

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1175-02
Bill No.: Perfected HCS for HB 451
Subject: Motor Vehicles; Licenses - Motor Vehicle
Type: Original
Date: February 26, 2019

Bill Summary: This proposal repeals the requirement that all motor vehicles must obtain an inspection before the vehicle may be licensed.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$9,720) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)
Total Estimated Net Effect on General Revenue	(\$9,720) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Highway Fund (0644)	Up to (\$2,302,803)	Up to (\$1,598,890)	Up to (\$1,592,107)
Highway Patrol Inspection Fund (0297)	(\$247,598)	(\$495,196)	(\$495,196)
Total Estimated Net Effect on Other State Funds*	Up to (\$2,550,401)	Up to (\$2,094,086)	Up to (\$2,087,303)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 15 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Highway Fund	(14 FTE)	(14 FTE)	(14 FTE)
Total Estimated Net Effect on FTE	(13 FTE) or (14 FTE)	(13 FTE) or (14 FTE)	(13 FTE) or (14 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
Local Government	Could exceed \$59,753	Could exceed \$119,505	Could exceed \$119,505

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Public Safety - Missouri Highway Patrol (MHP)** state the following regarding this proposal:

Currently, the vehicle safety inspection program is funded by charging licensed inspection stations a fee of \$1.50 for each safety inspection sticker and/or motorcycle decal purchased. These stickers and/or decals are used by licensed stations to indicate a presented vehicle has passed the vehicle safety inspection. \$1.00 for each sticker/decal sold is deposited into the Highway Fund (0644), while \$0.50 for each sticker/decal sold is deposited into the Highway Patrol Inspection Fund (0297). Activities of the Motor Vehicle Inspection Division (MVID) are primarily supported by monies from the Highway Fund, with additional monies from the Highway Patrol Inspection Fund dedicated to safety and education programs of the division.

FY 2018 MVID records indicate deposits from the vehicle safety inspection program, totaling \$3,838,481, were made into the following accounts:

Highway Fund (#0644):	\$2,573,303
Highway Patrol Inspection Fund (#0297):	<u>\$1,265,178</u>
Total Income Loss from Program Elimination:	\$3,838,481

In addition, MVID deposited \$2,167,081 into the Department of Natural Resources (DNR) Emission Fund (0267). These funds were collected by MVID at the sale of emission inspection authorities of the Gateway Vehicle Inspection Program (GVIP), administered by MVID in conjunction with the vehicle safety inspection program. Elimination of the vehicle safety inspection program will reduce state revenues by nearly \$4 million annually, and will require an alternative method to be established for the administration of the GVIP program.

This loss of revenue would directly impact the funding of Highway Patrol operations. The portion of sticker sales that is deposited into the Highway fund (\$2,573,303 per year) partially funds the Patrol's Motor Vehicle Inspection Division. This division is comprised of 72 FTE and has a personal services budget of \$5,307,336 including fringe benefits, and an expense and equipment budget of \$410,804.

This legislation would eliminate any program-generated revenue that contributes to funding the 72 FTE and their related expenses to conduct statutorily mandated inspections and activities.

ASSUMPTION (continued)

That includes VIN Salvage and ID/OD (Sections 301.190 and 301.191, RSMo.); Dealer Inspections (Sections 301.560 and 301.564, RSMo.); Window Tinting (Section 307.173, RSMo.); Licensing of ID/OD Inspection Stations and School Bus Inspection Stations (Sections 307.360, 307.365, and 307.375, RSMo.); School Bus Inspections (Section 307.375, RSMo.); and Emissions (Chapter 643).

21% of Motor Vehicle Inspection (MVI) Division work hours expended involve motor vehicle safety inspection activities. 21% of MVI's workforce is the equivalent of 14 FTE, which would be comprised of the following:

MVI Supervisor - 4 FTE (\$170,100)
Motor Vehicle Inspector III - 8 FTE (\$286,552)
Clerk Typist III - 2 FTE (\$58,120)
Total: 14 FTE (\$514,772)

Since the legislation would become effective January 1, 2020, the FY 2020 impact is for half a year.

The portion of sticker sales that is deposited into the Highway Patrol Inspection fund (\$1,265,178 per year) funds an overtime budget of \$213,316 per year including fringe benefits, and an expense and equipment budget of \$224,858.

