

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1489-02
Bill No.: HCS for HB 768
Subject: Contracts and Contractors; Revenue Dept.; Taxation and Revenue - Sales and Use; Transportation Dept
Type: Original
Date: March 9, 2007

Bill Summary: Would exempt contractors from paying sales taxes on materials used in Department of Transportation projects and would exempt from motor fuel tax the fuel used by school buses and mass transit systems.

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	\$34,298,738	\$23,180,250	\$16,026,512
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 Other State Funds	\$27,015,500	\$17,925,000	\$12,174,499

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 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

Sales Tax Exemption for MODOT Contractors

Officials from the **Department of Revenue** assumed a previous version of this proposal would have no fiscal impact for their organization.

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) assumed a previous version of 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)** assumed a previous version of 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.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed a previous version of 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 the proposal. This proposal would have no impact on BAP.

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 could 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

ASSUMPTION (continued)

Motor Fuel Tax Exemption for School Buses

Officials from the **Department of Elementary and Secondary Education** (DESE) assumed that a similar proposal (SB 421, LR 1733-01) would create a savings to school districts and a loss to the state. DESE calculates that total miles traveled by school district owned and contracted buses were 126,067,918 for the 2005-2006 school year. By dividing total miles by an average of 7 miles per gallon, this yields 18,009,703 gallons of fuel used annually. Multiplying gallons of fuel used by 17 cents per gallon (the current Missouri fuel tax) results in an estimated annual fuel tax exemption for school districts of \$3,061,650.

Officials from the **Department of Revenue** (DOR) assumed that a similar proposal (SB 421, LR 1733-01) would not have a significant fiscal impact to their organization. DOR did not provide an estimate of the revenue loss.

Officials from the **Department of Transportation** (MODOT) assumed that a similar proposal (SB 421, LR 1733-01) would exempt motor fuel sold to school districts from the motor fuel tax. DOR estimated the loss as follows:

According to DESE they expect a 1.03% bus travel growth annually. The total bus miles traveled during the 2004-05 school year was 126,067,918. The average school bus gets 7 miles per gallon. Total gallons used ($126,067,918/7=18,009,702.57$). That would be an income lose of \$3,061,650.

Adding the 1% growth rate the impact would be \$2,577,000 for FY 08 - partial year, \$3,122,000 for FY 09, and \$3,154,000 for FY 2010. MODOT provided the following allocation of lost revenues (rounded):

	FY 2008	FY 2009	FY 2010
Road Fund	(\$1,887,000)	(\$2,287,000)	(\$2,310,000)
Cities	(\$387,000)	(\$468,000)	(\$473,000)
Counties	(\$303,000)	(\$367,000)	(\$371,000)
Total	(\$2,577,000)	(\$3,122,000)	(\$3,154,000)

ASSUMPTION (continued)

Officials from the **Parkway School District** assumed that a similar proposal (SB 421, LR 1733-01) would result in a savings of approximately \$50,000 per year to their organization. No other school districts responded to our request for information.

Oversight assumes the school districts would realize the full savings from the proposal, and that administrative costs to the state and the school districts would be minimal.

Motor Fuel Tax Exemption for Mass Transit Systems

Officials at the **Missouri Department of Transportation (MoDOT)** assumed a similar proposal (HB 247 LR 0179-01) would exempt motor fuel used for certain public transportation purposes from motor fuel tax.

MoDOT's current funding has been committed to projects over the next 5 years in the Statewide Transportation Improvement Program. Any decrease in funding will hamper the department's ability to fulfill its commitments. A loss in transportation funding also could mean the department's bonding efforts could be jeopardized. Any impact to Missouri highway revenues could invoke concern among bondholders, which would cause interest rates on future bonds to increase.

MoDOT calculated that in Fiscal Year 2006 that transit authorities consumed an estimated 9,943,211 gallons of gasoline at the State Gas Tax Rate of \$.17 per gallon for a total of \$1,690,346 in gas tax being paid. MoDOT then calculated the loss of that money for the state, cities and counties.

