SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3516 Veto Overridden on May 10, 2017
Author:	Simrill
Subject:	SC Infrastructure and Economic Development Reform Act
Requestor:	House of Representatives
RFA Analyst(s):	Wren, Gable, Jolliff, and Martin
Impact Date:	May 31, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19	FY 2019-20 to FY 2021-22
State Expenditure			
General Fund	See Below	See Below	See Below
Other and Federal	See Below	See Below	See Below
Full-Time Equivalent Position(s)	0.00	4.00	
State Revenue			
General Fund	$0	See Below	See Below
Other and Federal	See Below	See Below	See Below
Local Expenditure	$0	$0	$0
Local Revenue	See Below	See Below	See Below

Fiscal Impact Summary

This bill will increase non-recurring expenses for the Department of Motor Vehicles (DMV) by $191,000 in FY 2017-18 for fee increases beginning January 1, 2018, and an additional $388,000 over FY 2017-18 and FY 2018-19 to implement the motor carrier road use fee system by January 1, 2019. Total recurring Other Fund expenses for DMV include $220,500 for four new FTEs to administer the motor carrier road use fee system. The bill will increase recurring Other Fund expenses for the Department of Transportation by $9,000 for an additional commission member. The bill will have an Other Funds cost savings of up to $95,000 based upon only having six DOT commission meetings in a year compared to eleven meetings or more in previous years. To the extent that meetings are held in excess of six, the cost savings will be reduced by approximately $16,000 per commission meeting.

The bill will reduce General Fund revenue by $36,158,000 in FY 2018-19, $53,176,000 in FY 2019-20, $67,765,000 in FY 2020-21, $80,449,000 in FY 2021-22, and $92,689,000 in FY 2022-23, and $104,690,000 in FY 2023-24.

This bill will increase Other Funds revenue by $176,721,000 in FY 2017-18, $280,515,000 in FY 2018-19, $366,566,000 in FY 2019-20, $450,397,000 in FY 2020-21, $536,511,000 in FY 2021-22, $622,013,000 in FY 2022-23, and $624,627,000 in FY 2023-24 from increases in fees. However, current State Highway Fund revenue will be reduced by increases in the allocation of the motor fuel fee on gasoline to local "C" Funds. Section 13 increases the allocation of gasoline fee revenue to "C" Funds from $0.0266 per gallon to a total of $0.0399 per gallon for the state highway system. Total "C" Fund revenue will increase by $9,721,000 in FY 2018-19,

$19,599,000 in FY 2019-20, $29,671,000 in FY 2020-21, and $39,875,000 in FY 2021-22 and thereafter, reducing State Highway Fund revenue by these amounts.

Other Funds revenue of DMV is expected to increase by $448,000 in FY 2018-19 and $97,000 in FY 2019-20 for motor carrier road use fees retained by DMV. Other Funds revenue of the Department of Revenue (DOR) will decrease by $48,000 in FY 2018-19 and $97,000 in FY 2019-20 as motor carrier fees are transferred to DMV. Other Funds revenue for environmental and inspection fees to the Department of Transportation (DOT) and the Department of Health and Environmental Control (DHEC) is expected to be reduced by $47,000 in FY 2017-18, $97,000 in FY 2018-19, and an additional $44,000 each year until FY 2022-23, when the reduction totals $272,000. Other Funds revenue of the Department of Agriculture for inspection fees will decrease by $952,000 beginning in FY 2017-18 as this revenue is transferred to the State Non-Federal Aid Highway Fund. This amount increases to $975,000 in FY 2018-19, $989,000 in FY 2019-20, $1,003,000 in FY 2020-21, and $1,016,000 in FY 2021-22.

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.

Explanation of Fiscal Impact

Veto Overridden on May 10, 2017
State Expenditure
The following sections would affect state expenditures as follows:

Section 4. This section increases current biennial registration fees by $16. DMV indicates non-recurring expenditures for this section will total $14,000 in FY 2017-18 for programming and system testing.

Section 5. 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 non-recurring expenditures of $53,000 for programming, system updates, and system testing in FY 2017-18.

Section 6. 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 indicates non-recurring expenditures for this section will total $124,000 in FY 2017-18 for programming, system updates, and system testing.

Section 8. This section directs DMV to collect a road use fee on all large commercial motor vehicles beginning on January 1, 2019. DOR currently administers the property tax for in-state motor carriers. This bill would add out-of-state large commercial motor 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. The agency expects to hire four FTE's to administer the program with estimated personnel expenditures of $220,500 per year including fringe benefits. DMV expects non-recurring expenditures for implementation of the motor carrier fee to total $388,000 over FY 2017-18 and FY 2018-19 based upon estimates for the required programing, testing, and project management to set up this system within the agency. The systems changes must be in place for the required January 1, 2019, start date, and expenditures are expected to begin in FY 2017-18 to meet this deadline. These expenditures include $57,600 for modification and testing of the Celtic system to add the motor carrier road use fee calculations, user interface updates, and updates to the interface with Phoenix for payments. Modifications to the Phoenix system at an estimated expenditure of $224,800 include changes to technical specifications, coding, and testing to implement the motor carrier fee system, updates to interfaces with county systems for county collections of payments, and modifications for online quarterly payments, payment tracking, and renewal notifications. DMV expects an additional $105,600 for development of rules and requirements implementing this legislation across business segments and to transition business processes and procedures from DOR to DMV.

