

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0783-01
Bill No.: HB 822
Subject: Taxation and Revenue - General; Transportation; Motor Fuel
Type: Original
Date: March 5, 2019

Bill Summary: This proposal authorizes an increase in the tax on motor fuel.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
General Revenue	(\$89,565)	(\$90,406)	(\$91,073)	(\$94,513)
Total Estimated Net Effect on General Revenue	(\$89,565)	(\$90,406)	(\$91,073)	(\$94,513)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
State Road Fund	\$29,892,305	\$89,676,915	\$149,461,525	\$299,310,391
Total Estimated Net Effect on <u>Other</u> State Funds	\$29,892,305	\$89,676,915	\$149,461,525	\$299,310,391

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
General Revenue	2 FTE	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE	2 FTE

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2027)
Local Government	\$13,043,915	\$39,131,745	\$65,219,575	\$130,608,171

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume starting January 1, 2020 this section would increase the motor fuel tax by \$0.02 per gallon, per year until the fuel tax reaches \$0.27. For the purpose of this fiscal note, B&P will reflect the fuel tax increases from tax year 2020 through tax year 2024. This section would also increase the alternative fuel taxes for compressed natural gas (CNG), liquefied natural gas (LNG), and propane to \$0.27 beginning January 1, 2026. B&P notes that under current law CNG, LNG, and propane taxes are scheduled to increase from \$0.05 to \$0.11 beginning calendar year 2020 and then to \$0.17 beginning calendar year 2025. For the purpose of this fiscal note, B&P compared the tax increases under this proposal against the tax increases already scheduled to occur. Table 1 shows the current and proposed tax rates for motor fuels.

Table 1: Proposed Motor Fuel Tax Rates

Tax Year	Gas/Diesel Current Law	Gas/Diesel Proposed	CNG/LNG Current Law	CNG/LNG Proposed
2020	\$0.17	\$0.19	\$0.11	\$0.11
2021	\$0.17	\$0.21	\$0.11	\$0.11
2022	\$0.17	\$0.23	\$0.11	\$0.11
2023	\$0.17	\$0.25	\$0.11	\$0.11
2024	\$0.17	\$0.27	\$0.11	\$0.11
2025	\$0.17	\$0.27	\$0.17	\$0.17
2026	\$0.17	\$0.27	\$0.17	\$0.27
2027	\$0.17	\$0.27	\$0.17	\$0.27

Based on FY 2018 motor fuel tax collections of \$729.9 million, B&P estimates that 4,293.6 million gallons of motor fuel were taxed. Using this estimate, B&P calculates that a total increase of \$0.10 on the motor fuel tax will generate \$429.4 million in revenue.

Based on FY 2018 collections of \$139,048 for compressed natural gas/propane and \$139,133 for liquefied natural gas, B&P estimates that a total increase of \$0.10 on the alternative fuels could generate up to \$556,000 in revenue. B&P notes that under this proposal, taxpayers could still purchase an alternative fuel decal rather than pay the fuel tax at the pump.

Based on these calculations, B&P estimates the increased taxes will generate \$29.9 million for the State Road Fund in FY 2020 and \$299.3 million in FY 2027 and thereafter. The increased

ASSUMPTION (continued)

tax will also raise local funds of \$13.0 million in FY 2020 and \$130.6 million in FY 2027 and thereafter. Table 2 shows the estimate revenue impact by fiscal year.

Table 2: Motor Fuel Tax Collections (figures in millions)

Fiscal Year	State Road Fund	Local Funds	Total
2020	\$29.9	\$13.0	\$42.9
2021	\$89.7	\$39.1	\$128.8
2022	\$149.5	\$65.2	\$214.7
2023	\$209.2	\$91.3	\$300.5
2024	\$269.0	\$117.4	\$386.4
2025	\$298.9	\$130.4	\$429.3
2026	\$299.1	\$130.5	\$429.6
2027	\$299.3	\$130.6	\$429.9

Officials at the **Department of Revenue (DOR)** assume this section states that, on January 1, 2020, and the four following January firsts, the motor fuel tax shall increase by two cents per gallon until it equals twenty-seven cents per gallon. In addition, this section states all motor fuels and alternative fuels, including gasoline, diesel, electricity, hydrogen, propane, compressed natural gas, and liquefied natural gas, shall be taxed at substantially the same rate.

The Department of Agriculture, in cooperation with the Department of Revenue, shall promulgate rules on or before December 31, 2024, to implement the provisions of this subsection.

