u>	<u>(\$113,610)</u>	<u>(\$113,610)</u>
<u>Loss</u> to General Revenue Fund Exemption for MoDOT projects	<u>\$0</u>	<u>(\$14,823,090)</u>	<u>\$14,150,685</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$94,675)</u>	<u>(\$14,936,700)</u>	<u>(\$14,164,295)</u>
VARIOUS STATE FUNDS			
<u>Savings</u> to Road Fund Exemption for MoDOT projects	\$0	\$20,875,852	\$19,928,881
<u>Loss</u> - Various Funds sales tax revenue from exemption of diesel fuel used for agricultural purposes	<u>(\$38,658)</u>	<u>(\$46,390)</u>	<u>(\$46,390)</u>
<u>Loss</u> to School District Trust Fund Exemption for MoDOT projects	<u>\$0</u>	<u>(\$4,941,030)</u>	<u>(\$4,716,895)</u>
<u>Loss</u> to Conservation Fund Exemption for MoDOT projects	<u>\$0</u>	<u>(\$617,629)</u>	<u>(\$589,612)</u>
<u>Loss</u> to Parks and Soil Funds Exemption for MoDOT projects	<u>\$0</u>	<u>(\$494,103)</u>	<u>(\$471,690)</u>
ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS	<u>(\$38,658)</u>	<u>\$14,776,700</u>	<u>\$14,104,294</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<u>Loss to Cities</u>			
Exemption for MoDOT projects	\$0	(\$4,446,927) to Unknown	(\$4,245,206) to Unknown
<u>Loss to Counties</u>			
Exemption for MoDOT projects	<u>\$0</u>	<u>(\$2,964,618) to Unknown</u>	<u>(\$2,830,137) to Unknown</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$0</u>	<u>(\$7,411,545) to Unknown</u>	<u>(\$7,075,343) to Unknown</u>

FISCAL IMPACT - Small Business

There could be some economic benefits to Missouri farmers to the extent that Missouri feedstock are used in the production and use of ethanol and biodiesel.

Small farming or agricultural businesses and small businesses that contract with MoDOT could see a savings in sales taxes as a result of this proposal.

DESCRIPTION

This bill establishes the Clean American Fuel Board consisting of seven members, seven of whom are voting members and represent various industries and coalitions concerned with the use of alternative fuel and alternative fuel vehicles. The Director of the Department of Natural Resources is an ex officio member and will serve as the chairman. The department will provide needed staff and aid the board in carrying out its duties. The qualifications and terms of the appointed members are specified.

The board is required to establish and administer policies to promote individual, industrial, and governmental compliance with the United States Department of Energy and the Environmental Protection Agency and report by January 1, 2007, and every year thereafter, to the General Assembly, Governor, Department of Transportation, and Department of Natural Resources on a calculation of fuel cost differential rebates and designation of certified conversion and original equipment manufacturer technologies.

DESCRIPTION (continued)

The Alternative Fuel Vehicle Revolving Fund is created for the deposit of appropriated money and other donations. The board will administer the distribution of grants to qualifying applicants for alternative fuel vehicle infrastructure projects, education, and alternative fuel vehicles. The applicant requirements, grant uses, and grant amounts are specified.

The provisions of the bill will expire six years from the effective date.

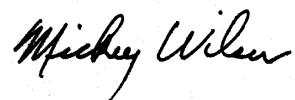
Under current law, an exemption from local sales tax is permitted for half of the purchase amount of diesel fuel used for agricultural purposes. This act completely exempts purchases of motor fuel for agricultural purposes from local sales tax.

This proposal exempts contractors from paying sales taxes on materials used in Department of Transportation projects. The sales tax exemption does not take effect until after June 30, 2007.

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 Agriculture
Department of Revenue
Secretary of State's Office
Department of Transportation
Department of Natural Resources
St. Louis County
City of Kansas City
Jefferson County
Jasper County



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Mickey Wilson, CPA
Director
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