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 the motor carrier property tax have additional responsibilities for administration of other property tax assessments that remain with the agency.

Section 12. This section requires DOT to prepare a Transportation Asset Management Plan, which must include objectives and performance measures for the preservation and improvement of the state highway system. Additionally, the Transportation Asset Management Plan must include objectives, performance measures, and innovative approaches to address high-risk rural roads that are functionally classified as rural primary or federal aid secondary roads. The Transportation Asset Management Plan must be approved by the Commission and is to establish fiscally constrained performance goals, including $50,000,000 for high risk rural roads, for transportation infrastructure assets such as pavements and bridges. DOT indicates that this section of the bill will have no expenditure impact to the agency.

Section 15. This section allows a resident taxpayer to claim a refundable income tax credit for preventive vehicle maintenance on private passenger motor vehicles as defined in Section 56-3-630, including motorcycles, registered in this state. The credit may not exceed the lesser of the resident's actual motor fuel user fee increase incurred as a result of the increase imposed in Section 12-28-310(D) or the amount the resident pays for vehicle maintenance. Vehicle maintenance includes, but is not limited to, costs incurred for new tires, oil changes, and regular vehicle maintenance. A taxpayer may claim the credit for up to two qualifying vehicles. The Revenue and Fiscal Affairs Office is required to estimate the number of taxpayers expected to claim the credit for the current tax year and the total amount expected to be claimed annually on or before September 30th. In the event that RFA estimates that the total credits claimed will exceed the maximum amount of the aggregate credit allowed, RFA shall certify to DOR the pro rata adjustment to the credit.

Department of Revenue. The department intends to manage the increased responsibilities with existing resources and staff. This section will require the DOR to amend tax return forms and instructions to allow taxpayers to claim the credit and work with the Revenue and Fiscal Affairs

Office in determining any pro rata adjustment of the credit for each tax year. This can be accomplished with existing staff who are responsible for the development and annual updates of tax forms. DOR anticipates using existing staff to conduct any additional audits and also working with DMV to establish a check on the number of cars registered to each taxpayer.

Revenue and Fiscal Affairs Office. RFA does not anticipate that this will impact agency expenditures. Providing the required estimates is within the normal scope of agency work and can be accomplished with existing staff and resources.

Section 16. This section will require DOR to produce forms and instructions for the new Earned Income Tax credit. This is expected to have a minimal impact on expenditures that can be managed within existing appropriations.

Section 17. This section changes the amount of the two-wage earner credit. This change can be accomplished during DOR's annual update to tax forms and is expected to have a minimal impact on expenditures that can be managed within existing appropriations.

Section 18. This section increases the refundable tuition tax credit for students attending four-year and two-year institutions. RFA is required to annually estimate the maximum credit that may be permitted under this section for each taxable year based on the number of taxpayers expected to claim the credit and the expected amount claimed. RFA must certify to DOR the maximum credit for the applicable year. If the estimate exceeds the aggregate allowed by this section, the credit amounts allowed must be reduced proportionally based upon the amount by which the estimate exceeds the allowed amount.

Department of Revenue. This section will require DOR to modify forms and instructions for the changes to the tuition tax credit. This change can be accomplished during DOR's annual update to tax forms and is expected to have a minimal impact on expenditures that can be managed within existing appropriations.

Revenue and Fiscal Affairs Office. RFA does not anticipate that this will impact agency expenditures. Providing the required estimates is within the normal scope of agency work and can be accomplished with existing staff and resources.

Commission on Higher Education, State Board for Technical and Comprehensive Education, and Public Institutions of Higher Learning. The section also requires the Commission on Higher Education, the State Board for Technical and Comprehensive Education, and each public institution of higher learning to develop a plan to notify each student of the tax credit allowed by this section. As it is up to the discretion of each agency and institution as to how to accomplish this requirement, we do not expect that this will result in significant expenditures.

Section 19. This section provides an assessed value exemption for manufacturing property. The exemption will reduce local property taxes and local jurisdictions are to be reimbursed from the Trust Fund for Tax Relief. Reimbursement of the exemption is limited to a total of $85,000,000 per tax year. RFA must estimate total reimbursements for each tax year, and the value exemption percentage must be reduced if the estimate exceeds the $85,000,000 limit.

