

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1443-03
Bill No.: HCS for HB 626
Subject: Department of Revenue; Taxation and Revenue - General; Taxation and Revenue
- Sales and Use; Motor Vehicles
Type: Original
Date: February 27, 2019

Bill Summary: This proposal modifies provisions relating to the leasing or renting of motor vehicles.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$66,632) to (\$85,050)	\$0 to (\$80,631)	\$0 to (\$81,312)
Total Estimated Net Effect on General Revenue	(\$66,632) to (\$85,050)	\$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)	From (\$103,944) to (\$296,443)	From (\$124,732) to (\$355,732)	From (\$124,732) to (\$355,732)
Total Estimated Net Effect on <u>Other</u> State Funds	From (\$103,944) to (\$296,443)	From (\$124,732) to (\$355,732)	From (\$124,732) to (\$355,732)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 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
Total Estimated Net Effect on FTE	0 or 1 FTE	0 or 1 FTE	0 or 1 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	From (\$34,648) to (\$98,815)	From (\$41,578) to (\$118,578)	From (\$41,578) to (\$118,578)

FISCAL ANALYSIS

ASSUMPTION

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

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

- Update or create procedures, correspondence, and the Department website;
- Update the Application for Permit to Operate as a Motor Vehicle/Marine Craft Leasing Company (DOR-901);
- Complete programming and user acceptance testing;
- Create or amend administrative rules; and
- Train staff.

FY 2020 - Motor Vehicle Bureau

Management Analysis Spec I	440 hrs. @ \$18.42 per hr.	= \$ 8,105
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		= \$10,157

FY 2020 - Personnel Services Bureau

Administrative Analyst III	10 hrs. @ \$19.80 per hr.	= \$ 198
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Total Costs = **\$10,355**

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.

DOR notes OA-ITSD services will be required at a cost of \$85,050 (1,134 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 MODL system. ITSD estimates the project would take 1,134 hours at a contract rate of \$75 per hour for a total cost to the state of \$85,050. 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.

ASSUMPTION (continued)

Administrative Impact (continued)

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 (\$85,050) to hiring an additional FTE IT Specialist (roughly \$80,000 per year).

Revenue Impact

DOR notes this legislation will allow licensed lease rental companies that have 3,500 or more vehicles registered in their fleet to be issued fleet license plates that can be transferred around within their fleet without having to transfer the registration through the Department of Revenue. It is unknown how many companies will utilize this option. Currently, there are 0 companies that registered their vehicles as a fleet that have 3,500 or more vehicles registered in their fleet. Larger companies this legislation is designed for do not currently register their vehicles as a lease rental, and since the name these entities use for titling purposes can vary, the Department is unable to obtain the number of vehicles that are titled in these larger companies names (Enterprise, Avis, Budget, etc).

For the purposes of this fiscal note, the Department is assuming there will be 4 companies that will utilize the provisions in this legislation. Since the current annual license plate issuance fee for the first 3,500 plates remained at \$360, there will be a loss in registration fees that go to Highways, Cities, and Counties for the first 3,500 license plates issued in the amount of \$125,640.

3,500 plates for \$360 (as legislation is written) = \$360
3,500 plates x \$36 per set of plates = \$126,000
\$126,000 - \$360 = \$125,640

Annual Loss in Registration fees = \$125,640 x 4 companies = \$502,560

It is unknown how many vehicles past the 3,500 minimum requirement that will be registered as a lease rental. The average passenger vehicle fee in FY 2018 was \$24. This legislation increases the cost of each plate after the first 3,500 to \$36 for lease rental companies that utilize this option, but the Department will not collect \$2 transfer fees since the qualifying lease rental companies will no longer be required to transfer their registration through the normal process, but rather will be able to transfer their registration within their fleet without doing so through the Department.

ASSUMPTION (continued)

Revenue Impact (continued)

Therefore, each license plate purchased after the first 3,500 plates will result in an estimated increase in registration fees in the amount of \$10 per plate.

Some of these companies that register their vehicles as a lease rental prescribed in this legislation will have trucks in their fleet. The average cost for noncommercial truck registration is \$46.

