



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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Bill Number: S.0523 As amended by Senate Finance on March 26, 2015  
 Author: Cleary  
 Requestor: Senate  
 Date: May 1, 2015  
 Subject: SC Carolina Collective Road Act  
 RFA Analyst(s): Dunbar, Martin, and Shealy

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**Estimate of Fiscal Impact**

	FY 2015-16	FY 2016-17	FY 2017-18
<b>State Expenditure</b>			
General Fund	N/A	N/A	N/A
Other and Federal	N/A	N/A	N/A
Full-Time Equivalent Position(s)	0.00	0.00	0.00
<b>State Revenue</b>			
General Fund	(\$69,020,920)	N/A	N/A
Other and Federal	\$319,004,697	\$270,253,315	\$406,006,729
<b>Local Expenditure</b>	N/A	N/A	N/A
<b>Local Revenue</b>	N/A	N/A	N/A

**Fiscal Impact Summary**

\*The effective date for this analysis is assumed to be July 1, 2015 for all sections. Technical changes to the bill may be required to clarify this intent.

\*Depending upon the date of enactment and expected implementation, the Department of Revenue and the Department of Motor Vehicles may need additional time to implement these changes. Any delay in implementation may affect the first year revenue.

**State General Fund Revenue.** This bill is expected to reduce General Fund sales and use tax revenue by \$69,020,920 in FY 2015-16 as a result of the transfer of sales tax revenue to Other Funds. (This transfer would have a corresponding decrease in General Fund expenditures.)

**Other Funds.** This bill is expected to increase Other Funds of the Department of Transportation from several sources for a net increase of \$319,004,697 in FY 2015-16.

- The motor fuel user fee increase from \$0.16 to \$0.20 per gallon of fuel will increase revenue by \$124,912,536 in FY 2015-16.
- The additional revenue from increasing the driver's license fee for a 5-year driver's license from \$12.50 to \$25.00 and from \$25.00 to \$50.00 for a 10-year driver's license is \$11,784,062 in FY 2015-16.

- Vehicle registration fees will generate by an additional \$24,143,944 from increasing the registration fee for every passenger vehicle and property carrying vehicle with a gross weight less than 6,000 pounds by sixteen dollars.
- An estimated \$1,227,885 is generated from imposing a \$60 fee on hybrid vehicles and a \$120 fee on alternative fuel vehicles.
- The increased sales and use tax cap on motor vehicles and other specific items will generate additional revenue to the Department of Transportation by \$156,936,270 in FY 2015-16.

In total, these items net an increase in Other Funds to the Department of Transportation of \$319,004,697.

## **Explanation of Fiscal Impact**

### **Explanation of Amendment (March 26, 2015) – By the Senate Finance Committee**

#### **State Expenditure**

**Department of Revenue.** The amended bill will have a minimal impact on the department to account for changes in forms and instructions. These costs can be absorbed by the agency.

**Department of Motor Vehicles.** The department reports that there will be no expenditure impact on the General Fund, Federal Funds, or Other Funds from implementing this bill.

**South Carolina Infrastructure Bank.** The agency reports that there will be no expenditure impact on the General Fund, Federal Funds, or Other Funds from implementing this bill.

#### **State Revenue**

The following sections would affect state revenue as follows.

**Section 1.** Section 12-28-310 is amended to increase the \$0.16 per gallon user fee on all motor fuels by \$0.04 per gallon of fuel per year for three years for a total increase of \$0.12 per gallon of fuel. The first increase will take effect July 1, 2015. Based on the latest information from the S.C. Department of Transportation and the U.S. Department of Energy, increasing the current user fee from \$0.16 to \$0.20 per gallon of fuel would generate an additional \$124,965,373 in FY2015-16. The increase begins in July, and revenue is first remitted in August; therefore, the FY 2015-16 estimate represents eleven months of a full fiscal year. The additional motor fuel user fee revenue for FY 2016-17 and FY 2017-18 is \$134,513,170 and \$135,333,552, respectively. Of the revenue generated from the motor fuel user fee increase pursuant to this subsection, 15% must be credited to the State Non-Federal Aid Highway Fund and the remaining revenue will be credited to the State Highway Fund.