Department of Revenue. The value exemption will be administered by DOR. Manufacturing property is assessed by DOR, and the assessed values are provided to counties for assessment of property taxes. DOR does not expect this section to impact expenditures. Changing programing to include the property tax value exemption can be handled during the construction of the new manufacturing property component of DOR's tax system

Revenue and Fiscal Affairs. RFA does not anticipate that this will impact agency expenditures. Providing the required estimates is within the normal scope of agency work and can be accomplished with existing staff and resources.

Sections 20 and 21. These sections repeal Sections 57-1-460 and 57-1-470, which provide that the Secretary of Transportation must evaluate and approve the routine operation and maintenance requests or emergency repairs that are needed for existing roads and bridges that are not included in the Statewide Transportation Improvement Program. Additionally, these sections provide that the secretary must provide a report on requests for routine operation and maintenance or emergency repairs, and deletes the requirement that the commission must approve these reports. The Department of Transportation (DOT) indicates that this bill deletes the reporting requirements and the approval of specific reports by the DOT Commission. Further, the bill does not eliminate the department's responsibility to perform routine operation and maintenance functions or emergency repairs. Repealing these sections will have no expenditure impact on DOT.

Section 22. This section increases the number of at-large members of the Commission of DOT from one to two members. The number of members from each transportation district is unchanged. DOT indicates that adding an additional commission member will increase recurring Other Funds expenses by $9,000 annually.

Additionally, this section repeals Article 7, Chapter 1, Title 57, which establishes the responsibilities of the Joint Transportation Review Committee. The Joint Transportation Review Committee is comprised of ten members, five from the House and five from the Senate, who are responsible for screening appointments to the DOT Commission. The committee is supported by the General Assembly's staff. Each of the House and Senate members serving on the committee receive subsistence of $195.53 per day and per diem of $35 plus mileage for non-session days, resulting in an expense of $1,152.65 plus mileage per meeting on non-session days for each legislative body. However, based upon information provided by staff, the committee typically holds two meetings per year on days the members are in session. Therefore, eliminating the committee would not significantly reduce expenditures for the House or Senate. Also, any time savings for the General Assembly's staff would be reallocated to other responsibilities.

Section 23. This section requires the Commission of DOT to hold a minimum of six regular meetings annually. Other meetings may be called by the chair. The commission may not enter into the day-to-day operations of DOT, except in an oversight role with the secretary. Additionally, a member of the commission may not have an interest, direct or indirect, in any contract, franchise, privilege, or other benefit granted or awarded by DOT during his appointment and for one year after the termination of the appointment. DOT indicates that there are eleven regularly scheduled commission meetings annually at a cost of approximately $16,000 each. The commission chair calls an average of three to six additional meetings annually. The expense associated with the meetings at the call of the chair is minimal, and the agency indicates that expenses for these meetings usually total the expense for one regularly scheduled meeting. If only six meetings are held per year, the cost savings would total approximately $95,000 per year. However, if more than the six required meetings are held, the cost savings would be reduced by approximately $16,000 for each additional meeting.

Section 24. This section requires DOT final audit reports to be published on DOT's and the State Auditor's websites. We do not expect this requirement to impact expenditures.

Section 25. This section requires the Secretary of DOT to prepare annual reports outlining DOT annual expenditures by county and a list of all companies doing business with DOT and the amount spent on the contracts. The reports must be published on DOT's website. DOT indicates that this section of the bill will have no expenditure impact on 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. The bill increases the current $0.16 per gallon motor fuel user fee by $0.02 per gallon per year for six years for a total increase of $0.12 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 2023-24 is provided in the table below.

As the user fee is increased in the first six 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. Because we are estimating revenue for the shorter term of six years, 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.

Fiscal Year	Motor Fuel Fee Increase ($0.02 per year for a total of $0.12)
FY 2017-18	$68,857,000
FY 2018-19	$153,958,000
FY 2019-20	$234,338,000
FY 2020-21	$316,881,000
FY 2021-22	$401,669,000
FY 2022-23	$485,807,000
FY 2023-24	$487,013,000

Pursuant to Section 12-28-2355, an inspection and environmental impact fee of $0.0075 per gallon is imposed on motor fuels. Currently revenue from the inspection fee of $0.0025 is divided between the Department of Agriculture and the State Non-Federal Aid Highway Fund. The Department of Agriculture receives 10 percent of the fee, and the State Non-Federal Aid Highway Fund receives 90 percent. Section 9 of this bill redirects the Department of Agriculture's share of the inspection fee to the State Non-Federal Aid Highway Fund so that the Fund receives 100 percent of the inspection fee. The Department of Health and Environmental Control (DHEC) receives the revenue generated by the $0.0050 environmental inspection fee. The table below estimates the effect of a reduction in demand for motor fuel on DHEC and on the State Non-Federal Aid Highway Fund, based on the Fund receiving 100 percent of the inspection fee. The motor fuel fee increase begins July 1, 2017. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year.