This will result in a decrease of \$12 per plate after the first 3,500 plates are purchased for trucks. A vast majority of vehicles in lease rental companies that will qualify for the provisions of this legislation are passenger vehicles, and so this decrease will be minimal.

There was 673 lease rental companies in FY 2018. With the \$250 licensure fee this legislation creates, there would be an increase in the amount of \$168,250 that would get distributed to highways, cities, and counties.

Total Decrease in Amount to Distribute \$334,310 (\$502,560 - \$168,250)

	FY 2020 (10 months)	FY 2021	FY 2022
Highways	(\$208,944)	(\$250,733)	(\$250,733)
Cities	(\$41,789)	(\$50,146)	(\$50,146)
Counties	(\$27,859)	(\$33,431)	(\$33,431)
Total	(\$278,592)	(\$334,310)	(\$334,310)

Source: DOR

Oversight does not have any information to the contrary in regards to DOR's assumptions for annual registration fees. Oversight will reflect the increase in revenue due to the annual \$250 registration fee required to rent and/or lease vehicles (Up to \$168,250).

Oversight will range the fiscal impact of the loss of fees for license plates from \$24 (average cost of license plate registration for passenger vehicles) to \$46 (average cost of license plate registration for trucks) rather than the \$36 indicated by DOR:

ASSUMPTION (continued)

$3,500 \times \$24 = \$84,000 - \$360$ (proposed fee for 3,500 license plates) = $\$83,640 \times 4$ companies = $\$334,560$

$3,500 \times \$46 = \$161,000 - \$360$ (proposed fee for 3,500 license plates) = $\$160,640 \times 4$ companies = $\$642,560$

Total Fiscal Impact Range ($\$168,250 - \$334,560 = (\$166,310)$ to $\$168,250 - \$642,560 = (\$474,310)$)

	FY 2020 (10 months)	FY 2021	FY 2022
Highways	(\$103,944) to (\$296,443)	(\$124,732) to (\$355,732)	(\$124,732) to (\$355,732)
Cities	(\$20,789) to (\$59,289)	(\$24,947) to (\$71,147)	(\$24,947) to (\$71,147)
Counties	(\$13,859) to (\$39,526)	(\$16,631) to (\$47,431)	(\$16,631) to (\$47,431)
Total	(\$138,592) to (\$395,258)	(\$166,310) to (\$474,310)	(\$166,310) to (\$474,310)

Source: Oversight

Oversight notes the \$3.50 agent fee in Section 301.032.7 is already being collected; therefore, there is no fiscal impact from this provision.

Officials from the **Office of the State Courts Administrator (OSCA)** assume the proposal will have no fiscal impact on their organization.

Oversight notes that OSCA has 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 OSCA.

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.

ASSUMPTION (continued)

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 (JCAR)** 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.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE FUND			
<u>Cost</u> - DOR - ITSD costs (ranged from contracting out programming (\$85,050) to hiring additional FTE IT Specialist)	(\$66,632) to <u>(\$85,050)</u>	\$0 to <u>(\$80,631)</u>	\$0 to <u>(\$81,312)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	(\$66,632) to <u>(\$85,050)</u>	\$0 to <u>(\$80,631)</u>	\$0 to <u>(\$81,312)</u>
Estimated Net FTE Change to the General Revenue Fund	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022
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HIGHWAY FUND