Beginning July 1, 2018 and each year thereafter, the user fee will be increased 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 31<sup>st</sup> of each year, and the increase shall take effect the following July 1<sup>st</sup>.

The user fee may not be increased by more than \$0.02 per gallon of fuel in any given year. The increase in the motor fuel user fee shall be suspended by the Director of the Department of Revenue if it results in a motor fuel user fee exceeding that of North Carolina and the Georgia county with the highest cumulative motor fuel user fee. The motor fuel increase and corresponding revenue generated in FY 2018-19 and each year thereafter will depend on future inflation rates.

As the user fee is increased in the first three years, we expect the demand for motor fuel to decline due to an increase in the relative overall price of motor fuel, which reduces the number of gallons purchased. This will lower the \$0.0075 environmental and inspection fee revenue to the Department of Agriculture, the Department of Health and Environmental Control, and the Department of Transportation as outlined in the table below.

Fiscal Year	Total Motor Fuel User Fee	Total Additional Motor Fuel Fee Revenue	Annual Additional Motor Fuel Fee Revenue	Total Net Impact on \$0.0075 Environmental and Inspection Fee Revenue
FY 2015-16	\$ 0.200	\$124,965,373	\$124,965,373	(\$52,837)
FY 2016-17	\$ 0.240	\$270,839,032	\$134,513,170	(\$109,717)
FY 2017-18	\$ 0.280	\$406,172,583	\$135,333,552	(\$165,854)

\* The increase begins in July, and revenue is first remitted in August; therefore, the FY 2015-16 estimate represents eleven months of a full fiscal year.

**Section 2.** Section 56-1-140 is amended to increase the driver's license fee for a 5-year driver's license from \$12.50 to \$25.00 and from \$25.00 to \$50.00 for a 10-year driver's license. Based upon the most recent data from the Department of Motor Vehicles, the total estimated revenue from the increased driver's license fees is \$23,568,125 resulting in additional revenue of \$11,784,062 in FY 2015-16. Fifteen percent of the fees collected pursuant to this section shall be credited to the Department of Transportation's State Non-Federal Aid Highway Fund. The remaining fees collected pursuant to this section shall be credited to the State Highway Fund.

**Section 3.** Section 56-3-620 is amended to increase the biennial registration fee for every passenger vehicle and every property carrying vehicle with a gross weight of 6,000 pounds or less, excluding trucks, by \$16.00 for each vehicle. The increase will apply to all individuals, including those individuals 65 years of age or older and those individuals who are handicapped pursuant to Section 56-3-620. Based upon the most recent data from the S.C. Department of Motor Vehicles and the U.S. Department of Transportation, there will be approximately 3,017,993 vehicles subject to this additional fee in FY 2015-16. The estimated additional revenue from this fee increase is \$24,143,944 in FY 2015-16. From each biennial registration and license fee collected pursuant to this section, fifteen percent of the fees shall be credited to the Department of Transportation's State Non-Federal Aid Highway Fund, and the remainder of the fees shall be credited to the State Highway Fund.

**Section 4.** This section adds Section 56-3-645 which 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 \$120.00 is added. Based upon the most recent data from the U.S. Department of Energy and the S.C Department of Motor Vehicles, we estimate 331 vehicles powered exclusively by alternate fuels will be subject to the \$120.00 fee. For FY 2015-16, one half of these biennial registration fees will be \$19,887. 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 \$60.00. We estimate that in FY 2015-16 there will be 39,774 vehicles that use a combination of fuels subject to the \$60.00 fee. For FY 2015-16, one half of the biennial registration fees will be \$1,207,998. Fifteen percent of the fees collected pursuant to this section shall be credited to the Department of Transportation's State Non-Federal Aid Highway Fund, and the remaining fees shall be credited to the State Highway Fund.

