

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5469H.011
 Bill No.: HB 2649
 Subject: Motor Fuel; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Department of Revenue; Motor Vehicles; Counties; Property, Real and Personal
 Type: Original
 Date: February 28, 2024

Bill Summary: This proposal modifies provisions relating to the apportionment of motor fuel tax proceeds.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
State Road Fund*	\$0	\$0	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or (Unknown)

*Oversight assumes if the \$550 million threshold is met, the amount of revenue that could be earmarked for cities and counties could reach the \$250,000 threshold.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0 or Unknown

FISCAL ANALYSIS

ASSUMPTION

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

Section 142.803 Motor Fuel Tax

SB 262 adopted in 2021 created a provision that would increase the motor fuel tax rate over a period of five years. At the end of that time the motor fuel rate would remain at its highest rate of \$0.295 per gallon for future years.

The rate established:

FY Tax Rate	Refund Can Be Claimed	Tax Increase
FY 2022	FY 2023	\$0.025
FY 2023	FY 2024	\$0.050
FY 2024	FY 2025	\$0.075
FY 2025	FY 2026	\$0.100
FY 2026+	FY 2027+	\$0.125

This proposal, starting August 28, 2024 (FY 2025) would require a distribution of the motor fuel funds if the amount collected from this extra tax exceeds \$550 million in a year. If the amount exceeds over the \$550 million threshold, DOR would use a different distribution formula.

This proposal allows the \$550 million to be inflation adjusted annually. DOR uses a 2% inflation rate when calculating fiscal notes. DOR notes the new transfer trigger amounts would be.

Fiscal Year	Increased Tax Rate	Transfer Minimum
2025	\$0.075	\$550,000,000
2026	\$0.1	\$561,000,000
2027	\$0.125	\$572,220,000

Using the FY 2023 collection numbers (the last complete year), DOR was able to calculate the number of gallons of gasoline and diesel sold. Using those same gallons and the increasing fuel tax amount, DOR was able to estimate that this new \$550 million trigger would not be reached inside the fiscal note period.

		FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Fuel Type	Gallons	\$0.05	\$0.075	\$0.10	\$0.125	\$0.125
Gasoline	3,113,921,594	\$155,696,080	\$233,544,120	\$311,392,159	\$389,240,199	\$389,240,199
Diesel	1,118,916,998	\$55,945,850	\$83,918,775	\$111,891,700	\$139,864,625	\$139,864,625
		\$211,641,930	\$317,462,894	\$423,283,859	\$529,104,824	\$529,104,824

Based on these projections, this proposal will not trigger the new distribution formula outlined in this proposal.

It should be noted that the Missouri Constitution sets the distribution of the motor fuel tax and this appears it would conflict. DOR is uncertain whether this could be implemented as written.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the following regarding this proposal:

Beginning August 28, 2024, this proposal would change how the additional motor fuel tax (Section 142.803.3) is distributed. Currently all motor fuel tax collections are distributed between the State Road Fund (74.2%), Counties (10.8%), and Cities (15%).

B&P notes that Article IV, Section 30(a) dictates how motor fuel tax collections shall be apportioned and distributed to the state, counties, and cities. B&P is unsure whether a change in statute, rather than a constitutional change, would be sufficient to change the apportionment and distribution.

Section 142.803.3 created an additional motor fuel tax of up to \$0.125 per gallon. This fuel tax is currently being phased in at \$0.025 per year. For FY 2024, the additional fuel tax is \$0.075. The tax increase will be fully phased in on July 1, 2026.

Section 142.803.2 would change the apportionment and distribution for any of the additional fuel tax collected over \$550 million. The \$550 million shall be adjusted annually for inflation. B&P notes that this proposal does not specify which inflation measure should be used, when the adjustment should begin, or what base year should be used.

Collections that exceed the limit shall be distributed to counties (80%) and cities (20%), with the State Road Fund no longer receiving a distribution.

B&P notes that at the \$550 million threshold and a tax rate of \$0.10 (FY 2025, Section 142.803.3), a total of 5.5 billion gallons of motor fuel would need to be sold. Assuming a 2% inflation rate, the threshold for FY 2026 would be \$561 million. At a tax rate of \$0.125, a total of 4.49 billion gallons of motor fuel would need to be sold.