Environmental and Inspection Fees ($0.0075)			
Fiscal Year	Department of Health and Environmental Control $0.0050 Environmental Fee	Department of Transportation (State Non-Federal Aid Highway Fund) $0.0025 Inspection Fee	Net Impact on $0.0075 Environmental and Inspection Fee Revenue
FY 2017-18	($31,000)	($16,000)	($47,000)
FY 2018-19	($65,000)	($32,000)	($97,000)
FY 2019-20	($95,000)	($48,000)	($142,000)
FY 2020-21	($124,000)	($62,000)	($186,000)
FY 2021-22	($153,000)	($77,000)	($230,000)
FY 2022-23	($181,000)	($91,000)	($272,000)
FY 2023-24	($181,000)	($91,000)	($272,000)

Section 4. The biennial registration fee for every passenger vehicle and every property-carrying vehicle with a gross weight of 6,000 pounds or less is increased by $16. The increase will apply to all individuals, including individuals 65 years of age or older and individuals who are handicapped as defined by Section 56-3-1950. Based upon DMV data, there will be approximately 3,179,000 vehicles subject to this additional fee in FY 2017-18. The estimated additional revenue from this fee increase is $12,731,000 for FY 2017-18. The fee increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full

fiscal year. From each biennial registration fee collected pursuant to this section, $16 must be credited to the Infrastructure Maintenance Trust Fund. The estimated annual revenue increase for FY 2017-18 to FY 2023-24 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
FY 2019-20	$26,732,000
FY 2020-21	$27,391,000
FY 2021-22	$28,065,000
FY 2022-23	$28,757,000
FY 2023-24	$29,465,000

Section 5. 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 that was previously registered in another state. 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 $300 sales tax is distributed to the State Highway Fund, with the remaining 20 percent credited to the EIA Fund. The bill directs DMV to send 20 percent of every fee collected up to $60 to the EIA Fund. As such, the EIA fund would receive the same $37,600,000 in revenue from the Infrastructure Maintenance Fee that is currently received from sales tax. DMV is directed to transfer 80 percent of every fee up to $240 to the state-funded resurfacing program so that it also would continue to receive the current level of funding from the sales tax.

The bill as amended also extends the current sales tax exemption on motor vehicles purchased by active duty members of the United States Armed Forces who are residents of another state to exempt these purchases from the Infrastructure Maintenance Fee. These purchases are currently exempt and therefore, are not included in the projected revenue from the Infrastructure Maintenance Fee. As such, the bill does not alter our analysis of the revenue generated by the fee.

Individuals registering a vehicle in South Carolina that was previously registered out-of-state will be subject to a $250 fee beginning in FY 2017-18. The bill 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 revenue generated from the infrastructure maintenance fee on out-of-state transfers must be credited to the newly established Safety Maintenance Account until December 31, 2022, after which the revenue is credited to the Infrastructure Maintenance Trust Fund. The Safety Maintenance fee is discussed in Section 15.

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. The estimated annual revenue increase for FY 2017-18 to FY 2023-24 is provided in the table below.

	Revenue from Out-of-State Transfers	
Fiscal Year	Safety Maintenance Account	Infrastructure Maintenance Trust Fund
FY 2017-18	$20,059,000	$0
FY 2018-19	$20,340,000	$0
FY 2019-20	$20,624,000	$0
FY 2020-21	$20,913,000	$0
FY 2021-22	$21,206,000	$0
FY 2022-23	$10,751,500	$10,751,500
FY 2023-24	$0	$21,804,000

Section 6. 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 is added. Based upon data from DMV, we estimate 460 vehicles powered exclusively by alternate fuels will be subject to the $120 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. We estimate that in FY 2017-18 there will be 44,000 vehicles that use a combination of fuels subject to the $60 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 2023-24 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
FY 2019-20	$1,566,000
FY 2020-21	$1,689,000
FY 2021-22	$1,820,000
FY 2022-23	$1,962,000
FY 2023-24	$2,115,000

Section 7. 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 additional revenue must be credited to the Infrastructure Maintenance Trust Fund.

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 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	$35,000	$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	$7,521,000	$1,678,000

Section 8. 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

carrier property taxes. This section adds out-of-state apportioned carriers that currently do not pay property taxes to the road use fee.

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 payment schedule will accelerate fee collections for in-state carriers by six months and into an earlier fiscal year compared to the current timing for payment of the property taxes. 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 bill 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 on large commercial motor vehicles 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.

