

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5477-02
Bill No.: HB 1989
Subject: Boats and Watercraft; Taxation and Revenue - Sales and Use
Type: Original
Date: February 2, 2016

Bill Summary: This proposal establishes in the state treasury the Waterways Trust Fund.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2028)
General Revenue	(\$7,290,186)	(\$8,724,895)	(\$8,724,895)	(\$2,000,000)
Total Estimated Net Effect on General Revenue	(\$7,290,186)	(\$8,724,895)	(\$8,724,895)	(\$2,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2028)
Waterways Trust Fund	\$7,270,746	\$8,724,895	\$8,724,895	\$0
Water Patrol Division Fund	\$0	\$0	\$0	(\$2,769,265)
Total Estimated Net Effect on Other State Funds	\$7,270,746	\$8,724,895	\$8,724,895	(\$2,769,265)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2017	FY 2018	FY 2019	Fully Implemented (FY 2028)
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 2017	FY 2018	FY 2019	Fully Implemented (FY 2028)
Total Estimated Net Effect on FTE	0	0	0	0

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 2017	FY 2018	FY 2019	Fully Implemented (FY 2028)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this proposal creates the Waterways Trust Fund. The Department of Transportation administers the fund upon appropriation. The legislation requires the following fees/taxes to be deposited into this fund:

- Proceeds from state sales tax on boats and outboard motors, with certain exclusions
- The first two million dollars from fees imposed in 306.030 annually
- Title fees
- Delinquency penalty fees
- Outboard registration and title fees
- Any additional processing fees collected by the state

DOR states currently three percent of the sales tax goes into General Revenue (GR). This proposal creates an unknown negative impact on Total State Revenue.

Administrative Impact:

Cashiering

SAM II requires updates for the Waterways Trust Fund. The current transmittal system and worksheets require programming to account for and track the new item tax; or the integrated tax system requires programming to properly account for and track the new item tax.

If this includes all boats, regardless if they are required to be titled or registered, then a new item tax and programming will be needed to add this in MITS or the new integrated tax system. This would affect any retailer that sells these products.

DOR assumes that this project will be bid out for a cost of \$19,440 (259.2 hours x \$75 per hour).

Sales Tax

DOR needs to send a letter to all businesses with all applicable Standard Industry Codes (SIC) related to boat sales to find the correct population of businesses that should be registered with the item tax. Currently the three percent (3%) state sales tax collected on the sales of boat/vessels and outboard motors goes into General Revenue (GR). This change would result in a decrease to GR.

ASSUMPTION (continued)

Revenue Impact:

3% of Marine Sales Tax Diverted from General Revenue:

This proposal redirects 3% of the 4.225% collected from General Revenue to the "Waterways Trust Fund".

In fiscal year 2015 there was \$8,480,800 in state sales tax collected on vessels and outboard motors from the current 4.225% tax rate.

- 1% (\$2,007,290) of the marine sales tax collected and distributed to the School District Trust Fund would remain constant and is not being calculated into this revenue impact.
- .225% (\$451,640) of the marine sales tax collected and distributed to Conservation, Soil/Water, and Park Funds would remain constant and is not being calculated into this revenue impact.

3% (\$6,021,870) of the sales tax was collected and distributed to General Revenue. Under this proposal this amount would now be diverted to the Waterways Trust Fund.

	FY 2017 (10 Months)	FY 2018	FY 2019
Waterways Trust Fund Increase	\$5,018,225	\$6,021,870	\$6,021,870
General Revenue Decrease	\$5,018,225	\$6,021,870	\$6,021,870

Vessel and Outboard Motor Title Fees, Title Penalty Fees, and Registration Fees:

In fiscal year 2015 there was \$486,308 in title fees and \$147,026 in title penalty fees collected on vessels and outboard motors that was collected and distributed to General Revenue. Under this proposal this amount would now be diverted to the Waterways Trust Fund.

	FY 2017 (10 Months)	FY 2018	FY 2019
Waterways Trust Fund Increase	\$527,778	\$633,334	\$633,334
General Revenue Decrease	\$527,778	\$633,334	\$633,334

ASSUMPTION (continued)

Revenue Impact (continued):

Certificate of Numbers Fees:

In fiscal year 2015 there was \$4,759,359 in certificate of numbers fees collected. Under this proposal the first \$2,000,000 would now be diverted to the Waterways Trust Fund.

In fiscal year 2015 there was \$45,745 in outboard motor decal fees collected and distributed to General Revenue. Under this proposal this amount would now be diverted to the Waterways Trust Fund.

	FY 2017 (10 Months)	FY 2018	FY 2019
Waterways Trust Fund Increase	\$1,704,788	\$2,045,745	\$2,045,745
General Revenue Decrease	\$1,704,788	\$2,045,745	\$2,045,745

Processing Fees:

In fiscal year 2015 there was \$23,946 in processing fees collected on vessel and outboard motor transactions by the central office. Under this proposal this amount would now be diverted to the Waterways Trust Fund.

