

ISSUES WITH ESTIMATES USED IN HB 124

A Report Prepared for the

Legislative Finance Committee

by

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INTRODUCTION

The purpose of this report is to provide the committee with information on lower than anticipated vehicle tax revenue associated with HB 124 and the net impact on the state general fund. At the last Revenue and Transportation Committee (RATC) meeting in early February, our office reported that vehicle taxes deposited to the general fund were expected to be below projections by \$10.1 to \$13.1 million. At that time, our office had not analyzed newly emerging disbursement information. Based on new information from the Department of Justice's (DOJ) motor vehicle database and fiscal 2001 vehicle collection data from city, county, and school funds, the projected annual shortfall has been revised downward to \$7.6 million in fiscal 2002 and \$6.8 million in fiscal 2003.

HB 124

HB 124, referred to as "the Big Bill" during the 2001 legislative session, dramatically altered the method of collection and distribution of funds to local governments, as well as making changes in other relationships between the state and local governments. Beginning in fiscal 2002, HB 124 reallocates revenue received by local governments, school districts, and some state special revenue accounts to the general fund and replaces the foregone revenue with state entitlement grants to counties and cities, two-year block grants to school districts and countywide school accounts, entitlement grants to tax increment financing districts, and transfers to state special revenue accounts. Each of these disbursements is from the state general fund. HB 124, in conjunction with SB 339 and SB 176, also requires the state to assume costs of public assistance, child welfare, and district courts in each county of the state.

Beginning July 1, 2001, the revenue sources lost by local governments, school districts, and state special revenue accounts were:

- ☞☞ Motor vehicle registration fees, license and decal fees, plate fees, and titling fees
- ☞☞ District court fees, fines and forfeitures (beginning fiscal 2003)
- ☞☞ Video gambling taxes
- ☞☞ Financial institutions corporation taxes
- ☞☞ State aeronautics fees
- ☞☞ Alcohol related taxes
- ☞☞ SB 184 personal property tax reimbursements
- ☞☞ 9 mill levy property taxes
- ☞☞ State payments-in-lieu-of tax (PILT) and county land planning grants

VEHICLE TAXES

The largest source of revenue is motor vehicle registration and license fees. All fees from all vehicles (except vehicles registered in multiple states, such as International Registration Plan (IRP) vehicles) are deposited in the state general fund, including those

formerly deposited to state special revenue accounts. The revenue from IRP vehicles is deposited in the highway account.

Two sources of revenue that produced one-time-only impacts were the financial institutions corporation tax and video gambling tax, due to revenue accruals required under Generally Accepted Accounting Principles. The financial institutions corporation tax collected by the state during fiscal 2001 would have been distributed to local governments in September 2001 and would have been included in fiscal year-end 2001 as an accrued expenditure. Under HB 124, this payment was not made and the payable not accrued, resulting in a one-time increase in financial institutions corporation tax in fiscal 2001. The state also accrued the last quarter of the local governments' share of gambling taxes, because the effective date of the reallocation of video gambling tax was April 1, 2001.

ESTIMATED IMPACTS BEFORE NEW INFORMATION

There were three separate fiscal analyses prepared for HB 124 during and after the 2001 legislative session: 1) The Department of Revenue (DOR) provided "long sheets" showing revenues, disbursements and net impacts for ten years into the future; 2) the Office of Budget & Program Planning (OBPP) provided the official fiscal note dated April 19th, 2001, showing revenues, disbursements, and net impacts for all state accounts for the 2003 biennium; and 3) the Legislative Fiscal Division (LFD) provided an analysis showing revenues, disbursements, and net impacts to all state accounts for the 2003 biennium in its *Legislative Fiscal Report, 2003 Biennium*.

Table 1 shows anticipated general fund revenues, disbursements, and net impacts for fiscal 2001, 2002, and 2003 developed and published by each office.

