

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0175-01  
Bill No.: HB 248  
Subject: Revenue Department; Taxation and Revenue - Sales and Use; Transportation  
Department  
Type: Original  
Date: January 25, 2007

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Bill Summary: This proposal authorizes a sales tax exemption on materials used in the construction of highways and other Department of Transportation projects.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	\$0	(\$12,870,000)	(\$9,433,500)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$12,870,000)</b>	<b>(\$9,433,500)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Road Fund	\$0	\$26,705,250	\$19,574,512
School District Trust	\$0	(\$4,290,000)	(\$3,144,500)
Conservation	\$0	(\$536,250)	(\$393,063)
Parks and Soil	\$0	(\$429,000)	(\$314,450)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$21,450,000</b>	<b>\$15,722,499</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Local Government</b>	<b>\$0</b>	<b>(\$8,580,000)</b>	<b>(\$6,289,000)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Missouri 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.

Based on 2007-2011 Statewide Transportation Improvement Program (STIP); 50 percent of construction contracts is labor, 50 percent is materials; July 1, 2008 effective date; sales tax rate of 4.225%. The cost savings were calculated as follows:

Fiscal Year	STIP Awards	% Materials	Material Cost	Sales Tax Rate	Cost Savings
2008	\$1,189,100,000	50%	\$594,550,000	4.225%	\$25,119,738
2009	\$858,000,000	50%	\$429,000,000	4.225%	\$18,125,250
2010	\$628,900,000	50%	\$314,450,000	4.225%	\$13,285,513
2011	\$490,000,000	50%	\$245,000,000	4.225%	\$10,351,250
2012	\$490,000,000	50%	\$245,000,000	4.225%	\$10,351,250

MoDOT assumes 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 at the **Office of Administration's Budget and Planning** assume this bill would exempt contractors from paying sales tax on Missouri Department of Transportation, and the State Highways and Transportation Commission projects. This proposal will decrease General and Total State Revenues. The Department of Transportation should provide the estimate of

ASSUMPTION (continued)

possible increased costs and revenues to the state as a result of this proposal.

**Oversight** calculated the revenue impact to include a tax loss impact to local government with a sales tax rate of 2%. The chart below shows the breakdown of the tax impact on the projected materials cost.

**Oversight** assumes this proposal would create a savings for the Road Fund of \$26.7 million for FY2009 and \$19.5 million for FY2010. This savings is passed on to MoDOT as it is calculated into the materials cost submitted by the vendors. Combined gains in the Road Fund equal the losses to the General Revenue Fund, School District Trust Fund, Conservation Fund, Parks and Soils Fund and local city/county funds from this proposal.

**Oversight** assumes that a reduction in the federal reimbursement may occur as a result of the tax loss. The federal impact is unknown.

	Fiscal Year 2009	Fiscal Year 2010
Materials Cost	\$429,000,000	\$314,450,000
GR Fund 3%	\$12,870,000	\$9,433,500
School Fund 1%	\$4,290,000	\$3,144,500
Conservation Fund .125%	\$536,000	\$393,063
Parks and Soil Fund .1%	\$429,000	\$314,450
Local 2%	\$8,580,000	\$6,289,000
Total Savings to Road Fund	\$26,705,250	\$19,574,512

Officials at the **Department of Revenue** assume no fiscal impact for their department for this proposal.

Officials at the **Department of Conservation (MDC)** state this legislation would appear to have a negative fiscal impact on MDC funds since it appears to exempt highway construction materials and other MoDOT projects from sales tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

ASSUMPTION (continued)

Officials at the **City of Centralia**, and **St. Louis County** each assume no fiscal impact from this proposal.

Officials at the **Taney County** and **Greene County** assume an unknown loss of revenue.

No other Cities or Counties responded to **Oversight's** request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
<u>Loss</u> - General Revenue Fund Exemption for MoDOT projects	<u>\$0</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(\$12,870,000)</u></b>	<b><u>(\$9,433,500)</u></b>
<b>OTHER STATE FUNDS</b>			
<u>Savings</u> - Road Fund Exemption for MoDOT projects	\$0	\$26,705,250	\$19,574,512
<u>Loss</u> - School District Trust Fund Exemption for MoDOT projects	\$0	(\$4,290,000)	(\$3,144,500)
<u>Loss</u> - Conservation Fund Exemption for MoDOT projects	\$0	(\$536,250)	(\$393,063)
<u>Loss</u> - Parks and Soil Fund Exemption for MoDOT projects	\$0	<u>(\$429,000)</u>	<u>(\$314,450)</u>
<b>ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$21,450,000</u></b>	<b><u>\$15,722,499</u></b>

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>CITIES AND COUNTIES</b>			
<u>Loss</u> - Cities and Counties			
Exemption for MoDOT projects	\$0	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT</b>	<b><u>\$0</u></b>	<b><u>(\$8,580,000)</u></b>	<b><u>(\$6,289,000)</u></b>

FISCAL IMPACT - Small Business

Businesses that sell to MoDOT would be expected to be impacted as a result of this proposal.

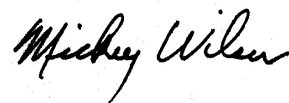
FISCAL DESCRIPTION

This act exempts contractors from paying sales taxes on materials used in Department of Transportation projects. The sales tax exemption does not go into effect until July 1, 2008.

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

Missouri Department of Transportation  
Department of Revenue  
Office of Administration's Budget and Planning  
City of Centralia  
Taney County  
Greene County  
St. Louis County  
Department of Conservation



Mickey Wilson, CPA

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