<u>Revenue</u> - potential of up to 673 lease rental companies paying \$250 annual fee	Up to \$105,156	Up to \$126,187	Up to \$126,187
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<u>Loss</u> - decreased per plate fees for lease rental companies (3,500 for \$24 - \$46 vs. \$360 for the first 3,500 plates)	(\$209,100) to <u>(\$401,599)</u>	(\$250,919) to <u>(\$481,919)</u>	(\$250,920) to <u>(\$481,920)</u>
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ESTIMATED NET EFFECT ON THE HIGHWAY FUND	From (\$103,944) to <u>(\$296,443)</u>	From (\$124,732) to <u>(\$355,732)</u>	From (\$124,732) to <u>(\$355,732)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue</u> Cities - potential of up to 673 lease rental companies paying \$250 annual fee (15%)	Up to \$21,031	Up to \$25,238	Up to \$25,238
<u>Revenue</u> - Counties - potential of up to 673 lease rental companies paying \$250 annual fee (10%)	Up to \$14,022	Up to \$16,825	Up to \$16,825
<u>Loss</u> - Cities (15%) - decreased per plate fees for lease rental companies (3,500 for \$24 - \$46 vs. \$360 for the first 3,500 plates)	(\$41,821) to (\$80,321)	(\$50,185) to (\$96,385)	(\$50,185) to (\$96,385)
<u>Loss</u> - Counties (10%) - decreased per plate fees for lease rental companies (3,500 for \$24 - \$46 vs \$360 for the first 3,500 plates)	(\$27,880) to (\$53,547)	(\$33,456) to (\$64,256)	(\$33,456) to (\$64,256)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>From (\$34,648) to (\$98,815)</u>	<u>From (\$41,578) to (\$118,578)</u>	<u>From (\$41,578) to (\$118,578)</u>

FISCAL IMPACT - Small Business

Leasing or rental companies will be required to pay an annual fee of \$250 to operate as a leasing or rental company.

License Offices may lose out on license transfer fees due to this legislation.

FISCAL DESCRIPTION

This bill requires any person, company, or corporation engaged in the business of renting or leasing motor vehicles, trailers, boats, or outboard motors, which are to be used exclusively for rental or lease purposes, and not for resale, to apply to the Director of the Department of Revenue for authority to operate as a leasing or rental company and pay an annual fee of \$250 for such authority.

FISCAL DESCRIPTION (continued)

Additionally, every applicant to be a lease or rental company will furnish with the application a corporate surety bond or irrevocable letter of credit issued by any state or federal financial institution in the penal sum of \$100,000, on a form approved by the department. The bond or irrevocable letter of credit will be conditioned upon the lease or rental company complying with the provisions of any statutes applicable to lease or rental companies, and the bond will be an indemnity for any loss sustained by reason of the acts of the person bonded when such acts constitute grounds for the suspension or revocation of the lease or rental license.

The bond will be executed in the name of the state of Missouri for the benefit of all aggrieved parties or the irrevocable letter of credit shall name the state of Missouri as the beneficiary; except that, the aggregate liability of the surety or financial institution to the aggrieved parties shall, in no event, exceed the amount of the bond or irrevocable letter of credit. The proceeds of the bond or irrevocable letter of credit shall be paid upon receipt by the department of a final judgment from a Missouri court against the principal and in favor of an aggrieved party.

Any person, company, or corporation engaged in the business of renting or leasing 10 or more motor vehicles which are to be used exclusively for rental or leasing purposes and not for resale, and that has applied to the Director of the Department of Revenue for authority to operate as a leasing company may also operate as a registered fleet owner (Section 144.070, RSMo).

The Director of the Department of Revenue may issue license plates to a fleet owner after he or she completes an application, as designed by the director, and payment of an annual fee of \$360 for the first 3,500 plates and \$36 for each additional plate for fleet vehicles.

The payment and issuance of such plates shall be in lieu of registering each motor vehicle with the director as otherwise provided by law. These motor vehicles will not be exempt from safety and emission inspections required by law, but these inspections will not be required to be presented to the director.

Registrations for fleets are on an annual or biennial basis. If an applicant elects a biennial registration, the annual fleet license plate fees are doubled and the agent fee is collected in an amount equal to the fee for two years.

Prior to the issuance of fleet license plates, the applicant must provide proof of insurance as required under current law.

FISCAL DESCRIPTION (continued)

The authority of a recipient of a lease or rental company license issued by the director as prescribed in Section 144.070 to operate as a fleet owner as provided in this section shall expire on January 1st of the licensure period.

A lease or rental company operating fleet license plates issued under these provisions bill shall make available, upon request, to the Director of the Department of Revenue and all Missouri law enforcement agencies any corresponding vehicle and registration information that may be requested as specified by the rule.

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 Revenue
Office of the State Courts Administrator
Office of the Secretary of State
Joint Committee on Administrative Rules



Kyle Rieman
Director
February 27, 2019

Ross Strobe
Assistant Director
February 27, 2019