

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2037-02
BILL NO.: SB 566
SUBJECT: Revenue Dept.; Taxation and Revenue-Sales and Use; State Departments
TYPE: Original
DATE: April 9, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$10,775,417)	(\$12,995,000)	(\$3,953,000)
Highway	\$24,896,594	\$29,999,000	\$12,743,850
School District Trust	(\$5,182,083)	(\$6,240,000)	(\$3,226,000)
Conservation	(\$647,760)	(\$780,000)	(\$403,250)
Parks and Soil	(\$518,208)	(\$624,000)	(\$322,600)
Total Estimated Net Effect on <u>All</u> State Funds	\$7,773,126	\$9,360,000	\$4,839,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	(\$7,773,125)	(\$9,360,000)	(\$4,839,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation includes any department or agency of the state as an exempt entity for sales tax purposes. This proposal would not administratively impact the DOR. DOR assumes the revenue loss from this proposal is unknown.

Officials of the **Missouri Department of Conservation (MDC)** state this proposal exempts state departments from sales tax for purposes of facilities construction, repair and remodeling. This proposed legislation would have a balancing fiscal impact on MDC funds. MDC assumes there would be positive impact from cost savings on some contracts that would be contracted by the cost of monitoring contractor and subcontractor purchases and in general contract administration. MDC states the amount and direction of fiscal impact is unknown.

Officials of the **Missouri Department of Transportation (DHT)** state the proposed legislation provides state departments with a sales tax exemption for purchases of construction materials.

DHT estimates are based on the following assumptions: \$1,043,700,000 awards in FY02; \$1,048,000,000 awards in FY03; and \$445,200,000 in FY04; 50 percent of the contracts consists of material; and a state sales tax rate of .04225. The annual award amounts are construction programming awards as estimated in the 2002-2006 Statewide Transportation Improvement Plan (STIP). Annual amounts fluctuate yearly to multiple issues including cash flow and bonding. These amounts are revised annually. Based on these figures, DHT would experience an annual cost savings of up to \$22,048,163 for FY02; \$22,139,000 for FY03; and \$9,404,850 for FY04 from the sales tax exemption. However, the savings will only be realized if the vendors' contract prices are lowered by the sales tax amount.

According to officials from **Office of Administration-Design and Construction** in a similar proposal, \$200 million is spent annually on construction projects, and approximately 50% of that is spent on taxable materials.

Oversight has combined the revenue estimates provided by DHT and the Office of Administration to reflect the total revenue impact of this proposal. Oversight assumes there would be annual cost savings from the sales tax exemption due to lower contract prices. General Revenue will lose \$29,667,427 for FY02; \$35,724,000 for FY03; and \$18,468,850 for FY04 in sales tax revenues that are exempted through this legislation.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Savings to General Revenue Fund</u>			
Lower contract prices	\$4,770,833	\$5,725,000	\$5,725,000
<u>Loss to General Revenue Fund</u>			
Sales tax exemption Construction Materials	(\$15,546,250)	(\$18,720,000)	(\$9,678,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$10,775,417)</u>	<u>(\$12,995,000)</u>	<u>(\$3,953,000)</u>
HIGHWAY FUND			
<u>Savings to the Highway Fund</u>			
Lower contract prices	\$24,896,594	\$29,999,000	\$12,743,850
SCHOOL DISTRICT TRUST FUND			
<u>Loss to School District Trust Fund</u>			
Sales tax exemption Construction Materials	(\$5,182,083)	(\$6,240,000)	(\$3,226,000)
CONSERVATION FUND			
<u>Loss to Conservation Fund</u>			
Sales tax exemption Construction Materials	(\$647,760)	(\$780,000)	(\$403,250)
PARKS AND SOIL FUND			
<u>Loss to Parks and Soils Fund</u>			
Sales tax exemption Construction Materials	(\$518,208)	(\$624,000)	(\$322,600)

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Loss to Cities</u>			
Sales tax exemption Construction Materials	(\$4,663,875)	(\$5,616,000)	(\$2,903,400)
<u>Loss to Counties</u>			
Sales tax exemption Construction Materials	(\$3,109,250)	(\$3,744,000)	(\$1,935,600)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>(\$7,773,125)</u>	<u>(\$9,360,000)</u>	<u>(\$4,839,000)</u>

FISCAL IMPACT - Small Business

Small businesses who sell construction materials would be expected to be fiscally impacted to the extent that they would no longer collect and pay tax on construction materials on state contracts. This proposal will require additional paperwork for each sales tax exemption.

DESCRIPTION

This act classifies a department or agency of the state of Missouri as an exempt entity for the purpose of constructing, repairing or remodeling facilities for sales tax purposes.

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
Missouri Department of Transportation
Office of Administration
Missouri Department of Conservation



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Director

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