

Statement of Estimated State Revenue Impact

Date: January 15, 2014 (As amended May 7, 2013 by the Senate Finance Committee)
Bill Number: H.B. 3412
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Committee Requesting Impact: Senate

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-36-2647 so as to provide that the sales, use, and casual excise tax revenues in a fiscal year from the sale, use, or titling of a vehicle required to be registered and licensed by the South Carolina Department of Motor Vehicles must be credited to the State Non-Federal Aid Highway Fund, and to provide for the use of these revenues.

REVENUE IMPACT ^{1/}

This bill, as amended, would reduce General Fund sales and use tax revenue by an estimated \$41,400,000 in FY2013-14. In FY2014-15, and each fiscal year thereafter when the legislation is fully implemented, General Fund sales and use tax revenue would be reduced by an estimated \$82,800,000, while the Interstate and Bridge Infrastructure Fund would be increased by an estimated \$82,800,000. Act 98 of 2013 already transferred one-half of the General Fund portions of the sales tax on motor vehicles to the State Non-Federal Aid Highway Fund in FY2013-14. The EIA fund would not be affected by this legislation. Motor fuel revenue would be increased by an estimated \$13,222,766 in FY2014-15. Also, the Local Transportation Infrastructure Fund would receive an estimated \$33,588,795 in FY2014-15, while the State Highway Fund would receive an estimated \$8,082,718 in FY2014-15, and county governments would receive an estimated \$1,425,460 in FY2014-15.

Explanation of Amendment (May 7, 2013) – By the Senate Finance Committee

This amendment would strike all after the enacting words and insert the following sections.

Section 1. This section would amend Section 12-36-2110 to delete the sale or lease of a motor vehicle from the maximum sales and use tax required to be remitted by the taxpayer in an amount equal to the lesser of five percent up to a maximum of \$300 per motor vehicle. This section also amends Section 12-36-2120 to add sales and use tax exemptions that would exempt the sales and leases of motor vehicles from the sales and use tax.

This amendment adds Section 56-3-450(A) to require each individual registering a motor vehicle for the first time after purchasing the motor vehicle to pay an initial road impact registration fee equal to five percent of the sale or lease of the motor vehicle up to a \$300 maximum limit per motor vehicle. The amount of General Fund sales and use tax revenue collected from the \$300 sales tax cap on the sale of motor vehicles in the State is an estimated \$103,500,000 in FY2013-14, with eighty percent remaining in the General Fund and twenty percent credited to the EIA. The amount of revenue collected under the \$300 maximum sales tax or the five percent an initial road impact registration fee is equal at \$103,500,000 in FY2013-14. Act 98 of 2013 already transferred one-half of the General Fund portions of the sales tax on motor vehicles to the State Non-Federal Aid Highway Fund in FY2013-14.

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This amendment would change the distribution of the revenue received from the sale or lease of a motor vehicle to forty percent in the General Fund, twenty percent in the EIA, and forty percent in the Interstate and Bridge Infrastructure Fund (IBIF) in FY2013-14. The redistribution of revenue would reduce General Fund sales and use tax revenue by an estimated \$41,400,000, the EIA would not be affected, and the IBIF would receive \$41,400,000 in FY2013-14. The effect of this redistribution is already captured by Act 98 of 2013. Beginning in FY2014-15, the revenue received from the sale or lease of a motor vehicle would be reduced to zero percent in the General Fund, twenty percent in the EIA, and eighty percent in the Interstate and Bridge Infrastructure Fund (IBIF) in FY2014-15, and each fiscal year thereafter. The redistribution of revenue would reduce General Fund sales and use tax revenue by another estimated \$41,400,000, the EIA would continue to not be affected, and the IBIF would receive another \$41,400,000 in FY2014-15. In short, the IBIF would receive the second one-half of the five percent initial road impact registration fee by FY2014-15. The sales and use tax previously designated to the General Fund would be reallocated to the IBIF.

Section 2. This section would establish in a separate and distinct fund from the General Fund and all other funds, a fund styled the Interstate and Bridge Improvement Fund. The fund would consist of revenues collected pursuant to Section 56-3-450. All earnings shall remain in the fund. The funds must be utilized for existing mainline capacity, interstate, and bridge projects chosen by the Department of Transportation Commission in accordance with project ranking criteria contained in Section 57-1-370(B)(8). The revenue in the fund may also be pledged to secure the issuance of bonds to provide additional proceeds for the projects above as well as to defray insurance costs and other costs associated with the above transportation projects.