Fiscal Year	Motor Carrier Road Use Fee Revenue	County Distribution	Infrastructure Maintenance Trust Fund
FY 2018-19	$17,495,000	$12,821,000	$4,274,000
FY 2019-20	$35,619,000	$26,714,000	$8,905,000
FY 2020-21	$36,498,000	$27,374,000	$9,124,000
FY 2021-22	$37,404,000	$28,053,000	$9,351,000
FY 2022-23	$38,337,000	$28,753,000	$9,584,000
FY 2023-24	$39,292,000	$29,469,000	$9,823,000

Section 9. This section reallocates 10 percent of the $0.0025 motor fuel inspection fee that is currently allocated to the Department of Agriculture to the State Non-Federal Aid Highway Fund. Pursuant to Section 39-41-70, the revenue from the 10 percent of the $0.0025 motor fuel inspection fee is currently used as necessary under the direction of the Commissioner of Agriculture to make all necessary regulations for the inspection of petroleum products, employ all necessary chemists, and enforce standards as to safety, purity, and value for power and heating purposes. Therefore, in FY 2017-18, revenue of the Department of Agriculture will decline by $952,000, and revenue of the State Non-Federal Aid Highway Fund will increase by $952,000. The estimated reallocation of revenue for FY 2017-18 to FY 2023-24 is provided in the table below.

Fiscal Year	Reduction in Revenue to the Department of Agriculture	Increase in Revenue to the State Non-Federal Aid Highway Fund
FY 2017-18	($952,000)	$952,000
FY 2018-19	($975,000)	$975,000
FY 2019-20	($989,000)	$989,000
FY 2020-21	($1,003,000)	$1,003,000
FY 2021-22	($1,016,000)	$1,016,000
FY 2022-23	($1,024,000)	$1,024,000
FY 2023-24	($1,027,000)	$1,027,000

Section 10. This section repeals Section 12-28-530. The Department of Revenue indicates that this section is a simplification of requirements that would have been imposed on all retailers and distributors. Repealing the section will have no effect on the agency.

Section 11. This section requires DOT to transfer $17,000,000, instead of $9,500,000 of "C" funds annually to the donor counties in the ratio of the individual donor county's contribution in excess of "C" fund revenue allocated to the county. The section also provides that a county is eligible for an additional allocation from DOT if the county contributed to the "C" fund an amount in excess of what it receives under the base allocation and as a donor county. DOT must annually transfer to the eligible counties an amount up to $3,500,000 in the ratio of the individual eligible county's contribution to the "C" fund in excess of the eligible county's total allocations. Allocations made to eligible counties pursuant to this section may not be in excess of what the county contributed to the "C" fund. This does not change the amount of revenue, but rather, changes allocation of existing revenue.

Section 13. This section increases the current $0.0266 per gallon user fee on gasoline that is distributed as "C" funds by $0.003325 per gallon each year beginning July 1, 2018, until the total amount equals $0.0399. Based on the projected number of gasoline gallons after adjusting for demand, "C" funds revenue will increase by $9,721,000 in FY 2018-19, which is the first year of the $0.003325 increase in the gasoline user fee allocation. This increase must be used for repairs, maintenance, and improvements to the state highway system. The estimated "C" fund increase for FY 2018-19 to FY 2021-22 is provided in the table below. Since Section 12-28-310 specifies the motor fuel user fee increase must be credited to the Infrastructure Maintenance Trust Fund, we assume the increase in "C" funds will reduce the remainder of the proceeds of the current motor fuel user fee remitted to the State Highway Fund under Section 12-28-2750. Therefore, the increase in "C" funds would constitute a shift from the State Highway Fund to county transportation committees.

Fiscal Year	Increase in Estimated "C" Funds Revenue
FY 2018-19	$9,721,000
FY 2019-20	$19,599,000
FY 2020-21	$29,671,000
FY 2021-22	$39,875,000

Section 14. This section allows DOT to reduce the allocation to the state-funded resurfacing program in order to fund repairs, maintenance, and improvements to the exiting transportation system. This does not change total revenue and any reallocation will be up to the discretion of DOT.

Additionally, this section repeals Section 11-43-165, which requires DOT to transfer $50,000,000 from non-tax sources to the South Carolina Transportation Infrastructure Bank (SCTIB). The transferred funds were to be used solely by the SCTIB to finance bridge replacement, rehabilitation projects, and expansion and improvements to existing mainline interstates. Section 5 of the bill requires that $50,000,000 of non-tax revenue utilized by the SCTIB be used solely to finance bridge replacement, rehabilitation projects, and expansion and improvements to existing roads in the State Highway System. Therefore, repealing this section is not expected to alter SCTIB funding.

