SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3516 Amended by House Ways and Means on February 14, 2017
Author:	Simrill
Subject:	SC Infrastructure and Economic Development Reform Act
Requestor:	House Ways and Means
RFA Analyst(s):	Wren, Jolliff, and Martin
Impact Date:	February 27, 2017 - Updated for revised agency response

Estimate of Fiscal Impact

	FY 2017-18	**FY 2018-19**	**FY 2019-20 to FY 2021-22**
State Expenditure			
General Fund	$188,000	Undetermined	See Below
Other and Federal	$0	$448,000	See Below
Full-Time Equivalent Position(s)	0.00	4.00	
State Revenue			
General Fund	$0	$0	$0
Other and Federal	$176,721,000	$280,234,000	See Below
Local Expenditure	$0	$0	$0
Local Revenue	$0	$12,821,000	See Below

Fiscal Impact Summary
This bill will increase non-recurring expenses for the Department of Motor Vehicles (DMV) by $188,000 in FY 2017-18 and $401,900 in FY 2018-19. Total recurring Other Fund expenses for DMV for administration include $157,500 for four new FTEs. DMV expects additional expenses for the administration of the motor carrier road use fee beyond the current estimates; however, the amount is currently undetermined.

This bill will increase Other Funds revenue by a total of $176,721,000 in FY 2017-18, $280,234,000 in FY 2018-19, $365,245,000 in FY 2019-20, $447,788,000 in FY 2020-21, $532,576,000 in FY 2021-22 based upon our base year estimates for each of the revenue increases. The amended bill would shift $150,409,000 from the State Highway Fund to the Infrastructure Maintenance Trust Fund beginning in FY 2017-18. The bill will decrease EIA Funds by $37,602,000 beginning in FY 2017-18, which is credited to the Infrastructure Maintenance Trust Fund.

Other Funds revenue of DMV is expected to increase by $448,000 in FY 2018-19 and $97,000 in FY 2019-20. The bill will reduce Other Funds revenue of the Department of Revenue (DOR) by $48,000 in FY 2018-19 and $97,000 in FY 2019-20. Other Funds revenue for environmental and inspection fees to the Department of Transportation (DOT), the Department of Health and Environmental Control (DHEC), and the Department of Agriculture is expected to be reduced by $46,000 in FY 2017-18, $98,000 in FY 2018-19, and an additional $44,000 each year until FY 2021-22, for a total of $230,000.

Four of forty-six counties surveyed responded that the bill is expected to have minimal to no impact on local expenditures to administer the hybrid and alternative fuel vehicle biennial fee. Local revenue distributed to counties for motor carrier road use fees is expected to increase by $12,821,000 in FY 2018-19 for a one-time acceleration of fee payments and $765,000 in FY 2019-20.

This fiscal impact statement has been updated based on a revised response and additional information from DMV regarding the expenditure impact of the bill.

Explanation of Fiscal Impact

Amended by House Ways and Means on February 14, 2017
Updated for Revised Agency Response
State Expenditure
The following sections would affect state expenses as follows:

Section 5. This section increases current biennial registration fees by $16. DMV's revised response indicates non-recurring expenditures for this section will total $11,000 in FY 2017-18 for programming and system testing.

Section 6. This bill adds an infrastructure maintenance fee for in-state and out-of-state residents that must be paid upon first registering any vehicle or item required to be registered pursuant to Chapter 3 of Title 56. DMV expects expenditures of $53,000 for programming, system updates, and system testing in FY 2017-18.

Section 7. This section adds a biennial road use fee of $120 for alternative fuel vehicles and a $60 biennial road use fee for hybrid vehicles. DMV's revised response indicates non-recurring expenditures for this section will total $124,000 in FY 2017-18 for programming, system updates, and system testing.

Section 9. This section directs DMV to collect a road use fee on all large commercial motor vehicles beginning on January 1, 2019 in the same manner as the current motor carrier property tax. DOR currently administers the property tax for in-state carriers. This bill would add out-of-state carriers to the road use fee and transfer the program to DMV. Additionally, motor carriers pay a one-time fee of $87 to register a trailer or semi-trailer. Currently, $12 of the fee is retained by DOR for operating costs. This bill would change the distribution by sending the $12 fee to DMV.