Table 1			
HB 124 Impacts on General Fund			
Fiscal 2001,2002,2003			
Office Providing Analysis	Revenue	Disbursements	Net Impact
Department of Revenue	\$377,766,666	\$367,432,739	\$10,333,927
Office of Budget & Program Planning	278,409,743	267,213,834	11,195,909
Legislative Fiscal Division	277,226,121	265,720,536	11,505,585

Although the respective offices developed the amounts shown in Table 1 independently, each estimate contained oversights that misrepresented revenue and disbursements to the general fund. The next section of the report explains the problems with each analysis of the fiscal impacts of HB 124.

DEPARTMENT OF REVENUE

An analysis of the DOR HB 124 “long sheets” revealed a number of issues which affected the revenue and disbursement conclusions.

The revenue section of the long sheets contained total combined revenue impacts for all state funds, and did not isolate the general fund. The expenditure section, however, contained general fund impacts only, omitting transfers to state special revenue accounts.

The DOR’s HB124 “long sheet” shows the net general fund impact at \$10.3 million, or slightly lower than the OBPP and LFD numbers shown in Table 1. In defense of their work, DOR made the following statement: “These “long sheets” were prepared to assist the legislators in understanding the financial changes between the state, local governments, and school districts. The “long sheets” reflect the format established in the Local Government Funding and Structure Committee work, and the same format was used during session to focus on the policy changes. The amounts shown on the “long sheets” were net of the transfers among state agencies as the state agency accounting changes were to be neutral; in other words, the accounting flows of the funds changed, but the amount of revenue for each state agency was to remain the same.”

HB 124 FISCAL NOTE

The final fiscal note for HB 124 included estimated increases in motor vehicle revenue in the general fund that were incorrect. As shown in the fiscal note, the increase in revenue from fees-in-lieu-of-taxes (FILT) associated with motor vehicles did not contain FILT revenue from new light vehicles. In addition, the revenue from local motor vehicle license fees was double counted.

LEGISLATIVE FISCAL REPORT

Page 75 in Volume 1 of the *Legislative Fiscal Report, 2003 Biennium* outlined the impacts of HB 124.

However, the revenue section double counted the FILT revenue from new vehicles. In addition, revenue from vehicle license fees that were previously deposited in state special revenue accounts was undercounted.

NEW INFORMATION

Since enactment of HB124, new information has assisted our office in revising the estimated net fiscal impact of HB 124. DOR and the Office of Public Instruction have supplied data on fiscal 2001 city, county, and school funds vehicle tax revenue. Additionally, DOJ has provided an electronic copy of the motor vehicle database for calendar 2001.

CITY, COUNTY, SCHOOL VEHICLE REVENUE

HB 124 required all motor vehicle taxes formerly deposited in local government and school accounts to be deposited in the state general fund beginning in fiscal 2002. In return, local government and schools receive entitlement payments and block grants from the state general fund. The entitlement and grant payments were designed to reimburse local governments and schools for the amount each entity received in fiscal 2001. To this base amount, growth factors of 3.0 percent and 0.76 percent per year were applied to entitlement and grant payments, respectively.

However, local government and school revenue from light vehicle taxes was treated differently than other local sources of revenue. For entitlement share and block grant purposes, the fiscal 2001 revenue from light vehicle taxes in each jurisdiction was adjusted downward by an adjustment factor. This correction was necessary to convert fiscal 2001 vehicle tax revenue collections to represent a full year of receipts based on a flat fee basis. HB 540, passed by the 1999 legislature, eliminated the taxation of light vehicles on an ad-valorem basis (1.4 percent of depreciated value) and substituted a light vehicle tax based on vehicle age. The new tax went into effect on January 1, 2001, six months into fiscal 2001. Thus, fiscal 2001 receipts reported by local governments and schools reflected six months of revenue from the ad-valorem tax and six months of revenue from the HB 540 flat fee.