A significant portion of the money remaining in the Highway Patrol Inspection fund at the end of each biennium is transferred into the State Road Fund (approximately \$2 million per biennium), per Section 307.365.6, RSMo.

Oversight assumes with the increase in revenue to the Highway Patrol Inspection Fund as a result of the committee substitute, for the next biennium sweep, there will be sufficient funds in the Highway Patrol Inspection fund to make this transfer to the State Road Fund; therefore, Oversight will not reflect a loss to the State Road Fund.

MHP notes the state of Missouri will be required to issue refunds to all stations with valid safety inspection stickers and/or motorcycle inspection decals rendered unusable by this proposal. MVID estimates approximately 1,000,000 stickers that safety inspection authorities and/or motorcycle inspection decals would be eligible for refund, resulting in a one-time expense to the state of approximately \$1.5 million.

ASSUMPTION (continued)

Unusable stickers/decals submitted for reimbursement:	1,000,000
Cost @ Sticker/Decal:	x \$1.50
Total Refund Cost - State of MO:	\$1,500,000

The state of Missouri can expect to see a loss of sales tax revenue generated from the \$33.1 million for repairs and parts for vehicles that fail the vehicle safety inspection. The estimated loss of sales tax revenue is \$1,400,764.

Annual Repair Sales at Inspection Stations:	\$33,154,171
Missouri Sales Tax Rate:	x 4.225%
Total MO Sales Tax Revenue Lost:	\$ 1,400,764

The state of Missouri can expect to see a significant decrease in business income tax revenue as a result of Missouri small businesses losing \$63,386,023. In addition, elimination of the motor vehicle safety inspection will result in a reduction of inspector/mechanics at official safety inspection stations.

This will, in turn, reduce taxable income for a significant portion of the 20,331 individuals who are currently active inspector mechanics in the vehicle safety program; thereby, creating an undetermined decrease in individual income tax revenues received by the state. Loss of income tax revenues, both business and individual, is difficult to estimate due to numerous factors. For this fiscal note, an estimated loss of \$1,280,000 in annual business and individual income tax was selected using ONLY an estimated income loss per inspector mechanic of \$30 annually:

Small Business Income Loss:	\$63,386,023
Inspector Mechanic Loss (\$30.20 @ I/M):	+\$ 613,977
Total Income Loss:	\$64,000,000
Estimated Tax Rate:	x 2.0%
Total Estimated Income Tax Revenue Loss:	\$ 1,280,000

The proposal eliminates the inspection of homemade trailers under 16' in length by official safety inspection stations. All previously untitled homemade trailers, regardless of length, would require inspection performed by either the sheriff of the county in which the owner is a resident, or by MHP. The current cost of such inspections is \$10. This proposal would increase the fee for this inspection to \$25. When inspected by the sheriff, these revenues would be deposited into the local law enforcement fund, or if no such fund exists, into the county's general revenue fund. When inspected by MHP, the fee would be paid to the Director of Revenue for deposit into the Highway Fund.

ASSUMPTION (continued)

Approximately 4,308 such trailer inspections were performed at official safety inspection stations in FY 2018. With this proposal, these inspections could be performed by MHP, creating additional revenue for the state of Missouri in the amount of \$107,700.

FY2018:	Homemade trailer inspections (under 16'):	4,308
	Inspection Fee:	$\times \quad \$25$
	Revenue Increase	\$107,700

In addition, in FY 2018, 787 trailers over 16' in length were inspected by local sheriff's or MHP, as required by statute. The current cost of such inspections is \$10. This proposal would increase the fee for this inspection to \$25, with the same provisions as stated above, for a net increase in revenues per inspection of \$15. This fee increase could increase state revenues by \$11,805.

FY2018:	Homemade trailer inspections (16' and over):	787
	Increase in Inspection Fee (\$10 to \$25):	$\times \quad \$15$
	Revenue Increase	\$11,805

House Committee Substitute

MHP notes the original fiscal impact of HB 451 still applies; however, there will be additional revenue as a result of the committee substitute. MHP notes in FY 2017, there were 384,991 Identification Number/Odometer Reading (ID/OD) inspections for out of state vehicles, which will result in \$769,982 in revenue ($384,991 \times \2 fee for Hwy Patrol Inspection Fund = \$769,982).