Section 3. This section would add Chapter 11 to Title 57 to enact the State Bonds for Transportation Infrastructure Act. This act would allow the Department of Transportation to obtain funds through the issuance of bonds for transportation infrastructure purposes. The earliest these bonds may be issued is July 1, 2016. The maximum principal amount of state bonds that may be issued may not exceed \$500,000,000 for transportation related purposes. The authority to issue bonds under this article expires four years from the date of the first bond issuance.

Section 4. This section would amend Section 12-28-310 to increase the amount of the user fee of sixteen cents a gallon on all gasoline, gasohol, blended fuels, diesel fuel, substitute fuels, or alternative fuels by an inflation factor equal to the annual average percentage adjustment over the last ten completed calendar years of the Consumer Price Index for all-urban consumers as published by the U.S. Department of Labor, Bureau of Labor Statistics. The annual increase in the user fee shall be determined by March 31st of each year, and the increase shall take effect the following July 1st. The first inflation adjustment made pursuant to this section shall take effect July 1, 2014. Based on the latest information from the S.C. Department of Transportation and the U.S. Department of Labor, indexing the current user fee of sixteen cents a gallon by an annual inflation factor would increase the motor fuel user fee to 16.4 cents and generate an additional \$10,549,613 in FY2014-15.

Section 5. This section would amend Section 56-11-410 to increase the amount of the road tax in the same manner as the motor fuel user fee was adjusted pursuant to the amended Section 12-28-310 described in Section 4 above. The road tax is imposed upon every motor carrier for the privilege of using the streets and highways in this State. These are the large commercial vehicles and trucks on the roads that typically use diesel gasoline. The first inflation adjustment made pursuant to this section shall take effect July 1, 2014. Based on the latest information from the S.C.

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Department of Transportation and the U.S. Department of Labor, indexing the current user fee of sixteen cents a gallon by an annual inflation factor would increase the motor fuel user fee to 16.4 cents and generate an additional \$2,673,153 in FY2014-15.

Section 6. Subsection 6A. This subsection would amend Section 56-1-140 to increase the biennial driver's license fee for a 5-year driver's license by \$5.00 from \$12.50 to \$17.50, and for a 10-year driver's license by \$10.00 from \$25.00 to \$35.00 per license. The increased fee amounts must be credited to the Local Transportation Infrastructure Fund (LTIF). According to data from the Department of Motor Vehicles, there are 476,637 applicable driver licenses up for renewal in FY2014-15, of which 90,225 were issued for a 5-year term and 386,412 for a 10-year term. For purposes of analysis, respective renewal term is held constant. The sum of 90,225 times \$5 and 386,412 times \$10 is \$4,315,245 to be allocated to the LTIF in FY2014-15. Comparable estimates for succeeding fiscal years are displayed below:

Fiscal Year	LTIF
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FY2015	\$4,315,245
FY2016	\$4,925,730
FY2017	\$5,169,605
FY2018	\$3,667,485
FY2019	\$1,468,460
FY2020	\$1,829,600
FY2021	\$2,159,690
FY2022	\$2,340,960
FY2023	\$1,037,530
Total	\$26,914,305

Subsection 6B. This subsection would amend Section 56-3-620 to increase the biennial registration fee for every private passenger vehicle excluding trucks by \$12 for each vehicle. The proceeds from the additional \$12 registration fee must be allocated to the Local Transportation Infrastructure Fund (LTIF). This fee increase would apply to all individuals, including those individuals sixty-five years or older or individuals who are handicapped pursuant to Section 56-3-620. According to data from the Department of Motor Vehicles, an estimated \$19,420,000 would be allocated to the LTIF in FY2014-15.

Subsection 6C. This subsection would amend Section 56-3-640 to increase the biennial registration fees for all common carrier passenger vehicles by an additional \$12 per vehicle. The proceeds from the additional \$12 registration fee must be allocated to the Local Transportation Infrastructure Fund (LTIF). According to data from the Department of Motor Vehicles, an estimated 2,250 buses will be registered in FY2014-15. Multiplying a \$12 fee increase by 2,250 buses yields an estimated \$27,000 to be allocated to the LTIF in FY2014-15.

