

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1298-03
Bill No.: Perfected HCS for HB 694
Subject: Motor Fuel; Transportation; Tax Incentives; Taxation and Revenue - Sales and Use; Taxation and Revenue - General
Type: Original
Date: April 13, 2017

Bill Summary: This proposal would make changes to motor fuel tax laws.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$148,392)	\$0	\$0
Total Estimated Net Effect on General Revenue	(\$148,392)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
State Highways and Transportation Department	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** stated this proposal could have an unknown impact on Total State Revenues (TSR) and an impact on the revenue limitation calculation required by the state constitution.

BAP officials noted this proposal would allow owners of alternative fuel vehicles to pay fuel tax on alternative fuels instead of buying an alternative fuel decal. BAP officials also stated they cannot estimate how many individuals would choose to pay fuel tax at the pump rather than purchase an alternative fuel decal fee. In addition, BAP officials stated they do not have enough information to determine how many individuals would purchase a decal and pay fuel tax at unmanned pumps. Therefore, BAP officials assume this proposal may have an unknown minimal impact on TSR.

Officials from the **Department of Revenue (DOR)** provided the following response.

Section 142.800, RSMo.

This section would broaden the definition of delivery to include propulsion energy into the battery or storage device of a motor vehicle.

Section 142.803, RSMo.

This section would impose a tax on propane gas fuel at five cents per gallon until December 31, 2019. From January 1, 2020 until December 31, 2024, the tax would be increased to eleven cents per gallon. Beginning January 1, 2025, the tax would be increased to seventeen cents per gallon. The administration, collection, and enforcement procedures for the tax on propane would be the same as those governing the current state motor fuel tax.

The legislation would also include electricity and propane used for fueling motor vehicles and some other use, in the provision applying the tax imposed by this section to the entire amount used.

ASSUMPTION (continued)

Section 142.869, RSMo.

This section would allow owners of propane powered motor vehicles to use alternative fuel decals in lieu of paying the tax imposed in section 142.803. Subsection 8 would exempt from tax those vehicles fueled exclusively by propane, compressed natural gas, or liquefied natural gas.

It is unknown how many owners of motor vehicles powered by liquid petroleum gas would choose not to obtain or renew their alternative fuel decals. Therefore, there may be an unknown loss of alternative fuel decal fees collected by the department and distributed to the Motor Fuel Tax Fund.

Administrative Impact

Section 142.803 states that propane can be measured in gallons or pounds, and electricity is currently measured in watts. The Department would need to establish a gallon equivalent for electricity, plus ensure that propane tax information is submitted in gallons as opposed to tare weight.

This would require updates to computer systems and forms to account for the changes at an estimated cost of \$148,392 (1,978 hours of IT consultants at \$75 per hour) in FY 2018. Additionally, because there is not an emergency clause or other effective date slated for the changes, the Department assumes the changes would be effective August 28, 2017. For licensees, that would mean potentially four days of August would require motor fuel tax on electricity or propane, since licensees report monthly.

Oversight notes that DOR officials did not include an estimate of administrative cost to implement this proposal, and assumes the proposal could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase DOR costs, resources could be requested through the budget process.

Officials from the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact of this proposal.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** noted 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 \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Joint Committee on Administrative Rules** stated this legislation is not anticipated to cause a fiscal impact to their organization beyond its current appropriation.

Officials from the **Missouri Department of Agriculture** and the **Department of Natural Resources** assume this proposal would have no fiscal impact on their organizations.

Oversight notes that Alternative Fuel Decal revenues for FY 2016 were \$334,622 and Motor Fuel Tax was \$726,175,748. This proposal would allow owners of alternative fuel vehicles to pay motor fuel tax on alternative fuels instead of buying an alternative fuel decal. Oversight does not have any information as to the amounts of alternative fuel taxes that might be collected from the proposed motor fuel tax on alternative fuels or the amount of alternative fuel decal fees that might be lost if vehicle owners choose to pay the motor fuel tax rather than purchase an alternative fuel decal. In addition, Oversight notes the scheduled motor fuel tax increases in this proposal could induce owners of alternative fuel vehicles to switch from paying the motor fuel tax to paying the decal fee in the future.

Oversight will indicate a positive to negative impact less than \$100,000 to the State Highways and Transportation Department Fund for this proposal.

ASSUMPTION (continued)

Amendment 2

The language in this amendment would define plug-in electric hybrid vehicles for motor fuel tax purposes, and would require owners or operators of such vehicles to pay one-half of the annual alternative fuel decal fee required for other types of alternative fuel vehicles.

Officials from the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact of this amendment.

Officials from the **Joint Committee on Administrative Rules**, the **Department of Agriculture**, the **Department of Natural Resources**, the **City of Kansas City**, and the **Platte County Board of Elections** assume this amendment would have no fiscal impact on their organizations.