An analysis done by DOR using the DOJ calendar 2000 light vehicle database produced a HB 540 adjustment factor for each county. This factor was used to estimate the light vehicle revenue that each county and city would have received in fiscal 2001 had HB 540 been in existence for the full year. On average this factor was 88.6 percent of fiscal 2001 light vehicle revenues.

As specified in HB 124, schools used a 93.4 percent adjustment factor to adjust their fiscal 2001 motor vehicle revenues. However, the adjustment factor used by local governments was not contained in HB 124. These adjusted amounts plus the respective growth rates for local governments and schools became a part of the entitlement shares and block grants to these entities.

The information shown in Table 2 reflects the adjusted vehicle tax revenues obtained from DOR and OPI.

Table 2 Estimated Fiscal 2001 Vehicle Tax Revenue As Reported By Local Governments and Schools And as Adjusted For HB540	
Jurisdiction	Vehicle Taxes Adjusted for HB 540
Counties	\$16,984,045
Cities	7,267,513
School Districts	25,758,018
County Education Accts	6,214,723
DOJ and DOT	11,767,783
Already in State General Fund	<u>1,594,855</u>
Total Vehicle Taxes	\$69,586,937

DOJ 2001 MOTOR VEHICLE DATABASE

In addition to the fiscal 2001 vehicle tax collections discussed previously, our office obtained an electronic copy of the calendar 2001 motor vehicle database. This database contains information about all vehicles in the state that are assessed a FILT. Vehicles included in this database are light vehicles, heavy trucks, trailers, motorcycles, and all other vehicles.

This database, in conjunction with a simulation model, was used to calculate anticipated revenues from the FILT on all light vehicles for calendar 2001. The model results were combined with DOJ summary computer runs for the other vehicle types to determine a total FILT estimate of \$69.7 million for all vehicle types. This amount is very similar to the amount shown in Table 2.

REVISED IMPACTS

Table 3 shows a summary of changes in state general fund revenue, expenditures, and net impact as a result of HB 124 for fiscal 2001, 2002, and 2003 based on this new information.

In addition, Table 3 shows adjustments made to other new state revenue sources. The original LFD estimate of all motor vehicle license fees included \$12.8 million for license fees from both local governments and state special revenue accounts. However, new data on what the counties and cities actually received in fiscal 2001, along with expected amounts that will be lost by state special accounts, indicates that total license fees will be \$10.8 million from local governments, and \$4.6 million from state special revenue accounts. This is an increase of \$2.6 million per year in general fund license fee receipts.

Several changes were also made to anticipated expenditures. As a result of a survey conducted by the Department of Revenue, district court costs were estimated to be \$19.3 million. The previous estimates assumed state general fund district court costs in fiscal 2003 would be \$22.5 million. Discussions with analysts in the Judiciary indicate that costs associated with district courts may be higher than \$19.3 million in fiscal 2003.

Table 3				
Net Impact of HB 124 on State General Fund				
In Millions				
	Fiscal 2001	Fiscal 2002	Fiscal 2003	3 Year Total
Revenue Increases				
Alcohol Taxes	-	4.485	4.706	9.191
Corporation-Financials	8.523	8.652	8.745	25.920
Corporation-Financials- already deposited in General Fund	-	(1.185)	(1.183)	(2.368)
Vehicle FILT	-	69.740	70.786	140.526
Vehicle FILT already deposited in general fund	-	(1.595)	(1.595)	(3.190)
Vehicle Fees from local gov'ts	-	10.787	10.949	21.736
Video Gaming	6.914	27.593	30.214	64.721
Vehicle fees from State Special Accounts	-	4.648	4.718	9.366
Other (Dist Ct fees in FY03)	-	0.204	2.126	2.330
Total Revenue Increases	\$15.437	\$123.329	\$129.466	\$268.232
Cost Savings				
SB184 reimbursements	-	54.934	54.934	109.869
Other	-	0.907	0.929	1.836
Total Cost Savings	\$0.000	\$55.841	\$55.863	\$111.705
Total Revenue and Cost Savings	\$15.437	\$179.171	\$185.330	\$379.937
Cost Increases				
Welfare Cost Increases (HB2)	-	14.125	14.496	28.622
District Court Cost Increases	-	-	19.254	19.254
Entitlements to Cities	-	41.825	43.080	84.905
Entitlements to Counties	-	42.436	32.914	75.350
Block Grants to School Districts	-	53.308	53.713	107.021
Block Grants to County Education Accounts	-	12.735	12.832	25.567
Block Grants to TIF's	-	4.660	3.902	8.562
Transfers to State Special Accounts	-	13.265	7.635	20.900
Other HB 2 adjustments	-	1.038	0.344	1.382
Total Cost Increases	\$0.000	\$183.393	\$188.170	\$371.562
Net Impact on General Fund	\$15.437	(\$4.222)	(\$2.840)	\$8.375