Department of Motor Vehicles. DMV's revised response indicates non-recurring expenditures for administration of the motor carrier fee program are expected to total at least $401,900 in FY 2018-19 based upon the latest estimates for the required programing, testing, and project management to set up this system within the agency. They also anticipate additional non-recurring expenditures above this amount for consulting with tax specialists with the knowledge of motor carrier property taxes and valuation to assist in designing and testing the system. Additional recurring expenditures for administering the program, producing forms and materials, processing fee submissions, and handling disputes are expected, but projected expenditures for conducting these functions are currently undetermined. The agency expects to hire four FTE's to administer the program with estimated personnel expenditures of $157,500 per year including fringe benefits.

Department of Revenue. DOR does not anticipate a reduction in personnel expenditures from moving the administration of the motor carrier fee to DMV because the staff who administer this program have additional responsibilities for administration of other property tax assessments that remain with the agency.

State Revenue

The following sections would affect state revenue as follows:

Section 1. This section of the bill as amended creates the Infrastructure Maintenance Trust Fund to be used exclusively for the repairs, maintenance, and improvements to the existing transportation system. All interest income of the Infrastructure Maintenance Trust Fund must be credited to the fund.

Section 2. This section permits DOT the discretion to determine if transferring funds to other entities as required by provisions of law would best serve the transportation infrastructure needs of the state. If the department determines that the transfer would not best serve the state, they may delay the transfer indefinitely. This could potentially reallocate revenue if the department decides not to make a transfer to another entity.

Section 3. The bill increases the current $0.16 per gallon motor fuel user fee by $0.02 per gallon per year for five years for a total increase of $0.10 per gallon of fuel. The first increase will take effect July 1, 2017. The increased revenue as a result of this section must be credited to the Infrastructure Maintenance Trust Fund. Based on the latest information from the U.S. Department of Energy, increasing the current user fee from $0.16 to $0.18 would generate an additional $68,857,000 in FY 2017-18. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual revenue to the Infrastructure Maintenance Trust Fund by fiscal year for FY 2017-18 to FY 2020-22 is provided in the table below.

Fiscal Year	Motor Fuel Fee Increase (Total of $0.10)	Net Impact on $0.0075 Environmental and Inspection Fee Revenue
FY 2017-18	$68,857,000	($46,000)
FY 2018-19	$153,958,000	($98,000)
FY 2019-20	$234,338,000	($142,000)
FY 2020-21	$316,881,000	($186,000)
FY 2021-22	$401,669,000	($230,000)

As the user fee is increased in the first five 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 estimated number of gallons. Based upon an analysis of several academic studies, the demand elasticity for gasoline averages -0.2 in the short-run for the United States. The studies suggest that the long-run demand changes will be slightly more sensitive to price changes in gasoline as consumers seek out alternatives. Therefore, we used an elasticity of -0.2 in this analysis, meaning that a one percent increase in the price of gasoline would reduce the amount purchased by 0.2 percent.

In addition to affecting the Infrastructure Maintenance Trust Fund, the demand reduction in total gallons will lower the $0.0075 environmental and inspection fee anticipated revenue to the Department of Agriculture, DHEC, and DOT. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual reduction in revenue for each agency for FY 2017-18 to FY 2021-22 by agency is provided in the table below.

Environmental and Inspection Fee ($0.0075)			
	$0.0050	$0.0025	
Fiscal Year	Department of Health and Environmental Control	10% to the Department of Agriculture	90% to the Department of Transportation (State Non-Federal Aid Highway Fund)
FY 2017-18	($31,000)	($2,000)	($14,000)
FY 2018-19	($65,000)	($3,000)	($29,000)
FY 2019-20	($95,000)	($5,000)	($43,000)
FY 2020-21	($124,000)	($6,000)	($56,000)
FY 2021-22	($153,000)	($8,000)	($69,000)