Section 15. This section allows a resident taxpayer to claim a refundable income tax credit for preventive vehicle maintenance on private passenger motor vehicles as defined in Section 56-3-630, including motorcycles, registered in this state. The credit may not exceed the lesser of the resident's actual motor fuel user fee increase incurred as a result of the increase imposed in Section 12-28-310(D) or the amount the resident pays for vehicle maintenance. Vehicle maintenance includes, but is not limited to, costs incurred for new tires, oil changes, and regular vehicle maintenance. A taxpayer may claim the credit for up to two qualifying vehicles. Total credits are limited by tax year to a maximum as outlined in this section. The Revenue and Fiscal Affairs Office is required to estimate the number of taxpayers expected to claim the credit for each tax year and the total amount expected to be claimed annually on or before September 30th. In the event that RFA estimates that the total credits claimed will exceed the maximum amount of the aggregate credit allowed, RFA shall certify to DOR the pro rata adjustment to the credit.

The credit may not exceed the actual motor fuel user fee increase incurred as a result of the increase in Section 12-28-310(D). Section 12-28-310(D) increases the current $0.16 per gallon motor fuel user fee by $0.02 per gallon per year for six years for a total increase of $0.12 per gallon of fuel. The increase will take effect July 1, 2017, and each July 1 thereafter until July 1, 2023. However, the credit must be claimed for increases incurred on a tax year basis beginning for tax year 2018 and continuing until tax year 2022. Therefore, we have estimated the motor fuel increase based upon one-half of the increase for each fiscal year as outlined below.

Months	Calendar Year	Motor Fuel Fee Increase	Tax Year	Motor Fuel Fee Increase Tax Year Average
Jul-Dec	2017	$0.02	TY 2017	N/A
Jan-Jun	2018	$0.02	TY 2018	$0.03
Jul-Dec	2018	$0.04		
Jan-Jun	2019	$0.04	TY 2019	$0.05
Jul-Dec	2019	$0.06		
Jan-Jun	2020	$0.06	TY 2020	$0.07
Jul-Dec	2020	$0.08		
Jan-Jun	2021	$0.08	TY 2021	$0.09
Jul-Dec	2021	$0.10		
Jan-Jun	2022	$0.10	TY 2022	$0.11
Jul-Dec	2022	$0.12		

To estimate motor fuel purchases, we have used the U.S. Department of Transportation, Federal Highway Administration, Highway Statistics 2012 to 2015 reports. The average annual gallons of motor fuel used for light duty vehicles was reported at 529 for 2012, 524 for 2013, 527 for 2014, and 521 for 2015. While usage moved up and down, the average declined by 0.5 percent over the period. Based upon federal regulations requiring improvements in fuel economy under Corporate Average Fuel Economy (CAFE) standards, we expect the trend toward improvements in fuel efficiency will continue to reduce average usage long-term and have used this growth rate to project future average gasoline gallons used. Projected average fuel usage by year is included in the table below. The average credit by year is calculated by multiplying the tax year average motor fuel fee increase times the average annual gallons purchased times 100 percent.

Tax Year	Average Tax Year Motor Fuel Fee Increase	Average Annual Gallons Purchased	Average Credit
TY 2018	$0.03	513	$15
TY 2019	$0.05	511	$26
TY 2020	$0.07	508	$36
TY 2021	$0.09	505	$45
TY 2022	$0.11	503	$55

Private passenger motor vehicle as defined in Section 56-3-630 includes every motor vehicle designed, used, and maintained for the transportation of ten or fewer persons and trucks with an empty weight of nine thousand pounds or less and a gross weight of elven thousand pounds or less. This credit also specifically includes motorcycles. Based upon data from DMV on registered vehicles, we have estimated the number of motor vehicles expected to qualify. We have excluded vehicles owned by governments that would not pay taxes and not be eligible for the credit, trucks that are over the weight limitations, buses, and trailers.

Further, each taxpayer may claim the credit for up to two vehicles. We have assumed based upon discussions with DOR that a joint return includes two taxpayers who may each claim the credit for two vehicles, for a total of four vehicles. Single and separate filers will be limited to a credit for two vehicles each. To account for households with more vehicles than can be claimed, we used the U.S. Census Bureau's 2015 American Community Survey data on the number of household vehicles by household size to estimate the percentage of vehicles that will be ineligible for the credit. Based upon this data, approximately 4.3 percent of vehicles will be ineligible. In determining this estimate, we assume that for households with 2 or more occupants and 4 or more cars, one-half will have 5 vehicles and not be able to claim the credit for the extra vehicle. For households with one occupant, we assume those with 3 cars will have one vehicle ineligible and those with 4 or more cars will have two vehicles ineligible. We have reduced our estimate of the number of vehicles by 4.3 percent to account for the two car per taxpayer limit.

Multiplying the average credit amount by the estimated number of vehicles yields total credits. Based upon these projections, the credit amounts will be reduced to limit the total credits to the maximum allowed by tax year. These projections are included in the table below.