Oversight notes, according to the MHP's budget submission, the Motor Vehicle Inspection Division is responsible for the overall administration and enforcement of the statutorily-mandated vehicle safety inspection program. Program expenditures for the past three fiscal years are as follows:

FY 2018	\$5,692,377*
FY 2017	\$5,526,580*
FY 2016	\$5,348,399*

* Mostly "other state funds" including Highway, Highway Patrol Inspection, and OASDHI.

Oversight assumes MHP could realize some amount of savings in program expenditures due to the vehicle inspection program being eliminated. Oversight will reflect the savings indicated in MHP's assumptions on the fiscal note.

ASSUMPTION (continued)

For simplicity, Oversight will reflect this potential savings in the Highway Fund (0644) and will not break out the possible savings to the Highway Patrol Inspection Fund as well. Oversight notes the fund balance in the Highway Fund (0644) was \$6,825,096 as of December 2018, therefore Oversight assumes there is a sufficient fund balance to cover current planned expenditures if there are not any realized savings. Oversight notes the fund balance in the Highway Patrol Inspections Fund (0297) was \$2,586,916 as of December 2018.

Oversight notes that also according to the MHP budget, MHP inspects approximately 12,000 buses annually and spot checks approximately 1,200 buses. The following number of stations are enrolled in the Motor Vehicle Safety Inspection Program:

	Government Stations	Private Stations	Public Stations	Emission Stations	Total Station Count
2018	390	568	3,500	850	5,308
2017	381	555	3,461	843	5,240
2016	388	563	3,497	853	5,301

Oversight does not have any information to the contrary in regards to MHP's assumptions; therefore, Oversight will reflect MHP's direct costs (reimbursement of inspections stickers to inspection stations), savings (elimination of the Motor Vehicle Inspection Program), income (increased fee for homemade trailer inspections), losses (inspection fees) and revenue (increased fee for inspections) on the fiscal note.

Reimbursement of inspection stickers to inspection stations:	(\$1,500,000)
Savings from elimination of the Motor Vehicle Inspection Program:	\$353,413 (FY 20, 6 mos)
Increased fee for homemade trailer inspections:	\$Up to \$119,505
Loss of inspection fees:	(\$1,265,178)
Revenue from increased fee for inspections:	\$769,982

Additionally, Oversight will reflect income (increased fee for homemade trailer inspections) to local law enforcement on the fiscal note.

However, Oversight will not reflect indirect losses that MHP has indicated in their assumption (loss of state sales tax generated from repairs and parts for vehicles that fail the safety inspection and the loss of business income tax related to small business no longer conducting safety inspections).

ASSUMPTION (continued)

Oversight notes it is unclear as to how the MHP will collect the new fee indicated in the House Committee Substitute.

Officials at the **Department of Revenue (DOR)** assume the following regarding this proposal:

Administrative Impact

The proposed legislation eliminates all safety inspection requirements for motor vehicles and safety inspection station provisions within chapters 301, 307, and 643.

To implement the proposed legislation, the Department will be required to:

- Update procedures, correspondence letters, and the Department website;
- Update the Application for Missouri Title and License (DOR-108);
- Update the Application for Missouri Vehicle License (DOR-184);
- Update the General Affidavit (DOR-768);
- Send out notification to all dealers via GovDelivery;
- Update the motor vehicle renewal notices and titling manual;
- Complete programming and user acceptance testing of identified systems;
- Amend and update administrative rules; and
- Train staff

FY 2020 - Motor Vehicle Bureau

Management Analysis Spec I	560 hrs. @ \$18.42 per hr.	= \$10,315
Administrative Analyst III	10 hrs. @ \$19.80 per hr.	= \$ 198
Administrative Office Support Asst.	15 hrs. @ \$13.78 per hr.	= \$ 207
Revenue Manager	80 hrs. @ \$20.59 per hr.	= \$ 1,647
Total		= \$12,367

FY 2020 - Personnel Services Bureau

Administrative Analyst III	10 hrs. @ \$19.80 per hr.	= \$ 198
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Total Costs = **\$12,565**

Oversight assumes DOR will use existing staff and will not hire additional FTE to conduct these activities; therefore, Oversight will not reflect the administrative costs DOR has indicated on the fiscal note.