Section 5. The biennial registration fee for every passenger vehicle and every property-carrying vehicle with a gross weight of 6,000 pounds or less, excluding property carrying trucks, is increased by $16.00. The increase will apply to all individuals, including individuals 65 years of age or older and individuals who are handicapped pursuant to Section 56-3-620. Based upon DMV data, there will be approximately 3,179,000 vehicles subject to this additional fee in FY 2017-18. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. The estimated additional revenue from this fee increase is $12,731,000 for FY 2017-18. From each biennial registration fee collected pursuant to this section, $16.00 must be credited to the Infrastructure Maintenance Trust Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Biennial Vehicle Registration Fee Increase Total Additional Revenue
FY 2017-18	$12,731,000
FY 2018-19	$26,090,000

Section 6. This section creates a new infrastructure maintenance fee that must be paid upon first registering any vehicle or item required to be registered pursuant to Chapter 3 of Title 56 beginning July 1, 2017. The fee is 5 percent of the sales price up to $500 for a vehicle or item first registered in this state and $250 for new residents registering an out-of-state vehicle in South Carolina for the first time. This fee replaces the current 5 percent sales tax up to $300 for

vehicles and items purchased in South Carolina required to be registered under Chapter 3 of Section 56. We assume that the majority of trailers are exempt under Section 56-3-120 and are captured under the permanent fee in Section 12-37-2860 instead. These trailers would remain subject to the sales tax.

Based on our current estimates for motor vehicles, motorcycles, motor carriers, and recreational vehicles, increasing the maximum fee for these items to $500 will generate $72,722,000 in additional revenue to the Infrastructure Maintenance Trust Fund in FY 2017-18.

Item	Current Sales Tax ($300 cap)	Infrastructure Fee ($500 cap)	Revenue Increase
Motor vehicle	$183,000,000	$253,300,000	$70,300,000
Motorcycle	$2,208,000	$2,760,000	$552,000
Heavy duty trucks	$1,119,000	$1,866,000	$747,000
Recreational Vehicle	$1,684,000	$2,807,000	$1,123,000
Total	$188,011,000	$260,733,000	$72,722,000

Currently, 80 percent of the current $300 fee is distributed to the State Highway Fund, but the remaining twenty percent is credited to the EIA Fund. This bill would transfer 80 percent of the total $188,011,000 generated by the current sales tax cap, or $150,409,000, from the State Highway Fund to the Infrastructure Maintenance Trust Fund. The remaining twenty percent of the current sales tax is credited to the EIA Fund. This EIA revenue would shift to the Infrastructure Maintenance Trust Fund, reallocating $37,602,000 in FY 2017-18.

Individuals registering a vehicle in South Carolina that was previously registered out-of-state will be subject to a $250 fee. The amendment exempts active duty military from this fee. DMV indicates that they cannot isolate the number of registrations occurring as a result of new residents moving into the state and registering an out-of-state vehicle for the first time. Data provided by DMV would include cars that were registered in another state, purchased by a dealer, and then sold in South Carolina. Therefore, we used the U.S. Census Bureau's migration data as a proxy. The Census Bureau estimates annual in-migration for people moving into South Carolina to be 99,919. This is based upon the number of personal exemptions claimed on the 52,710 income tax records for people moving into South Carolina from 2014 to 2015. Reducing this figure by 19.7% to account for individuals under age 16 who would not be likely to register a vehicle, we expect 80,235 vehicles to be subject to the out-of-state $250 fee in FY 2017-18. The estimated additional revenue from this fee is $20,059,000 for FY 2017-18.

This analysis is based upon income tax returns for individuals who have changed their state of residence for income tax purposes. The estimate may include a small number of active duty military who changed their state of residence to South Carolina and would be exempt from the fee. However, this is not expected to have a significant impact on the revenue estimate.

In total, this section is expected to increase revenue to the Infrastructure Maintenance Trust Fund by $92,781,000 plus an additional $188,011,000 in revenue transferred from the State Highway Fund and EIA Fund for a total of $280,792,000 in FY 2017-18. The section will decrease State Highway Fund revenue by $150,409,000 and EIA revenue by $37,602,000 in FY 2017-18.

Section 7. This section 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 data from DMV, we estimate 460 vehicles powered exclusively by alternate fuels will be subject to the $120.00 fee. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be $14,000.