**Section 5.** Currently, pursuant to Section 12-36-2110, the maximum amount of sales and use tax that may be collected from the sale of a motor vehicle and other specific items is the lessor of five percent of the sale or lease of the specific item or \$300 per item. This bill would amend Section 12-36-2110 so as beginning after June 30, 2015, the maximum sales and use tax limitation would be increased from the current \$300 per item to \$600 per item on each sale or lease executed. By increasing the maximum sales and use tax cap to \$600 per item, the taxable base for each specific item increases from the first \$6,000 of value to the first \$12,000 of value. This section would also require that any increase in revenue as the result of increasing the maximum sales and use tax cap from \$300 per item to \$600 per item be remitted to the Department of Transportation. This transfer would include the four percent component of the sales and use tax in the General Fund as well as the one percent component of the sales and use tax in the EIA Fund.

The table below describes the amount of sales and use tax revenue currently received by each item subject to the \$300 maximum sales and use tax cap, as well as the additional estimated increase in sales and use tax revenue that could be raised if the maximum sales and use tax cap is increased to \$600 per item. Based upon the latest data from a variety of state and federal resources, as well as reliable trade and industry publications, the Board of Economic Advisors' maximum sales and use tax cap model suggest raising the maximum sales and use tax cap to \$600 per item would increase sales and use tax revenue by an additional estimated \$87,915,350 in FY2015-16 and FY2016-17.

**Items Subject to Maximum Sales Taxation**  
**Maximum Sales Tax Cap Increased to \$600 Per Item**  
**Fiscal Years 2015-16 & 2016-17**

Item Subject To Cap	Current \$300 Cap	Additional Revenue \$600 Cap
Aircraft	\$20,700	\$20,700
Motor Vehicle	\$153,500,000	\$82,500,000
Motorcycle	\$2,079,900	\$1,039,950
Boat	\$3,845,700	\$1,922,850
Trailer, Semi-trailer	\$1,312,000	\$164,000
Recreational Vehicle	\$1,605,150	\$1,605,150
Light Construction Equipment	\$662,700	\$662,700
<b>Total Sales Tax Revenue</b>	<b>\$163,026,150</b>	<b>\$87,915,350</b>

Source: Board of Economic Advisors

The current \$300 maximum sales and use tax cap is expected to generate an estimated \$163,026,150 in sales and use tax revenue in FY2015-16 and FY2016-17. Increasing the maximum sales and use tax cap to \$600 per item is expected to raise an additional estimated \$87,915,350 in FY2015-16 and FY2016-17. For example, the current sales and use tax cap on automobiles is estimated to amount to \$153,500,000 in sales and use tax in FY2015-16. If the sales and use tax cap on the purchase of an automobile is increased to \$600 per automobile, an additional estimated \$82,500,000 in sales and use tax revenue in FY2015-16 would result.

**Allocation of Maximum Sales and Use Tax Revenue  
Sources and Uses Statement  
Fiscal Year 2015-16**

<b>Sources of Revenue</b>		
<b>Original \$300 Sales Tax Cap</b>	\$163,026,150	
General Fund (80%)		\$130,420,920
EIA Fund (20%)		\$32,605,230
<b>Second \$300 Sales Tax Cap</b>	\$87,915,350	
General Fund (80%)		\$70,332,280
EIA Fund (20%)		\$17,583,070
<b>Adjustments</b>		
Revenue to Remain with EIA Fund		(\$32,605,230)
Revenue Already Included in BEA Estimate 1/		(\$61,400,000)
<b>Total Transferred to Dept. of Transportation</b>		\$156,936,270
<b>Uses of Revenue</b>		
<b>DOT - State Non-Federal Aid Highway Fund (15%)</b>		\$23,540,440.50
<b>DOT - Remaining Revenue (85%)</b>		\$133,395,829.50
DOT - State Highway Fund (50%)		\$66,697,914.75
DOT - State Infrastructure Bank (50%)		\$66,697,914.75
<b>Total Received by Dept. of Transportation</b>		\$156,936,270.00

Note: 1/ Section 12-36-2647.