ASSUMPTION (continued)

DOR notes OA-ITSD assumes services will be required at a cost of \$9,720 (129.6 hours x \$75 per hour) in FY 2020.

Oversight notes ITSD assumes that every new IT project/system will be bid out because all their resources are at full capacity. For this bill, ITSD assumes they will contract out the programming changes needed to the TRIPS, MORE and Motor Vehicle Renewals systems. ITSD estimates the project would take 129.6 hours at a contract rate of \$75 per hour for a total cost to the state of \$9,720. Oversight notes that an average salary for a current IT Specialist within ITSD is \$51,618, which totals roughly \$80,000 per year when fringe benefits are added. Assuming that all ITSD resources are at full capacity, Oversight assumes ITSD may (instead of contracting out the programming) hire an additional IT Specialist to perform the work required from this bill. Therefore, Oversight will range the fiscal impact from the cost of contracting out the work (\$9,720) to hiring an additional FTE IT Specialist (roughly \$80,000 per year).

Officials from the **Department of Transportation** defer to DOR for the fiscal impact of this proposal.

Officials from the **Department of Natural Resources (DNR)** assume the proposal will have no fiscal impact on their organization. DNR noted that the Gateway Vehicle Emissions Inspection Program would still be authorized to continue.

Oversight inquired of DNR in regards to the fiscal impact of the loss of funds indicated by MHP to the Gateway Vehicle Emissions Inspection Program. Oversight was unable to confirm if this proposal would have a direct fiscal impact on this program; therefore, Oversight has not reflected a fiscal impact to DNR on the fiscal note.

Officials from the **Office of the State Courts Administrator, Office of the State Public Defender** and **Office of Prosecution Services** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight notes that the agencies mentioned above have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for those agencies.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume this proposal would result in insignificant savings due to not being required to have department vehicles inspected.

ASSUMPTION (continued)

Oversight assumes the savings DESE indicated will not be material; therefore, Oversight will not reflect the savings on the fiscal note

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.

Officials from the **Joint Committee on Administrative Rules** state that the proposal is not anticipated to cause a fiscal impact to their agency beyond its current appropriation.

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

Oversight notes that the MHP stated there are currently 33 states that do not have vehicle inspections.

FISCAL IMPACT - State Government	FY 2020 (6 Mo.)	FY 2021	FY 2022
GENERAL REVENUE FUND			
Cost - DOR - ITSD costs (ranged from contracting out programming (\$9,720) to hiring additional FTE IT Specialist) p. 9	(\$9,720) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	(\$9,720) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)
Estimated Net FTE Change for General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
HIGHWAY FUND			
Savings - MHP - elimination of Motor Vehicle Inspection program (personal services + fringe benefits) p. 3-4, 6	\$424,096	\$854,908	\$861,691
FTE Change - MHP	(14 FTE)	(14 FTE)	(14 FTE)
<u>Income</u> - MHP - increased fee for homemade trailer inspections p. 5-6	Up to \$59,753	Up to \$119,505	Up to \$119,505
<u>Cost</u> - MHP - reimbursement of inspection stickers to inspection stations p. 4-5	Up to (\$1,500,000)	\$0	\$0
<u>Loss</u> - MHP - inspection fees p. 3	<u>(\$1,286,652)</u>	<u>(\$2,573,303)</u>	<u>(\$2,573,303)</u>
ESTIMATED NET EFFECT ON THE HIGHWAY FUND	Up to <u>(\$2,302,803)</u>	Up to <u>(\$1,598,890)</u>	Up to <u>(\$1,592,107)</u>
Estimated Net FTE Change to the Highway Fund	(14 FTE)	(14 FTE)	(14 FTE)

FISCAL IMPACT - State Government (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022
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**HIGHWAY PATROL INSPECTION
FUND**

<u>Income</u> - increase in fee for inspections (\$1.50 to \$2) p. 6	\$384,991	\$769,982	\$769,982
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<u>Loss</u> - MHP - inspection fees p. 3	(\$632,589)	(\$1,265,178)	(\$1,265,178)
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ESTIMATED NET EFFECT ON THE HIGHWAY PATROL INSPECTION FUND	<u>(\$247,598)</u>	<u>(\$495,196)</u>	<u>(\$495,196)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
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LOCAL POLITICAL SUBDIVISIONS