Subsection 6D. This subsection would add Section 56-3-667 to levy a biennial Highway Infrastructure Improvement Fee (HIIF) based upon gross weight of certain self-propelled property carrying vehicles. This new schedule of fees is in addition to current motor carrier fees scaled by gross weight under Section 56-3-660. The fees are prorated in proportion to the number of months

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left until the end of the term. The portion of vehicles to be registered as primarily biennial (refer to schedule in paragraph (D) in amendment text) from \$5 per vehicle to \$154 per vehicle is equivalent to a vehicle with a gross vehicle weight (GVW) of less than 4,000 pounds and up to 64,000 pounds. The portion of vehicles to be registered as annual/semi-annual (refer to schedule in paragraph (D) in amendment text) from \$181 per vehicle to \$256 per vehicle is equivalent to a vehicle with a gross vehicle weight (GVW) of greater than 64,000 pounds and up to 80,000 pounds. Vehicles in excess of 80,000 pounds are not subject to the fee imposed by this section. The fees collected pursuant to this section must be deposited in the Local Transportation Infrastructure Fund. According to data from the Department of Motor Vehicles, an estimated \$7,400,000 would be allocated to the LTIF in FY2014-15. Dependent upon final enactment date, the annual revenues may be impacted. For each month of delayed implementation following the start of the fiscal year, the revenue impact will be reduced by eight percent.

Subsection 6E. This subsection would amend Section 56-3-670 to add an additional \$12 to annually register a bona fide special truck plate for a farm vehicle. This additional charge is in addition to the current farm truck fees scaled by gross weight under Section 56-3-670(B). According to the Department of Motor Vehicles, there are currently 31,400 "FM" vehicle tags in the State. Multiplying 31,400 farm tags by an additional \$12 fee yields an estimated \$376,800 FY2014-15. These proceeds would be allotted to the LTIF in FY2014-15.

Subsection E (erroneously numbered – should be "6F"). This section adds Section 56-3-645 that creates a new registration fee for alternative fuel vehicles that are powered by fuels other than those subject to the motor fuel user fee. For vehicles powered exclusively by electricity, hydrogen or another fuel not subject to the user fee, a biennial road user fee of \$120 is added. We estimate 280,000 vehicles powered exclusively by alternate fuels will be registered in the US in FY 2014-15. Multiplying this figure by 1.5%, we estimate that 4,200 vehicles in SC will be subject to the \$120 fee. For FY 2014-15, one half of these biennial registration fees will be \$252,000. For vehicles that use a combination of a motor fuel subject to the motor fuel fee and another fuel source, the biennial road user fee is \$60. We estimate that in FY 2014-15 there will be 3,995,000 vehicles in the US that use a combination of fuels. Multiplying this figure by 1.5%, we estimate that 59,925 vehicles in SC will be subject to the \$60 fee. For FY 2014-15, one half of the biennial registration fees will be \$1,797,750. Total road use fee revenue for this section in FY 2013-14 is \$2,049,750 to be remitted to the State Highway Fund.

Subsection F (erroneously numbered – should be "6G").

This section would establish in a separate and distinct fund from the General Fund and all other funds, a fund styled the Local Transportation Infrastructure Fund (LTIF). The fund would consist of fees, or portions of fees, collected pursuant to Sections 56-1-140, 56-3-620, 56-3-640(B), 56-3-645, 56-3-667, and Article 23, Chapter 37 of Title 12. All earnings shall remain in the fund. The revenue in the LTIF shall be distributed as follows:

- \$500,000 to each county transportation committee,
- \$500,000 to the county transportation committee in each county that imposes a one cent sales tax (local option transportation infrastructure sales tax) for each year the sales tax is imposed,
- the remainder, including earnings of the fund, to each county transportation committee in equal amounts.

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Funds received by a County Transportation Committee pursuant to this section must be applied to road and bridge improvement projects in the state highway system.