	FY 2017 (10 Months)	FY 2018	FY 2019
Waterways Trust Fund Increase	\$19,955	\$23,946	\$23,946
General Revenue Decrease	\$19,955	\$23,946	\$23,946

Summary:

	FY 2017 (10 Months)	FY 2018	FY 2019
Marine State Sales Tax	\$5,018,225	\$6,021,870	\$6,021,870
Marine Title Fees, Penalties	\$ 527,778	\$ 633,334	\$ 633,334
Marine Registration Fees	\$1,704,787	\$2,045,745	\$2,045,745
Marine Processing Fees	<u>\$ 19,955</u>	<u>\$ 23,946</u>	<u>\$ 23,946</u>
TOTAL	\$7,270,746	\$8,724,895	\$8,724,895

ASSUMPTION (continued)

Officials from the **Department of Transportation (MoDOT)** assume this proposal establishes the Waterways Trust Fund and requires certain boat and outboard motor taxes and fees to be deposited into the fund instead of General Revenue. Based on FY 2014 General Sales and Use tax (\$1.4 million) and collected marine fees (\$4 million), MoDOT estimates \$5.4 million would be deposited into the newly created Waterways Trust Fund. Currently, the first \$2 million of the Certificate of Number fee is deposited into the General Revenue Fund, with anything in excess of \$2 million going to the Water Patrol Division Fund.

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** state this proposal appears to replace the Motorboat Fund with a new Waterways Trust Fund. It mentions that the first two million dollars collected would now go to this new fund rather than to General Revenue. This would have an impact on General Revenue from the overall state perspective but not from MHP's perspective. The proposal does not specify that MHP would have the ability to spend from this fund, therefore, MHP anticipates no fiscal impact.

MHP also states that in FY 2014, the Water Patrol Division received \$2,962,075 and in FY 2015, the Water Patrol Division received \$2,769,265. With the first \$2 million collected each year going to General Revenue, this would mean that Section 306.030 revenues were:

- \$4,962,075 in FY 2014; and
- \$4,769,265 in FY 2015

Officials from the **Office of Administration, Division of Budget and Planning (B&P)**, assume this proposal creates the Waterways Trust Fund and requires certain fees and the sales tax from boats and outboard motors to be deposited in the newly created fund. Based on information in DOR, B&P estimates that this proposal would decrease General Revenue (GR) by \$7.3 million in FY 2017 and by \$8.7 million in FY 2018 and thereafter.

ASSUMPTION (continued)

Table 1 shows the impacts to GR and the Waterways Trust Fund.

Fund	FY 2017	FY 2018	FY 2019
General Revenue	(\$7.3 million)	(\$8.7 million)	(\$8.7 million)
Waterways Trust Fund	\$7.3 million	\$8.7 million	\$8.7 million

If additional data becomes available, B&P will update this estimate.

Officials from the **Office of Secretary of State** assume the proposal will have no fiscal impact on their organization.

For purposes of this fiscal note, **Oversight** will use the Department of Revenue's estimates.

Oversight notes no new fees result from this legislation, rather existing fees are being redistributed.

§ Section 68.035 - **Oversight** notes that according to this proposal, moneys deposited into the Waterways Trust Fund are required to be used for grants to local port authorities. For simplicity, Oversight will not show the annual proceeds into the new fund being distributed to local port authorities in the form of grants.

Section B - **Oversight** notes that Section B of the proposal terminates Section 68.080 as well as Section 306.030 on August 28, 2026 (FY 2027). Section 306.030 allows for vessel registration and licensing. The deletion of this section in August 2026 would remove the state's ability to collect those fees going forward. Currently, the first \$2 million of these fees is deposited into General Revenue and the remaining amounts into the Water Patrol Fund. Using MHP's amounts, \$2,769,265 deposited in the Water Patrol Fund from this section in FY 2015, Oversight will assume a loss of \$4,769,265 from fees collected from Section 306.030 in FY 2028 and beyond.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY 2028)
GENERAL REVENUE FUND				
<u>Cost - DOR</u> Programming costs	(\$19,440)	\$0	\$0	\$0
<u>Loss - Section B</u> §306.030 is removed August 28, 2026	\$0	\$0	\$0	(\$2,000,000)
<u>Loss - Certain fees</u> and the sales tax from boats and outboard motors going to Waterways Trust Fund instead of General Revenue	<u>(\$7,270,746)</u>	<u>(\$8,724,895)</u>	<u>(\$8,724,895)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$7,290,186)</u>	<u>(\$8,724,895)</u>	<u>(\$8,724,895)</u>	<u>(\$2,000,000)</u>
 WATER PATROL DIVISION FUND				
<u>Loss - Section B</u> §306.030 is removed August 28, 2026	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,769,265)</u>
ESTIMATED NET EFFECT TO THE WATER PATROL DIVISION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,769,265)</u>

<u>FISCAL IMPACT - State Government - continued</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY 2028)
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**WATERWAYS
TRUST FUND**

<u>Revenue</u> - MoDOT Certain fees and the sales tax from boats and outboard motors	<u>\$7,270,746</u>	<u>\$8,724,895</u>	<u>\$8,724,895</u>	<u>\$0</u>
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ESTIMATED NET EFFECT TO THE WATERWAYS TRUST FUND	<u>\$7,270,746</u>	<u>\$8,724,895</u>	<u>\$8,724,895</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019	Fully Implemented (FY 2028)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

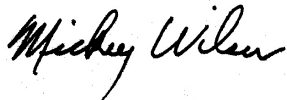
FISCAL DESCRIPTION

This proposal creates the Waterways Trust Fund. The proceeds of specified state sales taxes and fees collected by the Department of Revenue, as well as any gifts, contributions, grants, or bequests received by the state for the fund, will be deposited in the trust fund for use by Missouri Highways and Transportation Commission for grants to local port authorities or regional port coordination agencies.

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 Transportation
Department of Public Safety
 Missouri State Highway Patrol
Office of Secretary of State
Department of Revenue
Office of Administration
 Division of Budget and Planning



Mickey Wilson, CPA
Director
February 2, 2016

Ross Strobe
Assistant Director
February 2, 2016