For vehicles that use a combination of a motor fuel subject to the motor fuel user fee and another fuel source, the biennial road user fee is $60.00. We estimate that in FY 2017-18 there will be 44,000 vehicles that use a combination of fuels subject to the $60.00 fee. Since the increase begins January 1, 2018, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be $660,000. The proposed biennial alternative fuel and hybrid vehicle fees will total $674,000 in FY 2017-18. All of the fees collected pursuant to this section must be credited to the Infrastructure Maintenance Trust Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Hybrid and Alternative Fuel Vehicle Fee Total Additional Revenue
FY 2017-18	$674,000
FY 2018-19	$1,453,000

Section 8. This section increases the maximum sales and use tax limitation on enumerated items from the current $300 per item to $500 per item beginning July 1, 2017. The revenue generated by increasing the maximum sales and use tax by an additional $200 per item would not be credited to the state public school building fund or the EIA fund as directed by current statute, but would instead be redirected to the Infrastructure Maintenance Trust Fund.

Additionally, motor vehicles, motorcycles, motor carriers, recreational vehicles, and trailers subject to the new infrastructure maintenance fee are exempt from the sales and use tax. The revenue increase attributable to the remaining items subject to the maximum sales and use tax cap is included in the table below. The increase in the sales and use tax cap by $200 per item would increase revenue to the Infrastructure Maintenance Trust Fund by an estimated $1,678,000 in FY 2017-18.

Item	Current $300 Max Cap	Proposed $500 Max Cap	Estimated Revenue Increase
Aircraft	$21,000	$34,000	$13,000
Boat	$3,846,000	$4,807,000	$961,000
Self-propelled light construction equipment	$663,000	$1,105,000	$442,000
Trailers	$1,312,000	$1,574,000	$262,000
Total	$5,842,000	$7,520,000	$1,678,000

Section 9. This section directs DMV to collect a road use fee on all large commercial motor vehicles beginning on January 1, 2019. The valuation of the large 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 apportioned carriers that currently do not pay property taxes to the road use fee. The road use fee for in-state carriers would remain the same as the current property tax amount.

In order to estimate the road use fee on out-of-state carriers, we calculate full-time equivalent (FTE) vehicles based upon the average in-state registration fee of $706 and the total out-of-state registration fees collected. This accounts for the apportionment of out-of-state vehicles based on mileage. For FY 2015-16, DMV reported total out-of-state vehicle registration collections of $7,802,991. Dividing the total fees by the estimated average fee results in an estimated 11,047 FTE out-of-state vehicles in FY 2015-16. We estimate that this will increase to approximately 12,012 out-of-state vehicles by FY 2018-19 based upon recent growth in fee collections. Using an approximate new vehicle value of $120,000 and multiplying this value by the estimated 12,012 vehicles results in a total value of $1,441,416,000. Based upon an average vehicle age of 6 years, the average value at the depreciated rate of 0.25 would be $360,354,000. As outlined in Section 12-43-220(g), this depreciated vehicle value is then assessed at 9.5 percent and multiplied by an equalization factor currently set at 80 percent by DOR.

Because the new fee is paid at the time of registration and may be paid quarterly, the actual distribution of the calendar year 2019 revenue may vary depending upon registration timing. Since the fee begins January 1, 2019, we assume for this analysis that the registrations will be evenly distributed across the year and that one-half of the full year's fees will be paid from January through June of FY 2018-19. Additionally, the change in timing will accelerate fee collections for in-state carriers by six months compared to the current fee timing. Using an estimated statewide millage of 338.4, we estimate that one-half of total collections for road use fees will be $4,634,000 for out-of-state carriers. Based upon our latest analysis of collections for in-state motor carriers through the end of 2016, we estimate that total fees for in-state carriers will be approximately $25,115,000 for calendar year 2019. One-half of these fees will total approximately $12,558,000 in FY 2018-19. Total motor carrier fees for new collections and the one-time acceleration of in state fees will be approximately $17,192,000 in FY 2018-19.

Additionally, motor carriers pay a one-time fee of $87 to register a trailer or semi-trailer. Currently, $75 of the fee is distributed to local jurisdictions under Section 12-27-2870, and $12 is retained by DOR. This proposal would change the distribution by sending the $12 fee currently retained by DOR to DMV. The remaining $75 is to be combined with the revenue generated by the road use fee in Section 12-37-2850 and distributed based upon Sections 12-37-2865 and 12-37-2870. Based upon fee collections through calendar year 2016, we estimate total one-time registration fees will be approximately $703,000 in calendar year 2019. One-half of one-time registration fees will total approximately $352,000 in FY 2018-19. Of this amount, $48,000 will be reallocated from DOR to DMV for operations and $303,000 will be distributed based upon Section 12-37-2865 as outlined below.