Fiscal Year	Impact to State Road Fund	Impact to County Aid Road Trust Fund	Impact to Cities, Counties, Villages	Total Impact
FY 20	\$29,220,221.22	\$6,261,475.97	\$6,261,475.97	\$41,743,173.17
FY 21	\$116,880,884.86	\$25,045,903.90	\$25,045,903.90	\$166,972,692.66
FY 22	\$175,321,327.30	\$37,568,855.85	\$37,568,855.85	\$250,459,038.99
FY 23	\$233,761,769.73	\$50,091,807.80	\$50,091,807.80	\$333,945,385.33
FY 24	\$292,202,212.16	\$62,614,759.75	\$62,614,759.75	\$417,431,731.66
FY 25	\$292,202,212.16	\$62,614,759.75	\$62,614,759.75	\$417,431,731.66
FY 26	\$292,660,173.90	\$62,712,894.41	\$62,712,894.41	\$418,085,962.71
FY 27	\$293,118,135.63	\$62,811,029.06	\$62,811,029.06	\$418,740,193.76
FY 28	\$293,118,135.63	\$62,811,029.06	\$62,811,029.06	\$418,740,193.76
FY 29	\$293,118,135.63	\$62,811,029.06	\$62,811,029.06	\$418,740,193.76

ASSUMPTION (continued)

DOR's Excise Tax requires 1 Revenue Processing Technician (\$24,360) for the increased review of the motor fuel refund claims and the Excise Tax Section requires 1 Revenue Processing Technician I for the increase in reporting and registration what would be required. Form changes and system changes may be required. Funds may be required or requested in order to notify approximately 450 licensees of annual rate changes.

Oversight will show the DOR FTE in the fiscal note.

Oversight will use the B&P estimates in the fiscal note.

Officials at the **Missouri Department of Transportation** defer to DOR for fiscal impact.

Officials at the **Department of Agriculture** assume there is no fiscal impact from this proposal.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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 require additional resources.

Oversight notes this chart shows the amount of tax collected and number of gallons sold on motor fuel each of the last five fiscal years.

ASSUMPTION (continued)

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Motor Fuel Tax Collected	\$710,035,563	\$734,682,957	\$725,918,660	\$704,792,974	\$704,921,584
Gallons	4,176,679,783	4,321,664,453	4,270,109,765	4,145,841,024	4,146,597,553

Source: Department of Revenue

Oversight notes the money in the Motor Fuel Tax Fund (0673) is distributed 15% to cities, 12% to counties, and the remaining 73% to the State Road Fund (0320).

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

**FISCAL IMPACT -
 State Government**

	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2027)
GENERAL REVENUE				
<u>Cost - DOR</u>				
§142.803				
Personal Service	(\$40,600)	(\$49,207)	(\$49,699)	(\$52,234)
Fringe Benefits	(\$33,391)	(\$40,217)	(\$40,367)	(\$41,140)
Equip & Exp	<u>(\$15,574)</u>	<u>(\$982)</u>	<u>(\$1,007)</u>	<u>(\$1,139)</u>
Total Cost -	<u>(\$89,565)</u>	<u>(\$90,406)</u>	<u>(\$91,073)</u>	<u>(\$94,513)</u>
FTE Change	2 FTE	2 FTE	2 FTE	2 FTE

**ESTIMATED NET
 EFFECT ON
 GENERAL
 REVENUE**

	<u>(\$89,565)</u>	<u>(\$90,406)</u>	<u>(\$91,073)</u>	<u>(\$94,513)</u>
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE	2 FTE

**STATE ROAD
 FUND**

Additional Revenue
 - MODOT §142.803
 increase the motor
 fuel tax

	<u>\$29,892,305</u>	<u>\$89,676,915</u>	<u>\$149,461,525</u>	<u>\$299,310,391</u>
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**ESTIMATED NET
 EFFECT ON THE
 STATE ROAD
 FUND**

	<u>\$29,892,305</u>	<u>\$89,676,915</u>	<u>\$149,461,525</u>	<u>\$299,310,391</u>
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<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2027)
LOCAL POLITICAL SUBDIVISIONS				
<u>Additional Revenue</u> to Cities (15%) & Counties (12%) from increasing the tax from 17 to 27 cents per gallon §142.803	<u>\$13,043,915</u>	<u>\$39,131,745</u>	<u>\$65,219,575</u>	<u>\$130,608,171</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$13,043,915</u>	<u>\$39,131,745</u>	<u>\$65,219,575</u>	<u>\$130,608,171</u>

FISCAL IMPACT - Small Business

Small businesses will be impacted by higher motor fuel tax.

FISCAL DESCRIPTION

The bill will increase the fuel tax by \$0.10 from its current level of \$0.17 per gallon to \$0.27 per gallon using incremental increases of \$0.02 per gallon beginning January 1, 2020, and ending on January 1, 2024. It would also require alternative fuels to be taxed at a substantially similar rate approved by the Department of Agriculture beginning January 1, 2026.

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
Joint Committee on Administrative Rules
Missouri Department of Transportation
Office of Administration Division of Budget and Planning
Office of the Secretary of State



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March 5, 2019

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March 5, 2019