<u>Savings</u> - local political subdivisions - from not incurring vehicle inspection costs	Unknown	Unknown	Unknown
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<u>Income</u> - Sheriffs - increased fee for homemade trailer inspections p. 5-6	<u>Up to \$59,753</u>	<u>Up to \$119,505</u>	<u>Up to \$119,505</u>
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ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>Could exceed</u> <u>\$59,753</u>	<u>Could exceed</u> <u>\$119,505</u>	<u>Could exceed</u> <u>\$119,505</u>
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FISCAL IMPACT - Small Business

MHP states the elimination of the vehicle safety inspection program will create a loss of revenue for small businesses currently licensed to perform vehicle safety inspections. Their revenues come from the \$12 inspection fee they are currently authorized by Missouri law to charge. The loss of revenue due to elimination of the vehicle safety inspection program is estimated to be \$30.2 million annually.

FISCAL IMPACT - Small Business (continued)

FY2018:	2,453,431 vehicles x \$12 inspection fee =	\$29,441,172
	74,760 motorcycles x \$10 inspection fee =	\$ 747,600
	Revenues Lost - Inspection Fees	<u>\$30,188,772</u>

The average cost of repairs per failed vehicle is estimated at \$69. When multiplied by the number of vehicles which fail the vehicle safety inspection annually (approximated to be 480,356), small businesses that repair these vehicles would lose an additional estimated \$33.1 million in annual revenues.

FY2018:	Inspections performed:	2,528,191
	Failure Rate:	x 19.00%
	Vehicles Failed:	480,356
	Average Repair Cost:	x \$69
	Revenues Lost - Repairs:	<u>\$33,144,564</u>

The proposal eliminates the inspection of homemade trailers by official vehicle safety inspection stations. Inspections of trailers under 16' in length are currently authorized to be performed by official vehicle safety inspection stations at a fee of \$10 per inspection. In FY 2018, there were 4,308 inspections of trailers under 16' conducted at safety inspection stations. This proposal would result in an additional loss of station revenues of \$43,080.

FY2018:	Homemade trailer inspections:	4,308
	Inspection Fee:	x \$10
	Revenues Lost - Trailer Inspection	<u>\$43,080</u>

The proposal authorizes vehicle safety inspection stations to perform inspections of out-of-state vehicles to be titled in Missouri, to certify the vehicle's VIN number and the odometer reading. Current fees for this type of inspection are \$12 for motor vehicles, and \$10 for motorcycles. Changes to Section 307.365, RSMo. will change this fee to \$12 for all vehicle types, which would result in a \$2 increase in station revenue for each out-of-state motorcycle presented for the purposes of obtaining a Missouri title. In calendar year 2017, there were more than 860,000 of these inspections completed.

Oversight assumes there will be an unknown fiscal impact to small businesses as a result of this proposal; however, Oversight was unable to verify the data provided by MHP.

FISCAL DESCRIPTION

This bill repeals the inspection requirement for non-commercial motor vehicles which is currently required in order to renew a motor vehicle license. The air quality and emission inspection requirements for St. Louis and some specified areas which are mandated by federal law are not modified. Inspection stations may still perform school bus safety inspections, and odometer reading inspections and services for transferring vehicle ownership.

Currently, an untitled, homemade trailer that is 16 feet or more in length must have a certificate of inspection. This bill requires all homemade trailers to have a certificate of inspection and increases the inspection fee from \$10 to \$25. The State Highway Patrol or other authorized law enforcement agency shall issue the vehicle examination certificate. The Superintendent of the State Highway Patrol shall provide law enforcement agencies performing the inspections with the needed forms.

This bill has an effective date of January 1, 2020.

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 Public Safety - Missouri Highway Patrol
Department of Revenue
Department of Transportation
Department of Natural Resources
Department of Elementary and Secondary Education
Office of the State Courts Administrator
Office of Prosecution Services
Office of the State Public Defender
Office of the Secretary of State
Joint Committee on Administrative Rules



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