Tax Year	Estimated Vehicles	Average Credit	Estimated Total Credits	Maximum Total Credits Allowed	Average Allowed Credit Per Vehicle	Pro Rata Adjustment
TY 2018	3,961,248	$15	$60,978,000	$40,000,000	$10	65.6%
TY 2019	4,060,279	$26	$103,643,000	$65,000,000	$16	62.7%
TY 2020	4,161,786	$36	$147,974,000	$85,000,000	$20	57.4%
TY 2021	4,265,831	$45	$194,021,000	$110,000,000	$26	56.7%
TY 2022	4,372,476	$55	$241,833,000	$114,000,000	$26	47.1%

The section requires that on or before January 31, 2019 and by January 31 of each year thereafter, an amount of funds necessary to offset the estimated credit must be transferred from the Safety Maintenance Account to DOR. If the amount transferred is insufficient to offset the credit, DOT shall transfer to DOR an amount equal to the total credits estimated by RFA less the amount transferred from the Safety Maintenance Account. The estimated transfers from the Safety Maintenance Account and DOT by fiscal year are included below. Out-of-state transfer fees are credited to the Safety Maintenance Account beginning July 1, 2017, and will accumulate until the first transfer on January 31, 2019. The estimated amounts below assume that the out-of-state vehicle transfer fees credited to the Safety Maintenance Account are evenly distributed throughout the year. If this is not the case, the transfers from DOT would be impacted by any shift in timing of revenues to the Safety Maintenance Account.

Tax Year	Estimated Total Credits	Transfer Date	Safety Maintenance Account Transfer to DOR	DOT Transfer to DOR
TY 2018	$40,000,000	January 31, 2019	$30,229,000	$9,771,000
TY 2019	$65,000,000	January 31, 2020	$20,482,000	$44,518,000
TY 2020	$85,000,000	January 31, 2021	$20,768,500	$64,231,500
TY 2021	$110,000,000	January 31, 2022	$21,059,500	$88,940,500
TY 2022	$114,000,000	January 31, 2023	$21,354,500	$92,645,500

Section 16. This section allows individual income tax filers to claim a non-refundable state individual income tax credit equal to 125 percent of the federal earned income tax credit (EITC). The credit is phased-in over six tax years beginning in tax year 2018 at 20.83 percent per year. For our analysis, we used a sample file from the Department of Revenue that contains federal income tax returns matched to the state returns for 87 percent of state filers. We recalculated the 2014 individual income tax returns to account for the amount of the credit per return that would not be taken for tax filers with insufficient tax liability to claim the full non-refundable credit amount. This figure was then inflated to estimate the remaining 13 percent of returns for which we do not have federal data. The table below includes the estimated total credits to be claimed annually and the reduction in the General Fund by fiscal year.

Fiscal Year	Percentage of Federal EITC	General Fund Income Tax Reduction
FY 2018-19	20.83%	($20,441,000)
FY 2019-20	41.67%	($27,785,000)
FY 2020-21	62.50%	($33,076,000)
FY 2021-22	83.33%	($36,478,000)
FY 2022-23	104.17%	($39,648,000)
FY 2023-24	125.00%	($42,717,000)

Section 17. This section increases the wage limit for the two wage earner income tax credit. Currently, the two wage earner credit in Section 12-6-3330(B)(1) is a non-refundable credit of 0.7 percent of earned income up to $30,000. In order to qualify, taxpayers must file a married joint return, and both spouses must have earned income. This section increases the income limit to $50,000 in six installments of $3,333 per year beginning in tax year 2018. This would increase the maximum credit from $210 to $350 by tax year 2023. Because the credit is non-refundable, we estimated the revenue impact by re-calculating tax year 2014 returns currently claiming the credit with the increased income limitation. The estimated General Fund individual income tax reduction by fiscal year is listed in the table below.

Fiscal Year	Maximum Earned Income Applicable to Credit	Maximum Two Wage Earner Credit	General Fund Income Tax Reduction
FY 2018-19	$33,333	$233	($3,275,000)
FY 2019-20	$36,667	$257	($6,710,000)
FY 2020-21	$40,000	$280	($9,954,000)
FY 2021-22	$43,333	$303	($13,158,000)
FY 2022-23	$46,667	$327	($16,232,000)
FY 2023-24	$50,000	$350	($19,245,000)

Section 18. This section increases the refundable tuition tax credit for tuition paid to both four-year and two-year institutions. Currently, students are allowed a refundable credit equal to 25 percent of tuition paid up to $850 for four-year institutions and $350 for two-year institutions. The credit may be claimed by the student or an individual eligible to claim the student as a dependent on his federal income tax return. The credit amount is increased beginning in tax year 2018 to 50 percent of tuition up to $1,500. The aggregate amount of all credits is limited to $40,000,000 in tax year 2018. RFA must estimate the maximum credit that may be permitted under this section for a taxable year based on the number of taxpayers expected to claim the credit and the expected amount claimed. If RFA estimates that the credits will exceed the aggregate limitation, the credit amounts allowed per student must be reduced by the pro-rata amount by which the estimate exceeds the limitation. The aggregate amount is increased annually by the increase in the Higher Education Price Index, not to exceed three percent a year. Based upon the Commonfund Higher Education Price Index 2016 Report, the index increased 1.8 percent in 2016. We have used this percentage to estimate the projected increase in the credit maximum annually.

