



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** H. 4715 Signed by Governor on May 18, 2018  
**Author:** Kirby  
**Subject:** Watercraft  
**Requestor:** House of Representatives  
**RFA Analyst(s):** Gable, Powell, A. Martin, and Mitchell  
**Impact Date:** August 13, 2018

**Estimate of Fiscal Impact**

	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>
<b>State Expenditure</b>					
General Fund	\$0	\$0	\$0	\$0	\$0
Other and Federal	\$0	\$7,660	\$14,988	\$82,121	\$115,305
Full-Time Equivalent Position(s)	0.00	0.00	0.00	0.00	0.00
<b>State Revenue</b>					
General Fund	\$0	\$0	\$0	\$0	\$0
Other and Federal	\$0	(\$925,080)	(\$1,387,600)	(\$462,530)	\$0
<b>Local Expenditure</b>	\$0	Undetermined	Undetermined	Undetermined	Undetermined
<b>Local Revenue</b>	\$0	Undetermined	Undetermined	Undetermined	Undetermined

**Fiscal Impact Summary**

This bill will increase the Other Funds expenditures of the Department of Natural Resources (DNR) by \$7,660 in FY 2019-20, \$14,988 in FY 2020-21, \$82,121 in FY 2021-22, and \$115,305 in FY 2022-23 and each year thereafter. These increases take into account the additional programming required to implement this bill, more frequent decal mailings, and savings resulting from the transfer of renewal notice mailings to the counties.

This bill will decrease the Other Funds revenues of DNR for the first three years after implementation as boat, boat motor, and watercraft registrations switch from a three-year renewal schedule with a \$30 fee to an annual renewal schedule with a \$10 fee. Other Funds revenue will decrease by \$925,080 in FY 2019-20, \$1,387,600 in FY 2020-21, and \$462,530 in FY 2021-22.

This bill is expected to increase local government expenditures for the additional responsibilities imposed by the bill. However, this bill may also reduce delinquent taxes for boats, boat motors, and watercraft and may reduce the expenses associated with collecting unpaid taxes for these items. Due to the small sample size and varying nature of the responses received from the counties, the expenditure impact on local governments is undetermined.

Additionally, this bill modifies the timing of property tax collection for boats, boat motors, and watercraft to align with the annual issuance of registration. Any impact from this modification

on the local property tax revenues will depend upon the schedule of renewal and county implementation. Therefore, the revenue impact on local governments is undetermined.

## **Explanation of Fiscal Impact**

**Signed by Governor on May 18, 2018**

### **State Expenditure**

The following sections will affect state expenditures:

**Section 3.** This section reduces the registration fee for watercraft from \$30 to \$10. This section becomes effective as of January 1, 2020.

**Section 5.** This section reduces the registration period for watercraft from three years to one year. This section becomes effective January 1, 2020, and will be phased in over a three-year period as existing registrations expire. Any certificate of number awarded prior to January 1, 2020, will remain in effect for three years.

Additionally, this section transfers the responsibility to print and mail watercraft certificate of number renewal notices from DNR to the county auditors. The county auditors will then process the applications, transmit the fees to the appropriate state fund, and notify DNR to issue a renewed certificate decal. This transfer of responsibility begins as of January 1, 2020.

Over the last three fiscal years, DNR has printed and mailed an average of 92,507 decals each year. The cost for printing and mailing each registration is \$0.72. As the bill is phased in, DNR will mail additional decals each year for three years until all boat registrations are on a one-year cycle. Based on DNR's predictions for future renewals, this bill will result in printing and mailing approximately 52,192 additional decals in FY 2020-21, 145,432 additional decals in FY 2021-22, and 191,521 each year thereafter.

DNR will also experience a reduction in expenditures associated with printing and mailing renewal notices, as this responsibility has been transferred to the county auditors. Currently, DNR mails these notices at an annual cost of \$22,590 for forms and postage. As notices will only be mailed by DNR prior to January 1, 2020, DNR will experience a reduction in Other Funds expenditures of \$11,295 in FY 2019-20 and of \$22,590 each year thereafter. The net impact of these changes is summarized in the following table:

	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>
Number of Additional Decals	0	52,192	145,432	191,521
Cost for Additional Decals	\$0	\$37,578	\$104,711	\$137,895
Savings from Renewal Notice Mailings	(\$11,295)	(\$22,590)	(\$22,590)	(\$22,590)
Net Change in Other Funds Expenditures	(\$11,295)	\$14,988	\$82,121	\$115,305

Additionally, DNR will incur expenditures associated with developing a computer program to track remittances by county and to balance each of the county renewal files against actual

receipts. Additional programming will also be needed to export files on a monthly basis listing registration renewals and new registrations. DNR estimates that this project will take a programmer and a database administrator working together four and a half weeks to complete at a non-recurring cost of \$18,955 in FY 2019-20. DNR also notes that South Carolina Interactive will be required to update its programming to implement the new fee and registration calculations in the titling/registration system. However, DNR anticipates this updating can be managed within existing appropriations.

These items taken together will result in an increase in Other Funds expenditures at DNR of \$7,660 in FY 2019-20, \$14,988 in FY 2020-21, \$82,121 in FY 2021-22, and \$115,305 in FY 2022-23 and each year thereafter.

### **State Revenue**

The following sections will affect state revenues:

**Section 1.** This section sets a \$30 fee and an expiration date for dealer demonstration numbers. DNR indicates that this section reflects its implementation of the numbering of vessels as required by South Carolina law. Therefore, there is no revenue impact associated with this section.

**Section 3.** This section reduces the registration fee for watercraft from \$30 to \$10. This section becomes effective beginning January 1, 2020.