Section 7. This section amends Article 23 of Chapter 37, Title 12 and directs the Department of Motor Vehicles to collect a road use fee for all commercial motor vehicles. The valuation of the commercial motor vehicles for the road use fee is to be determined in the same manner as currently prescribed for motor carriers. This section adds out-of-state carriers that currently do not pay property taxes to the road use fee. Currently, we estimate that total in-state motor carrier property taxes for FY 2014-15 will be \$15,574,540. The road use fee for in-state carriers would remain the same at the current property tax amount. In order to estimate the road use fee on out-of-state carriers, we start our analysis using their total registration fees. Total registration fees for out-of-state carriers were \$7,077,753 in FY 2011-12. We estimate that this figure will increase to approximately \$7,722,192 for FY 2014-15. For out-of-state carriers, we estimate that approximately 20% of the \$715 average annualized registration fee, or \$143, is currently apportioned to SC. Dividing the total fees by \$143, we estimate that there are 54,001 out-of-state carriers that would be subject to the new road use fee. The approximate value of a new vehicle is \$120,000. Multiplying this value by the 20% apportionment rate, \$24,000 of the value of a new vehicle would be attributed to SC. The total value of the out-of-state new vehicles would be \$1,296,032,156. Based upon an average vehicle age of 6 years, the value at the depreciated rate of 0.25 would be \$324,008,039. This depreciated vehicle value is then assessed at 9.5% with an estimated statewide millage of 308.9, so the road use fees for out-of-state vehicles would be \$9,508,178 in FY 2014-15. Adding the in-state and out-of-state fees, we estimate that total road use fees will be \$25,082,718. Section 12-37-2865 directs that the first \$17,000,000 of this fee is distributed to the counties, which represents an increase of \$1,425,460 over their FY 2014-15 estimate. Any funds in excess of \$17,000,000 are to be credited to the State Highway Fund, which we estimate to be \$8,082,718 in FY 2014-15.

Section 8. This section would add Chapter 10 to Title 4 to enact the Transportation Infrastructure Sales Tax Act. This act would allow a county governing body to impose a one percent sales and use tax by ordinance, subject to an affirmative outcome during a referendum, for specific transportation infrastructure projects for a limited amount of time. Since the earliest the ballot referendum could be considered by the qualified electors of each county is during the next general election of statewide candidates in November 2014, the earliest an approved local option tax may begin is usually by May of the following year, according to the Department of Revenue. Based on information from the Office of Economic Research, if all of the state's forty-six counties successfully passed a referendum and adopted local ordinances for a local option transportation infrastructure sales tax penny, these actions would result in an estimated \$570,000,000 of local option sales tax funds in FY2015-16.

Section 9. This section would amend Section 11-43-140 to expand the membership on the South Carolina Transportation Infrastructure Bank board from current seven directors to eleven voting directors. The four new directors would be appointed by the Majority and Minority Leaders in the Senate and the Majority and Minority Leaders in the House of Representatives.

Section 10. This section would amend Section 57-1-430(A) to require the Department of Transportation to budget in its resurfacing program each fiscal year an amount equal to the amount set aside for bridge improvements from the proceeds of bonds issued pursuant to Section 11-43-420 (S.C. Transportation Infrastructure Bank) that fiscal year plus \$100,000,000, provided federal

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aid highway funding levels are not reduced. This section would affect the expenditure of funds and is not expected to impact state General Fund revenue.

Section 11. This section would amend Section 12-28-2740(B) to require that members of county or municipal governing bodies may not be appointed to a county transportation committee. This ensures that the county transportation committee is made up of fair representation from municipalities and unincorporated areas of the county.

Section 12. This section would repeal Section 6 of Act 114 of 2007 to allow the Governor to appoint the Secretary of Transportation pursuant to Section 57-1-410.

Section 13. This section includes a severability clause among sections of the amended bill.

Section 14. This section contains language where the amended bill constitutes a single subject as required by Article III, Section 17 of the South Carolina Constitution.

Explanation of Amendment (February 27, 2013) – By the House of Representatives

This amendment would add Section 12-36-2647 to allow the sales, use, and casual excise tax revenues derived from the sale of a motor vehicle to be redirected from the state public school building fund and credited to the State Non-Federal Aid Highway Fund. The amount of General Fund sales and use tax revenue collected from the \$300 sales tax cap on the sale of motor vehicles in the State is an estimated \$103,500,000 in FY2013-14.