Combining the projected motor carrier road use fees and one-time registration fee revenue for FY 2018-19 yields total revenue of $17,495,000 to be distributed under Section 12-37-2865. Section 12-37-2865 directs that 75 percent of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the Infrastructure Maintenance Trust Fund. Additionally, Subitem L(2) of Section 10 directs DMV to retain $400,000 in the first calendar year to offset programming costs. This leaves $17,095,000 for distribution under Section 122-37-2865. Counties will receive $12,821,000 in FY 2018-19 above the fees collected under our current property tax due to the fee acceleration. The remaining $4,274,000 will be credited to the Infrastructure Maintenance Trust Fund. These amount may vary, however, depending upon registration timing.

Revenue for FY 2019-20 will comprise a full year of fees. Based upon collections through calendar year 2016, we estimate that total motor carrier road use fees will be $25,343,000 for in-state carriers and $9,670,000 for out-of-state carriers, for a total of $35,013,000 in FY 2019-20. Fees for one-time registrations will yield an additional $606,000 to be distributed, while $97,000 will be retained by DMV. Adding the motor carrier fee amounts together yields total revenue of $35,619,000 to be distributed based upon Section 12-37-2865. Counties will receive $26,714,000 under the current distribution formula in Section 12-37-2870, and the remaining $8,905,000 will be credited to the Infrastructure Maintenance Trust Fund. This will increase county revenue by approximately $765,000 for FY 2019-20.

Local Expenditure

Section 7. This section adds a biennial road use fee for hybrid and alternative fuel vehicles. The Revenue and Fiscal Affairs Office contacted all forty-six county governments regarding the expenditure impact of this section of the bill. Florence and Horry Counties indicate that this bill will have no expenditure impact on their localities. Clarendon and Lancaster Counties indicate that this bill will have a minimal expenditure impact on their localities.

Local Revenue

Section 9. This section creates the motor carrier road use fee to replace the current motor carrier property tax beginning January 1, 2019. Section 12-37-2865 directs that 75 percent of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the Infrastructure Maintenance Trust Fund. Due to a change in timing for fee payments, this will increase local funding to counties by $12,821,000 in FY 2018-19. This amount may vary, however, depending upon registration timing. For FY 2019-20 county revenue will increase by approximately $765,000 for FY 2019-20 over the current estimate for motor carrier property tax revenue. For additional explanation of the revenue determination, see Section 9 under State Revenue.

Introduced on January 18, 2017
State Expenditure
The following sections would affect state expenses as follows:

Sections 3, 4, and 5. The expenditure impact associated with increasing biennial registration fees by $16, adding an infrastructure maintenance fee for in-state and out-of-state residents, and adding a biennial road use fee for hybrid and alternative fuel vehicles is pending, contingent upon a response from DMV.

Section 7. This section directs DMV to collect a road use fee on all commercial motor vehicles beginning on January 1, 2019 in the same manner as the current motor carrier property tax. DOR currently administers the property tax for in-state carriers. This bill would add out-of-state carriers to the road use fee and transfer the program to DMV. Additionally, motor carriers pay a one-time fee of $87 to register a trailer or semi-trailer. Currently, $12 of the fee is retained by DOR for operating costs. This bill would change the distribution by sending the $12 fee to DMV.

Department of Motor Vehicles. DMV expects non-recurring expenditures for administration of the motor carrier fee program to total $304,350 in FY 2018-19 based upon the latest estimates for the required programing, testing, and project management to set up this system within the agency. They also anticipate additional non-recurring expenditures above this amount for consulting with tax specialists with the knowledge of motor carrier property taxes and valuation to assist in designing and testing the system. Additional recurring expenditures for administering the program, producing forms and materials, processing fee submissions, and handling disputes are expected, but projected expenditures for conducting these functions are currently undetermined. The agency expects to hire two FTE's to administer the program with estimated personnel expenditures of $84,000 per year including fringe benefits.