We have estimated the additional tax credits to be claimed under these assumptions for each year based upon tax year 2014 returns. The estimated General Fund individual income tax reduction is listed in the table below by fiscal year.

Fiscal Year	Estimated Current Tuition Credits	Estimated Additional Tuition Credits	Estimated Total Tuition Credits	Estimated Maximum Tuition Credits Allowed	General Fund Income Tax Reduction
FY 2018-19	$5,303,000	$6,157,000	$11,460,000	$40,000,000	($6,157,000)
FY 2019-20	$5,431,000	$6,304,000	$11,735,000	$40,720,000	($6,304,000)
FY 2020-21	$5,561,000	$6,456,000	$12,017,000	$41,452,960	($6,456,000)
FY 2021-22	$5,694,000	$6,611,000	$12,305,000	$42,199,113	($6,611,000)
FY 2022-23	$5,831,000	$6,769,000	$12,600,000	$42,958,697	($6,769,000)
FY 2023-24	$5,971,000	$6,932,000	$12,903,000	$43,731,954	($6,932,000)

Section 19. This section would provide a local property tax exemption of 14.2857 percent of the value of manufacturing property, which would be reimbursed by the State. The exemption is implemented in six equal installments beginning in tax year 2018. Currently manufacturing

property is assessed at 10.5 percent of the value of the property. This value exemption would have the same effect as reducing the assessment ratio to 9 percent.

The property tax reduction resulting from the exemption will be reimbursed by the State and will increase the transfer of individual income tax and corporate income tax revenue to the Trust Fund for Tax Relief, reducing the General Fund. The total reimbursement is limited to $85,000,000 per year. If in any year the reimbursements are projected by RFA to exceed the cap, the exemption percentage is proportionally reduced so as not to exceed the cap. Based upon the current trend, we anticipate the exemption amounts will decline in upcoming years as assessed value in manufacturing property is expected to decline. The exemption is not expected to exceed the reimbursement cap over the next six years. The estimated General Fund revenue impact by fiscal year is included below.

Fiscal Year	Manufacturing Property Value Exemption	General Fund Reduction
FY 2018-19	2.3810%	($6,285,000)
FY 2019-20	4.7619%	($12,377,000)
FY 2020-21	7.1429%	($18,279,000)
FY 2021-22	9.5238%	($24,202,000)
FY 2022-23	11.9048%	($30,040,000)
FY 2023-24	14.2857%	($35,796,000)

Local Expenditure
Section 6. 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 8. 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 8 under State Revenue.

Section 11. This section requires DOT to transfer $17,000,000, instead of $9,500,000 annually to the donor counties in the ratio of the individual donor county's contribution in excess of "C" fund revenue allocated to the county. A county is eligible for an additional allocation from DOT if the county contributed to the "C" fund an amount in excess of what it receives under the base allocation and as a donor county. DOT must annually transfer to the eligible counties an amount up to $3,500,000 in the ratio of the individual eligible county's contribution to the "C" fund in excess of the eligible county's total allocations. Allocations made to eligible counties pursuant to this section may not be in excess of what the county contributed to the "C" fund. This does not change the amount of revenue, but rather, changes allocation of existing revenue.

Section 13. This section increases the current $0.0266 per gallon user fee on gasoline that is distributed to "C" funds by $0.003325 per gallon each year beginning July 1, 2018, until the total amount equals $0.0399. Based on the projected number of gasoline gallons after adjusting for demand, "C" funds will increase by $9,721,000 in FY 2018-19, which is the first year of the $0.003325 increase in the gasoline user fee. The "C" funds allocated to county transportation committees must be expended pursuant to the provisions in Section 12-28-2740. The increase in "C" funds would be shifted from the State Highway Fund to county transportation committees. The estimated increase for FY 2018-19 to FY 2021-22 is provided in the table below. Since Section 12-28-310 specifies the motor fuel user fee increase must be credited to the Infrastructure Maintenance Trust Fund, we assume the increase in "C" funds will reduce the remainder of the proceeds of the current motor fuel user fee remitted to the State Highway Fund under Section 12-28-2750.

Fiscal Year	Increase in Estimated "C" Funds Revenue
FY 2018-19	$9,721,000
FY 2019-20	$19,599,000
FY 2020-21	$29,671,000
FY 2021-22	$39,875,000

Frank A. Rainwater

Frank A. Rainwater, Executive Director