Officials at the **Department of Revenue (DOR)** assumed a similar proposal (HB 247 LR 0179-01) would have no fiscal impact to their organization. DOR assumes this legislation would establish an exemption. Exemptions reduce state tax due, therefore it would reduce state revenues.

ASSUMPTION (continued)

The excise tax section anticipates additional refunds to process due to this exemption. This may impede process time. DOR currently does not track fuel usage, therefore, cannot determine the loss of fuel tax revenues the state will experience due to this exemption. Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 1 month at a rate of \$4,186.

Officials at the **City of Kansas City** assumed a similar proposal (HB 247 LR 0179-01) would apply to a city transportation authority. The City of Kansas City does not operate a transportation authority, those mass transit services are provided by the Kansas City Area Transportation Authority, which is partially funded by Kansas City. Any savings enjoyed by the KC ATA may be indirectly enjoyed by the City of Kansas City through greater services for the money now spent for transportation services if the KC ATA has additional funds available.

The **Kansas City Area Transportation Authority** did not respond to Oversight's request for fiscal impact.

Officials at the **City of Centralia** assumed a similar proposal (HB 247 LR 0179-01) would may be a minimal reduction in gas tax distribution statewide that would result in slight reduction to city appropriation.

No other city responded to **Oversight's** request for fiscal impact.

Oversight assumes the motor fuel tax exemption will be a loss to the Road Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
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>
CONSERVATION COMMISSION FUND			
<u>Loss - Conservation Fund</u>			
Exemption for MODOT projects	<u>(\$743,188)</u>	<u>(\$536,250)</u>	<u>(\$393,063)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$743,188)</u>	<u>(\$536,250)</u>	<u>(\$393,063)</u>
<hr/> ROAD FUND			
<u>Savings - Sales tax exemption for MODOT projects</u>	\$37,010,738	\$26,705,250	\$19,574,512
Revenue reduction -			
Motor fuel tax exemption for school buses	<u>(\$1,887,000)</u>	<u>(\$2,287,000)</u>	<u>(\$2,310,000)</u>
Motor fuel tax exemption for mass transit	<u>(\$825,000)</u>	<u>(\$1,238,000)</u>	<u>(\$1,238,000)</u>
ESTIMATED NET EFFECT ON ROAD FUND	<u>(\$34,298,738)</u>	<u>(\$23,180,250)</u>	<u>(\$16,026,512)</u>

<u>FISCAL IMPACT</u> - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
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PARKS AND SOIL FUND

<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 PARKS AND SOIL FUND	<u>(\$594,550)</u>	<u>(\$429,000)</u>	<u>(\$314,450)</u>
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SCHOOL DISTRICT TRUST FUND

<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>

ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$5,945,500)</u>	<u>(\$4,290,000)</u>	<u>(\$3,144,500)</u>
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<u>FISCAL IMPACT</u> - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
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LOCAL GOVERNMENT

<u>Savings</u> - School districts			
Exemption for school bus motor fuel	\$2,577,000	\$3,122,000	\$3,154,000

<u>Revenue reduction</u> - Cities and Counties			
Exemption for MODOT projects	(\$11,891,000)	(\$8,580,000)	(\$6,289,000)
Exemption for school bus motor fuel	(\$690,000)	(\$835,000)	(\$844,000)
Exemption for mass transit motor fuel	<u>(\$302,000)</u>	<u>\$453,000</u>	<u>(\$453,000)</u>

ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>(\$10,306,000)</u>	<u>(\$6,746,000)</u>	<u>(\$4,432,000)</u>
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FISCAL IMPACT - Small Business

This proposal would have an impact to small business that contract with MODOT and small businesses involved in school transportation.

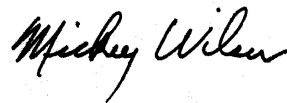
FISCAL DESCRIPTION

This proposal would exempt contractors from paying sales taxes on materials used in Department of Transportation projects and would exempt from motor fuel tax the fuel used by school buses and mass transit systems.

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



Mickey Wilson, CPA
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March 9, 2007