**Section 5.** This section reduces the registration period for watercraft from three years to one year. This section becomes effective January 1, 2020, and will be phased in over a three-year period as existing registrations expire. Any certificate of number awarded prior to January 1, 2020, will remain in effect for three years.

Additionally, this section transfers the responsibility to print and mail watercraft certificate of number renewal notices from DNR to the county auditors. The county auditors will then process the applications, transmit the fees to the appropriate state fund, and notify DNR to issue a renewed certificate decal.

Approximately one-third of the existing three-year boat registrations will expire each year and be replaced with one-year registrations. DNR reports that the average annual renewal for boat registrations is 92,507, which results in total boat renewals in a three-year period of 277,521. The average Other Funds revenue for watercraft registrations over the last three years has been \$2,775,210 per year. As the three-year \$30 registrations expire and are replaced with one-year \$10 registrations, DNR's annual revenues will be reduced until full implementation is reached. Because this section takes effect in the middle of FY 2019-20, approximately half the registrations will be \$30 and will remain on a three-year renewal basis, and the other half will be \$10 and become renewable on an annual basis. The estimated loss to Other Funds revenue is as follows:

<b>Split Year</b>	<b>Renewals Phased-Into 1 Year Cycle</b>	<b>Total Forecasted Renewals</b>	<b>Registration Fee</b>	<b>Estimated Revenue</b>	<b>Prior Avg. Revenue</b>	<b>Estimated Revenue Loss</b>
July – Dec 2019	0	46,253	\$30	\$1,387,590	\$1,387,590	\$0
Jan – June 2020	46,254	46,254	\$10	\$462,540	\$1,387,620	(\$925,080)
<b>FY</b>	<b>Renewals Phased-Into 1 Year Cycle</b>	<b>Total Forecasted Renewals</b>	<b>Registration Fee</b>	<b>Estimated Revenue</b>	<b>Prior Avg. Revenue</b>	<b>Estimated Revenue Loss</b>
2019-20	46,254	92,507	\$30/\$10	\$1,850,130	\$2,775,210	(\$925,080)
2020-21	92,507	138,761	\$10	\$1,387,610	\$2,775,210	(\$1,387,600)
2021-22	92,507	231,268	\$10	\$2,312,680	\$2,775,210	(\$462,530)
2022-23	46,253	277,521	\$10	\$2,775,210	\$2,775,210	\$0

Beginning in FY 2022-23, all boat registrations will be on the annual \$10 registration cycle. Once all boat registrations are on the annual \$10 registration cycle, DNR will collect the same amount of revenue as it would have been collecting under the prior law.

### **Local Expenditure**

This bill transfers the responsibility for printing and mailing watercraft certificate of number renewal notices from DNR to the county auditors and modifies the timing of property tax collection for boats, motor boats, and watercraft beginning January 1, 2020.

Local expenditures for printing and mailings will be \$22,500 annually, statewide. Local governments may also incur costs associated with procuring additional computers for data entry and customer service. However, the increase in local expenditures may be mitigated by a potential reduction in costs related to collection of delinquent taxes. The change in timing of tax notices to correspond with renewals is expected to improve collections. This may reduce expenditures related to collecting delinquent taxes as there will be fewer to collect.

We surveyed twenty-three counties regarding the expenditure impact of this bill. We received three responses with a fiscal impact included. Saluda County noted that additional computer terminals would be needed to facilitate data entry and customer service at a cost of \$8,000 to \$10,000. Horry County did not anticipate an increase in expenditures and noted that this bill may decrease the number of boats, boat motors, and watercraft on the unpaid property tax list, resulting in potential expenditure savings. Florence County also noted that this may decrease the number of boats, boat motors, and watercraft on the unpaid property tax list but did not provide an estimated expenditure impact. Due to the small sample size and varying nature of the responses, the expenditure impact on local governments is undetermined.

### **Local Revenue**

This bill modifies the timing of collection for boats, boat motors, and watercraft subject to property tax, per §12-37-714. Beginning January 1, 2020, the tax year will begin with the last day of the month in which a certificate of number for the boat, boat motor, or watercraft is issued, and end on the last day of the month in which the certificate of number expires or is due to expire. No certificate of number may be issued until the property taxes are paid for the year for which the registration is to be issued. This bill also modifies the issuance of certificates of

number for boats, motor boats, and watercraft from once every three years to annual renewal. This transition will occur over a three-year phase-in beginning January 1, 2020.

Currently, boat property taxes are paid on a one-year delay. This bill will require an overlap in the timing of property taxes on boats in the year the certificate of number begins to be issued on an annual basis. However, the bill states that it is the intent of the General Assembly that the provisions of this act result in only one tax payment due per boat, boat motor, or watercraft in any twelve-month period. Additionally, the Department of Revenue has specified that counties may not collect property taxes for the same property twice in the same calendar year.

The bill does not specify how the transition must occur. We estimate that current statewide property tax collections from boats, boat motors, and watercraft total approximately \$57,200,356 annually. This estimate is based on the following responses from counties in response to our inquiry regarding boat, boat motor, and watercraft tax collections: Abbeville - \$165,000, Colleton - \$242,486, Dillon - \$86,000, Greenville – \$1,820,361, Kershaw - \$491,000, Oconee - \$1,088,000, Pickens - \$649,000, Richland - \$2,292,000, and Spartanburg - \$1,405,000. These values were prorated based upon the ratio of each county's total personal property assessed values to determine a statewide estimate.

In summary, local property tax revenue collections are expected to shift between fiscal years during the transition. The impact on local revenue will depend on the change in timing of registrations and the implementation process. Therefore, the potential non-recurring local property tax revenue impact for the four fiscal years of transition, FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23, is undetermined.



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Frank A. Rainwater, Executive Director