Source: Board of Economic Advisors

The maximum sales and use tax cap would be composed of two parts – the original \$300 maximum sales and use tax, and the additional \$300 maximum sales and use tax totaling \$600 per item. Beginning in FY2015-16, the first twenty percent of revenue generated from the first \$300 of the maximum imposed tax shall be credited to the South Carolina Education Improvement Act. This is not a change from current law. After the EIA is held harmless, the remaining revenue generated pursuant to the maximum sales and use tax provisions is allocated as fifteen percent to be credited to the Department of Transportation State Non-Federal Aid Highway Fund and the remainder of the revenue shall be credited to the State Highway Fund. Of this amount, fifty percent shall be transferred to the State Infrastructure Bank.

The table above describes the sources and uses of the revenue generated in this section. Sales and use tax revenue generated from the \$600 maximum sale and use tax cap provision is expected to yield an estimated \$250,941,500 in FY2015-16. Before this revenue is allocated to the Department of Transportation two adjustments need to be considered. Of this amount, the EIA Fund would receive \$32,605,230 and the Board of Economic Advisors' revenue estimate already includes a transfer of \$61,400,000 for fifty percent of the General Fund portion of the sales and use tax on motor vehicles pursuant to Section 12-36-2647 in FY2015-16. After all adjustments, the Department of Transportation would receive the remainder of \$156,936,270 (\$250,941,500 from the maximum sales and use tax caps less \$32,605,230 to keep the EIA Fund held harmless and less \$61,400,000 of sales and use tax revenue from the sale of motor vehicles already in the BEA revenue estimate). Of this amount, the Department of Transportation would then allocate fifteen percent, or \$23,540,440.50 to the State Non-Federal Aid Highway Fund, and the remaining eighty-five percent, or \$133,395,829.50, would be equally allocated between the State Highway Fund and the State Infrastructure Bank, or \$66,697,914.75, in FY2015-16.

Collectively, this section would reduce General Fund sales and use tax revenue by an estimated \$69,020,920 (\$130,420,920 less \$61,400,000) and increase Other Fund revenue of the Department of Transportation by an estimated \$156,936,270 in FY2015-16. The EIA Fund would not be affected by this section and will continue to receive revenue from the original \$300 maximum sales and use tax.

**Section 6.** This section would repeal Section 12-36-2647. Currently, Act 98 of 2013 allows fifty percent of the revenues derived from the sale of motor vehicles pursuant to Sections 12-36-2620(1) and 12-36-2640(1) to be redirected from the state public school building fund and credited to the State Non-Federal Aid Highway Fund. This transfer only affects the four percent component of the sales and use tax in the General Fund. This does not affect EIA Fund revenue collections. According to the Department of Revenue, this transfer amounted to a reduction in General Fund sales and use tax revenue of \$59,543,949 and a concomitant increase in State Non-Federal Aid Highway Fund revenue in FY2013-14.

In FY2015-16, an estimated \$61,400,000 is scheduled to be transferred to the State Highway Fund in the Department of Transportation. Since this revenue amount is already included in the Board of Economic Advisors' General Fund revenue estimate, the repeal of this section would not change the amount scheduled to be transferred to the Department of Transportation, but is not included in the revenue impact statement because this action would double count the amount. The revenue is included in the amount to be transferred to the Department of Transportation in Section 5.

Subitem (c) adds a provision to allow the Department of Transportation to use the revenue received from non-tax sources and used only to finance the issuance of revenue bonds pursuant to Article 3 of the South Carolina Transportation Infrastructure Bank Act. Although the exact mechanism for the financing of the revenue bonds is an issue for the State Treasurer's Office to address, it is important to note that the outstanding debt from the revenue bonds would not constitute a debt or a pledge of the full faith and credit of the state or be included in any calculation against the state's legal debt limit.

These estimates are subject to change based upon newly released data and forecasts. It may also be important to note that automobile sales are at a relative peak period and future expectations are that sales will remain stable or even decline in the next few years.

**Local Expenditure**

N/A

**Local Revenue**

N/A

  
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Frank A. Rainwater, Executive Director