

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1489-01
Bill No.: HB 768
Subject: Contracts and Contractors; Revenue Dept.; Taxation and Revenue - Sales and Use; Transportation Dept
Type: Original
Date: March 2, 2007

Bill Summary: Would exempt contractors from paying sales taxes on materials used in Department of Transportation projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$17,836,500)	(\$12,870,000)	(\$9,433,500)
Total Estimated Net Effect on General Revenue Fund	(\$17,836,500)	(\$12,870,000)	(\$9,433,500)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road Fund	\$37,010,738	\$26,705,250	\$19,574,512
School District Trust	(\$5,945,500)	(\$4,290,000)	(\$3,144,500)
Conservation	(\$743,188)	(\$536,250)	(\$393,063)
Parks and Soil	(\$594,550)	(\$429,000)	(\$314,450)
Total Estimated Net Effect on <u>Other</u> State Funds	\$29,727,500	\$21,450,000	\$15,722,499

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

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 2008	FY 2009	FY 2010
Local Government	(\$11,891,000)	(\$8,580,000)	(\$6,289,000)

FISCAL ANALYSIS

ASSUMPTION

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

Officials from the **Department of Conservation** (MDC) assumed a similar proposal (SB 207 LR 0124-02) would have a negative fiscal impact on MDC funds since it appears to exempt highway construction materials and other DOT 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.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would authorize a sales tax exemption on materials purchased by contractors for use in the construction of highways and other Department of Transportation projects. DNR's Parks and Soils Tax Fund is derived from one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. Therefore, any additional sales and use tax exemption would be a loss to the Parks and Sales Tax Fund and would reduce program efforts in the Division of State Parks and Soil and Water Conservation.

Officials from the **City of Centralia** and **St. Louis County** assumed a similar proposal (SB 199 LR 968-02) would have no fiscal impact to their organizations.

Officials at the **Platte County** assumed a similar proposal (SB 199 LR 968-02) could result in a potential loss in revenue from unrealized retail sales tax. However, the amount is unknown.

Officials from the **City of Kansas City** assumed a similar proposal (SB 199 LR 968-02) would cause a loss to the City from sales taxes on construction materials purchased in Kansas City and used to construct, repair or remodel facilities for MDOT or the State Highways and Transportation Commission. The actual amount of such construction materials that would be purchased within Kansas City is unknown, but it is reasonable to assume that contractors repairing or constructing state highways within and around the City would purchase cement, gravel, asphalt and other construction materials in the metropolitan area.

ASSUMPTION (continued)

Officials at the **Missouri Department of Transportation (MoDOT)** assume this proposal would exempt 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; 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 from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would exempt contractors from paying sales tax on Missouri Department of Transportation (MODOT) and State Highways and Transportation Commission projects. This proposal would decrease General and Total State Revenues. BAP defers to MODOT for an estimate of the fiscal impact of this proposal. This proposal would have no impact on BAP.

ASSUMPTION (continued)

Oversight assumes this proposal would create a savings for the Road Fund and corresponding losses to the General Revenue Fund, School District Trust Fund, Conservation Fund, and Parks and Soils Fund. The chart below shows a breakdown of the estimated sales tax impact to the various funds based on the MODOT projected materials cost. Oversight calculated a revenue loss to local government using an assumed average sales tax rate of 2%.

Oversight assumes that a reduction in the federal reimbursement may occur as a result of the tax reduction; however, the federal impact is unknown.

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Materials Cost	\$594,550,000	\$429,000,000	\$314,450,000
GR Fund 3%	\$17,836,500	\$12,870,000	\$9,433,500
School Fund 1%	\$5,945,500	\$4,290,000	\$3,144,500
Conservation Fund .125%	\$743,188	\$536,000	\$393,063
Parks and Soil Fund .1%	\$594,550	\$429,000	\$314,450
Local 2%	\$11,891,000	\$8,580,000	\$6,289,000
Total Savings to Road Fund	\$37,010,738	\$26,705,250	\$19,574,512

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Loss</u> - General Revenue Fund Exemption for MoDOT projects	<u>(\$17,836,500)</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$17,836,500)</u>	<u>(\$12,870,000)</u>	<u>(\$9,433,500)</u>
OTHER STATE FUNDS			
<u>Savings</u> - Road Fund Exemption for MoDOT projects	\$37,010,738	\$26,705,250	\$19,574,512
<u>Loss</u> - School District Trust Fund Exemption for MoDOT projects	<u>(\$5,945,500)</u>	<u>(\$4,290,000)</u>	<u>(\$3,144,500)</u>
<u>Loss</u> - Conservation Fund Exemption for MoDOT projects	<u>(\$743,188)</u>	<u>(\$536,250)</u>	<u>(\$393,063)</u>
<u>Loss</u> - Parks and Soil Fund Exemption for MoDOT projects	<u>(\$594,550)</u>	<u>(\$429,000)</u>	<u>(\$314,450)</u>
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS	<u>\$25,119,738</u>	<u>\$21,450,000</u>	<u>\$15,722,499</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2008 (10 Mo.)	 FY 2009	 FY 2010
CITIES AND COUNTIES			
<u>Loss</u> - Cities and Counties Exemption for MoDOT projects	<u>(\$11,891,000)</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>(\$11,891,000)</u>	<u>(\$8,580,000)</u>	<u>(\$6,289,000)</u>

FISCAL IMPACT - Small Business

This proposal would have an impact to small business that contract with MODOT.

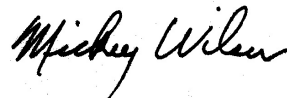
FISCAL DESCRIPTION

This proposal would exempt contractors from paying sales taxes on materials used in Department of Transportation projects.

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

Office of Administration
Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
Missouri Department of Transportation



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Director
March 2, 2007