Officials from the **Department of Revenue** noted this amendment would require owners of plug-in electric hybrid motor vehicles to pay one half of the stated annual alternative fuel decal fee; currently, owners of plug-in electric hybrid vehicles are not required to obtain an alternative fuel decal. Specifically, owners of such vehicles with a model year of 2018 and newer would be required to obtain an alternative fuel decal and plug-in electric hybrid vehicles with a model year of 2017 and older would continue to be exempt from the alternative fuel decal requirement.

The requirement for model year 2018 plug-in electric hybrid vehicles to purchase an alternative fuel decal would increase revenues by an unknown amount.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted the amendment would require owners of model year 2018 or newer electric hybrid vehicles to pay half of the alternative fuel decal fee. B&P officials also noted these owners are not currently required to pay the alternative fuel decal fee.

Based on information provided by the Department of Revenue, there are 289 registered 2016 (the most current year for which data is available) hybrid vehicles registered. At a rate of \$37.50, B&P officials estimated this proposal could increase Total State Revenues by \$11,000 annually.

ASSUMPTION (continued)

Oversight assumes this amendment would reduce the potential revenue from the sale of alternative fuel decals for vehicle owners who choose to purchase the decals, and would also make the purchase of a decal more likely than would otherwise be the case. Further, Oversight assumes the requirement for electric hybrid vehicles to purchase an alternative fuel decal would increase revenues from alternative fuel decals. As noted above, Oversight does not have any information as to the amounts of alternative fuel taxes that might be collected from the proposed motor fuel tax on alternative fuels or the amount of alternative fuel decal fees that might be lost if vehicle owners choose to pay the motor fuel tax rather than purchase an alternative fuel decal.

Therefore, the amendment would not change the estimated fiscal impact of the proposal.

Amendment 3

The language in this amendment would require a local government that imposes a local excise or sales tax on motor fuels after January 1, 2017 to use no less than ninety percent of such funds for the construction, reconstruction, maintenance, and repair of roads and streets, and for the payment of principal and interest on indebtedness incurred on account of road and street purposes, and no more than ten percent of such funds for policing, signing, lighting, and cleaning roads and streets.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted the amendment would require any local fuel taxes enacted after January 1, 2017 to be used in the following manner. At least 90% of the taxes on the construction, reconstruction, maintenance, and repair of roads, and no more than 10% on policing, signing, lighting, and cleaning of roads and streets.

B&P officials noted that because this section would not be in effect until August 28, 2017 and any localities with fuel taxes enacted between January 1, 2017 and August 28, 2017 could have already obligated those fuel tax receipts in a different manner.

Oversight assumes this amendment would not apply to local taxes enacted before the effective date of the proposal and would not increase or reduce state or local government revenues, but would further restrict the permissible expenditures of new local government sales and excise taxes on motor fuels. Therefore, the amendment would not change the estimated fiscal impact of the proposal.

	FY 2018 (10 Mo.)	FY 2019	FY 2020
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FISCAL IMPACT - State Government

GENERAL REVENUE FUND

<u>Cost</u> - Department of Revenue IT System changes	(\$148,392)	\$0	\$0
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$148,392)</u>	<u>\$0</u>	<u>\$0</u>
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**STATE HIGHWAYS AND
TRANSPORTATION DEPARTMENT
FUND**

	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)	Less than \$100,000 to (Less than \$100,000)
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<u>Revenue increase or reduction</u> - Motor fuel taxes and fees			
ESTIMATED NET EFFECT ON STATE HIGHWAYS AND TRANSPORTATION DEPARTMENT FUND	Less than \$100,000 to (Less than <u>\$100,000</u>)	Less than \$100,000 to (Less than <u>\$100,000</u>)	Less than \$100,000 to (Less than <u>\$100,000</u>)

	FY 2018 (10 Mo.)	FY 2019	FY 2020
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FISCAL IMPACT - Local Government

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which operate alternative fuel vehicles.

FISCAL DESCRIPTION

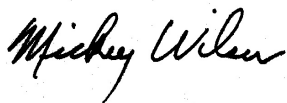
This proposal would create a graduated tax system for propane fueled vehicles. Fuel tax at rates specified in the proposal would be collected and used for the same purposes as the current state road tax. Propane fueled vehicles could pay the tax or continue to use alternative fuel decals in lieu of paying the tax.

No fuel decal would be required for vehicles that fuel at stations collecting the new tax, but owners of vehicles with alternative fuel decals that choose to obtain fuel at stations where tax is collected would not be able to claim a refund.

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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Agriculture
Department of Natural Resources
Department of Revenue
Department of Transportation



Mickey Wilson, CPA
Director

Ross Strobe
Assistant Director

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