Department of Revenue. DOR does not anticipate a reduction in personnel expenditures from moving the administration of the motor carrier fee to DMV because the staff who administer this program have additional responsibilities for administration of other property tax assessments that remain with the agency.

State Revenue
The following sections would affect state revenue as follows:

Section 1. The bill increases the current $0.16 per gallon motor fuel user fee by $0.02 per gallon per year for five years for a total increase of $0.10 per gallon of fuel. The first increase will take effect July 1, 2017. The increased revenue as a result of this section must be credited to the State Highway Fund. Based on the latest information from the U.S. Department of Energy, increasing the current user fee from $0.16 to $0.18 would generate an additional $68,857,000 in FY 2017-18. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual revenue increase to the State Highway Fund by fiscal year for FY 2017-18 to FY 2020-22 is provided in the table below.

Fiscal Year	Motor Fuel Fee Increase (Total of $0.10)	Net Impact on $0.0075 Environmental and Inspection Fee Revenue
FY 2017-18	$68,857,000	($46,000)
FY 2018-19	$153,958,000	($98,000)
FY 2019-20	$234,338,000	($142,000)
FY 2020-21	$316,881,000	($186,000)
FY 2021-22	$401,669,000	($230,000)

As the user fee is increased in the first five 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 estimated number of gallons. Based upon an analysis of several academic studies, the demand elasticity for gasoline averages -0.2 in the short-run for the United States. The studies suggest that the long-run demand changes will be slightly more sensitive to price changes in gasoline as consumers seek out alternatives. Therefore, we used an elasticity of -0.2 in this analysis, meaning that a one percent increase in the price of gasoline would reduce the amount purchased by 0.2 percent.

In addition to affecting the State Highway Fund, the demand reduction in total gallons will lower the $0.0075 environmental and inspection fee anticipated revenue to the Department of Agriculture, DHEC, and DOT. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual reduction in revenue for each agency for FY 2017-18 to FY 2021-22 by agency is provided in the table below.

Environmental and Inspection Fee ($0.0075)			
	$0.0050	$0.0025	
Fiscal Year	Department of Health and Environmental Control	10% to the Department of Agriculture	90% to the Department of Transportation (State Non-Federal Aid Highway Fund)
FY 2017-18	($31,000)	($2,000)	($14,000)
FY 2018-19	($65,000)	($3,000)	($29,000)
FY 2019-20	($95,000)	($5,000)	($43,000)
FY 2020-21	($124,000)	($6,000)	($56,000)
FY 2021-22	($153,000)	($8,000)	($69,000)

Section 3. The biennial registration fee for every passenger vehicle and every property-carrying vehicle with a gross weight of 6,000 pounds or less, excluding property carrying trucks, is increased by $16.00. The increase will apply to all individuals, including individuals 65 years of age or older and individuals who are handicapped pursuant to Section 56-3-620. Based upon DMV data, there will be approximately 3,179,000 vehicles subject to this additional fee in FY 2017-18. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. The estimated additional revenue from this fee increase is

$12,731,000 for FY 2017-18. From each biennial registration fee collected pursuant to this section, $16.00 must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Biennial Vehicle Registration Fee Increase Total Additional Revenue
FY 2017-18	$12,731,000
FY 2018-19	$26,090,000

Section 4. This section creates a new infrastructure maintenance fee that must be paid upon first registering any vehicle or item required to be registered pursuant to Chapter 3 of Title 56 beginning July 1, 2017. The fee is 5 percent of the sales price up to $500 for a vehicle or item first registered in this state and $250 for new residents registering an out-of-state vehicle in South Carolina for the first time. This fee replaces the current 5 percent sales tax up to $300 for vehicles and items purchased in South Carolina required to be registered under Chapter 3 of Section 56. We assume that the majority of trailers are exempt under Section 56-3-120 and are captured under the permanent fee in Section 12-37-2860 instead. These trailers would remain subject to the sales tax.

Based on our current estimates for motor vehicles, motorcycles, motor carriers, and recreational vehicles, increasing the maximum fee for these items to $500 will generate $72,722,000 in additional revenue to the State Highway Fund in FY 2017-18.