B&P further notes that there has never been that many gallons of fuel sold in Missouri. In addition, as the \$550 million threshold increases with inflation, the number of equivalent gallons sold would also increase. Table 1 shows future potential threshold limits and required gallons.

Table 1: Required Number of Gallons Sold

Fiscal Year	Diversion Threshold	Tax Rate	# Gallons Sold
FY25	\$550,000,000	\$0.100	5,500,000,000
FY26	\$561,000,000	\$0.125	4,488,000,000
FY27	\$572,220,000	\$0.125	4,577,760,000
FY28	\$583,664,400	\$0.125	4,669,315,200
FY29	\$595,337,688	\$0.125	4,762,701,504

**Assumes 2% annual inflation.*

Table 2 shows the historical number gallons sold over the past nine years. The highest number of gallons sold was 4.3 billion in FY 2022. The next highest amount was 4.30 billion in FY 2016. With the average number of gallons sold per year at 4.2 billion.

Table 2: Historic Number of Gallons Sold

Fiscal Year	# Gallons Sold
FY15	4,121,944,179
FY16	4,306,559,928
FY17	4,205,910,901
FY18	4,293,622,003
FY19	4,218,913,843
FY20	4,110,124,970
FY21	4,132,116,076
FY22	4,323,936,974
FY23	4,232,838,592

Therefore, B&P is unsure whether the proposed apportionment and distribution would ever trigger. However, for every \$1 million over the threshold, B&P estimates that this proposal could increase funding to counties by \$692,105 and cities by \$50,000, while reducing revenues to the State Road Fund by \$742,105.

Oversight does not have information to the contrary and therefore, Oversight will reflect the information as provided by DOR and B&P. Oversight will assume a fiscal impact of \$0 (\$550 million threshold is never realized) to an Unknown increase to cities (St. Louis and Kansas City at the time of this fiscal note) and counties starting in FY 2027. Oversight assumes if the \$550 million threshold is realized, the State Road Fund will see a decrease in revenue due to tax proceeds being distributed to cities and counties rather than the state. Oversight assumes the loss to the State Road Fund could exceed \$250,000.

Officials from the **Missouri Department of Transportation** and **Missouri Highway Patrol** defer to DOR for the potential fiscal impact of this proposal.

Officials from the **City of Kansas City** assume the proposed legislation has a potential positive fiscal impact of an indeterminate amount.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
STATE ROAD FUND			
<u>Loss</u> – motor fuel tax proceeds over \$550 million (per year) distributed to cities and counties	<u>\$0</u>	<u>\$0</u>	\$0 or (Unknown)
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	<u>\$0</u>	<u>\$0</u>	\$0 or (Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue</u> – motor fuel tax proceeds over \$550 million (per year) distributed cities (2) and counties	<u>\$0</u>	<u>\$0</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0 or Unknown</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This bill specifies that any amount over \$550 million of the motor vehicle fuel tax collected under subsection 3 of Section 142.803, RSMo. adjusted annually for inflation, must be apportioned and distributed between the counties, cities, and the State Highways and Transportation Commission as follows:

- (1) To the counties on the following basis, 60%:
 - (a) Of the 60%, one-half on the ratio that the county road mileage of each county bears to county road mileage of the entire State as determined by the last available report of the State Highways and Transportation Commission; and
 - (b) Of the 60%, one-half on the ratio that the rural land valuation of each county bears to the rural land valuation of the entire state as determined by the last available report of the State Tax Commission, except that county road mileage in incorporated municipalities and the land valuation in incorporated municipalities will be excluded in these determinations, except that if the assessed valuation of rural lands in any county is less than \$5 million, the county will be treated as having an assessed valuation of \$5 million ;

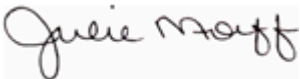
(2) To be divided equally, 20% between any city not within a county and the city with the next highest population in the state according to the last previous decennial census of the United States; and

(3) To be divided equally, 20% between the counties bases on the ratio of the number of acres of property assessed as agricultural in a county to the number of acres of property assessed as agricultural in the state.

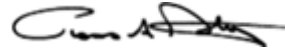
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Missouri Department of Transportation
Missouri Highway Patrol
City of Kansas City



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February 28, 2024



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