This amendment would, notwithstanding the provisions of Section 59-21-1010, for FY2013-14, allow fifty percent of the revenues derived from the sale of motor vehicles pursuant to Sections 12-36-2620(1), 12-36-2630(1), and 12-36-2640(1) to be credited to the State Non-Federal Aid Highway Fund. This provision would only affect the four percent component of the sales and use tax in the General Fund. This amendment would not affect EIA Fund revenue collections. In FY2015-16, and each year thereafter, one hundred percent must be credited to the State Non-Federal Aid Highway Fund. In FY2013-14, therefore, fifty percent, or an estimated \$41,400,000 of General Fund sales and use tax revenue collected from the sales of motor vehicles, would be transferred to the State Non-Federal Aid Highway Fund. The EIA Fund would continue to receive an estimated \$10,350,000 in FY2013-14. In FY2014-15, and each fiscal year thereafter, one hundred percent, or an estimated \$82,800,000 of General Fund sales and use tax revenue collected from the sale of motor vehicles would be transferred to the State Non-Federal Aid Highway Fund. The EIA Fund would continue to receive an estimated \$20,700,000 in FY2014-15. This act takes effect July 1, 2013.

Explanation of Amendment (February 19, 2013) – By the House Ways & Means Committee

This amendment would add Section 12-36-2647 to allow the sales, use, and casual excise tax revenues derived from the sale of a motor vehicle to be redirected from the state public school building fund and credited to the State Non-Federal Aid Highway Fund. This amendment would, notwithstanding the provisions of Section 59-21-1010, for FY2013-14 and FY2014-15, allow fifty percent of the revenues derived from the sale of motor vehicles to be credited to the State Non-Federal Aid Highway Fund. In FY2015-16, and each year thereafter, one hundred percent must be credited to the State Non-Federal Aid Highway Fund. The amendment contains an EIA Fund hold harmless provision where an amount of revenue is to be transferred from state General Fund income taxes to offset any reduction in sales taxes not transferred to the EIA Fund. In FY2013-14 and FY2014-15, therefore, fifty percent, or an estimated \$51,750,000 of sales and use tax revenue

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collected from the sales of motor vehicles, General Fund sales and use tax revenue would be reduced by \$41,400,000 and General Fund income tax revenue would be reduced by \$10,350,000 to make the EIA Fund whole. In FY2015-16, one hundred percent, or an estimated \$103,500,000 of sales and use tax revenue collected from the sales of motor vehicles, General Fund sales and use tax revenue would be reduced by \$82,800,000 and General Fund income tax revenue would be reduced by \$20,700,000 to make the EIA Fund whole.

Explanation of Bill Filed January 23, 2013

This bill would add Section 12-36-2647 to allow the sales, use, and casual excise tax revenues derived from the sale of a motor vehicle to be redirected from the state General Fund and the Education Improvement Fund (E.I.A.) and credited to the State Non-Federal Aid Highway Fund. The sales tax paid by a purchaser of a motor vehicle is the lesser of five percent up to a maximum of \$300 per motor vehicle pursuant to Section 12-36-2110(2) of the Code of Laws, 1976. The amount of General Fund sales and use tax revenue collected from the \$300 sales tax cap on the sale of motor vehicles in the State is an estimated \$103,500,000 in FY2013-14. The five percent sales and use tax on the sales of motor vehicles is divided into two components. The four percent component is allocated to the state General Fund. The one percent component is allocated to the Education Improvement Act (EIA) fund. This bill would allow the five percent sales and use tax, pursuant to Section 12-36-910, from the sales of motor vehicles to be credited to the State Non-Federal Aid Highway Fund. The revenues must be used exclusively for highway, road, and bridge maintenance, construction, and repair. This bill would reallocate \$103,500,000 of sales tax revenue to the State Non-Federal Aid Highway Fund within the Department of Transportation in FY2013-14. Of the estimated \$103,500,000 of sales and use tax revenue collected from the sales of motor vehicles, General Fund sales and use tax revenue amounts to \$82,800,000 and EIA fund revenue amounts to \$20,700,000 in FY2013-14. This act takes effect July 1, 2013.



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¹⁴ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.