Item	Current Sales Tax ($300 cap)	Infrastructure Fee ($500 cap)	Revenue Increase
Motor vehicle	$183,000,000	$253,300,000	$70,300,000
Motorcycle	$2,208,000	$2,760,000	$552,000
Heavy duty trucks	$1,119,000	$1,866,000	$747,000
Recreational Vehicle	$1,684,000	$2,807,000	$1,123,000
Total	$188,011,000	$260,733,000	$72,722,000

Currently, 80 percent of the current $300 fee is distributed to the State Highway Fund, but the remaining twenty percent is credited to the EIA Fund. This EIA revenue would shift to the State Highway Fund, reallocating $37,602,000 in FY 2017-18.

With regard to the fee for registering an out-of-state vehicle in South Carolina, DMV indicates that they cannot isolate the number of registrations occurring as a result of new residents moving into the state and registering an out-of-state vehicle for the first time. Data provided by DMV would include cars that were registered in another state, purchased by a dealer, and then sold in South Carolina. Therefore, we used the U.S. Census Bureau's migration data as a proxy. The Census Bureau estimates annual in-migration for people moving into South Carolina to be 99,919. This is based upon the number of personal exemptions claimed on the 52,710 income tax records for people moving into South Carolina from 2014 to 2015. Reducing this figure by 19.7% to account for individuals under age 16 who would not be likely to register a vehicle, we expect 80,235 vehicles to be subject to the out-of-state $250 fee in FY 2017-18. The estimated additional revenue from this fee increase is $20,059,000 for FY 2017-18. In total, this section is expected to increase revenue to the State Highway Fund by $130,383,000 and decrease EIA revenue by $37,602,000 in FY 2017-18.

Section 5. This section 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 data from DMV, we estimate 460 vehicles powered exclusively by alternate fuels will be subject to the $120.00 fee. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be $14,000.

For vehicles that use a combination of a motor fuel subject to the motor fuel user fee and another fuel source, the biennial road user fee is $60.00. We estimate that in FY 2017-18 there will be 44,000 vehicles that use a combination of fuels subject to the $60.00 fee. Since the increase begins January 1, 2018, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be $660,000. The proposed biennial alternative fuel and hybrid vehicle fees will total $674,000 in FY 2017-18. All of the fees collected pursuant to this section must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Hybrid and Alternative Fuel Vehicle Fee Total Additional Revenue
FY 2017-18	$674,000
FY 2018-19	$1,453,000

Section 6. This section increases the maximum sales and use tax limitation on enumerated items from the current $300 per item to $500 per item beginning July 1, 2017. The revenue generated by increasing the maximum sales and use tax by an additional $200 per item would not be credited to the state public school building fund or the EIA fund as directed by current statute, but would instead be redirected to the State Highway Fund.

Additionally, motor vehicles, motorcycles, motor carriers, recreational vehicles, and trailers subject to the new infrastructure maintenance fee are exempt from the sales and use tax. The revenue increase attributable to the remaining items subject to the maximum sales and use tax cap is included in the table below. The increase in the sales and use tax cap by $200 per item would increase revenue to the State Highway Fund by an estimated $1,678,000 in FY 2017-18.

Item	Current $300 Max Cap	Proposed $500 Max Cap	Estimated Revenue Increase
Aircraft	$21,000	$34,000	$13,000
Boat	$3,846,000	$4,807,000	$961,000
Self-propelled light construction equipment	$663,000	$1,105,000	$442,000
Trailers	$1,312,000	$1,574,000	$262,000
Total	$5,842,000	$7,520,000	$1,678,000

Section 7. This section directs DMV to collect a road use fee on all large commercial motor vehicles beginning on January 1, 2019. The valuation of the large 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 apportioned carriers that currently do not pay property taxes to the road use fee. The road use fee for in-state carriers would remain the same as the current property tax amount.

In order to estimate the road use fee on out-of-state carriers, we calculate full-time equivalent (FTE) vehicles based upon the average in-state registration fee of $706 and the total out-of-state registration fees collected. This accounts for the apportionment of out-of-state vehicles based on mileage. For FY 2015-16, DMV reported total out-of-state vehicle registration collections of $7,802,991. Dividing the total fees by the estimated average fee results in an estimated 11,047 FTE out-of-state vehicles in FY 2015-16. We estimate that this will increase to approximately 12,012 out-of-state vehicles by FY 2018-19 based upon recent growth in fee collections. Using an approximate new vehicle value of $120,000 and multiplying this value by the estimated 12,012 vehicles results in a total value of $1,441,416,000. Based upon an average vehicle age of 6 years, the average value at the depreciated rate of 0.25 would be $360,354,000. As outlined in Section 12-43-220(g), this depreciated vehicle value is then assessed at 9.5 percent and multiplied by an equalization factor currently set at 80 percent by DOR.