Entitlements to the counties, however, will go up by a corresponding amount since the entitlement shares to the counties in fiscal 2003 are reduced by the cost savings associated with district courts. The total revenue reported by counties as lost under HB 124 was higher than anticipated at the conclusion of the session.

City entitlements are expected to be lower than projected at the end of the 2001 Legislative session by \$1.7 million in each year of the 2003 biennium, due to lower reported city revenue lost due to HB 124.

School district block grants are reduced by \$3.9 million in fiscal 2002 and \$3.5 million in fiscal 2003 as a result of less district motor vehicle revenue reported in fiscal 2001 than was anticipated at the end of the session. While the amount of the block grants to schools was directly appropriated in HB 124 and exceeds the latest revenue replacement needs, OPI reported to the February 7-8, 2002, meeting of the RATC that they would revert the excess spending authority to the state general fund.

Transfers to state special revenue accounts also increase by \$1.3 million per year compared to post session estimates. HB 124 requires reimbursements to state special revenue accounts for losses in certain motor vehicle license fees that will be deposited in the state general fund (i.e. junk title and registration fees to DEQ; weed fees to Agriculture; OHV, watercraft, and snowmobiles to FWP; Highway Patrol fees to DOA; senior citizen transport fees to DOT; and veteran license plate fees to Military Affairs).

These losses and corresponding transfers in fiscal 2002 and 2003 depend on vehicle counts in calendar year 2000 and 2001, respectively. The amount of the transfer was estimated at the conclusion of the session to be \$3.3 million for fiscal 2002. New estimates provided by DOR place the transfers at \$4.6 million per year due to passage of SB 168, which increased the junk vehicle title fee by \$0.50 per vehicle and the junk renewal registration fee by \$0.50 per vehicle. The transfers as calculated by the DOR include the increase in junk vehicle fees.

Other HB 2 adjustments, mostly HB 124 administration expenses, are reduced by approximately \$0.6 million to account for double counting of these costs in the post-session *Legislative Fiscal Report, 2003 Biennium*.

SUMMARY

The revised estimate of the net impact of HB 124 on the general fund is a reduction of \$4.2 million in fiscal 2002 and \$2.8 million in fiscal 2003. Table 4 shows the differences between this report and the post session LFD report regarding the estimates of the impact of HB 124 on general fund revenues, disbursements and net impacts. In summary, revenues will be down due to lower motor vehicle taxes but in part offset by higher motor vehicle license fees. Net expenditures are expected to be lower due to lower block grants to school districts, higher county entitlements, and lower city entitlements. As a result the change in the net impact of HB 124 is now expected to cost an additional \$3.1 million during the 2003 biennium when compared with the earlier report.

	Fiscal 2002	Fiscal 2003	Total
Reduced Vehicle FILT	(\$7.579)	(\$6.769)	(\$14.348)
Increased Vehicle Fees	2.489	2.865	5.354
Reduced Expenditures	3.186	2.677	5.863
Totals	(\$1.904)	(\$1.227)	(\$3.131)