Because the new fee is paid at the time of registration and may be paid quarterly, the actual distribution of the calendar year 2019 revenue may vary depending upon registration timing. Since the fee begins January 1, 2019, we assume for this analysis that the registrations will be evenly distributed across the year and that one-half of the full year's fees will be paid from January through June of FY 2018-19. Additionally, the change in timing will accelerate fee collections for in-state carriers by six months compared to the current fee timing. Using an estimated statewide millage of 338.4, we estimate that one-half of total collections for road use fees will be $4,634,000 for out-of-state carriers. Based upon our latest analysis of collections for in-state motor carriers through the end of 2016, we estimate that total fees for in-state carriers will be approximately $25,115,000 for 2019. One-half of these fees will total approximately $12,558,000 in FY 2018-19. Total motor carrier fees for new collections and the one-time acceleration of in state fees will be approximately $17,192,000 in FY 2018-19.

Additionally, motor carriers pay a one-time fee of $87 to register a trailer or semi-trailer. Currently, $75 of the fee is distributed to local jurisdictions under Section 12-27-2870, and $12 is retained by DOR. This proposal would change the distribution by sending the $12 fee currently retained by DOR to DMV. The remaining $75 is to be combined with the revenue generated by the road use fee in Section 12-37-2850 and distributed based upon Sections 12-37-2865 and 12-37-2870. Based upon fee collections through calendar year 2016, we estimate total one-time registration fees will be approximately $703,000 in calendar year 2019. One-half of one-time registration fees will total approximately $352,000 in FY 2018-19. Of this amount, $48,000 will be reallocated from DOR to DMV for operations and $303,000 will be distributed based upon Sections 12-37-2865 as outlined below.

Combining the projected motor carrier road use fees and one-time registration fee revenue for FY 2018-19 yields total revenue of $17,495,000 to be distributed under Section 12-37-2865. Section 12-37-2865 directs that the first $26,500,000 of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the State Highway Fund to be used to finance expansion and improvements to existing mainline interstates. Additionally, Subitem L(2) of Section 10 directs DMV to retain $400,000 in the first calendar year to offset programming costs. This leaves $17,095,000 to be distributed to counties under Section 12-37-2870 in FY 2018-19. Based upon the change in timing, this will increase local funding to counties by $17,095,000 in FY 2018-19. This amount may vary, however, depending upon registration timing.

Revenue for FY 2019-20 will comprise a full year of fees. Based upon collections through calendar year 2016, we estimate that total motor carrier road use fees will be $25,343,000 for in-state carriers and $9,670,000 for out-of-state carriers, for a total of $35,013,000 in FY 2019-20. Fees for one-time registrations will yield an additional $606,000 to be distributed, while $97,000 will be retained by DMV. Adding the motor carrier fee amounts together yields total revenue of $35,619,000 to be distributed based upon Section 12-37-2865. Counties will receive $26,500,000 under the current distribution formula in Section 12-37-2870, and the remaining $9,119,000 will be credited to the State Highway Fund. This will increase county revenue by approximately $834,000 for FY 2019-20.

Local Expenditure
N/A

Local Revenue
Section 7. This section creates the motor carrier road use fee to replace the current motor carrier property tax beginning January 1, 2019. Section 12-37-2865 directs that the first $26,500,000 of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the State Highway Fund to be used to finance expansion and improvements to existing mainline interstates. Due to a change in timing for fee payments, this will increase local funding to counties by $17,095,000 in FY 2018-19. This amount may vary, however, depending upon registration timing. For FY 2019-20 county revenue will increase by approximately $834,000 for FY 2019-20 over the current estimate for motor carrier property tax revenue. For additional explanation of the revenue determination, see Section 7 under State Revenue.

Frank A. Rainwater

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