NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

F I S C A L I M P A C T R E P O R T

SPONSOR: Silva DATE TYPED: 02/22/01 HB 651

SHORT TITLE: Fuel Tax Increase for Highway Projects SB

ANALYST: Williams

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY01	**FY02**			
		$ (19,300.0)	Recurring, and escalates over time	State General Fund
		$ 44,065.0	Recurring, and escalates over time	State Road Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to HB 367, HB 479, SB 207

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)
State Highway and Transportation Department (SHTD)

SUMMARY

Synopsis of Bill

The bill authorizes an increase in the gasoline tax and the special fuel excise tax rate by 2 cents per gallon effective July 1, 2002 and an additional 3 cents per gallon effective July 1, 2003. Distribution shares of many recipients are adjusted to insulate them harmless from the fiscal impacts of the bill. The increased revenue is distributed is directed to the state road fund. The 1 cent per gallon decrease in the gasoline tax currently scheduled for FY04 would be repealed due to the language in the effective date section. The motor vehicle excise tax would be directed from the general fund to the state road fund. In FY03, 1/6 of the motor vehicle excise tax would be diverted, 1/3 in FY04 and ½ of the tax in FY05 and beyond.

Special fuels tax rate would increase by 2 cents a year in FY03 and FY04. The rate for FY04 would be 23 cents/gallon.

Total outstanding principal of highway bonds is increased to $1,733.9 million. An additional 20 road projects would be authorized with the additional bonding capacity created by the tax provisions of the bill.

Significant Issues

The gasoline tax in FY04 would be 22 cents/gallon, compared to the current 17 cents/gallon.

State Highway and Transportation Department revenue projection have been revised downward and the department is essentially maxed out on bonding capacity to fund new highway projects. The infrastructure needs of the state are significant and need to be addressed.

FISCAL IMPLICATIONS

In FY03, TRD and SHTD estimate the general fund revenue loss to be $19,300.0. This amount escalates over time. The revenue gain to the state road fund is projected to be 44,065.0 in FY03, and also escalates over time. Distributions to local governments, the state aviation fund, the motorboat fuel fund, the municipal arterial program or the local governments road fund in FY03 and beyond are not anticipated to change from current projections due to the language in the bill which insulates these tax recipients.

ADMINISTRATIVE IMPLICATIONS

TRD notes a moderate negative administrative impact due to two tax rate changes over two years. TRD would administer four separate fuel inventory taxes over the two year period.

OTHER SUBSTANTIVE ISSUES

The State Highway System includes 12,002 miles of roadway, including frontage roads and ramps. Roads and bridges wear out because of traffic and environmental effects. Since 1990 the State's population has grown about 1.4% a year while traffic has grown about 3.6% a year. Standards for highway design change have become more stringent. Expectations for access to paved highways, up-to-date designs, and four lane roads are increasing. Road fund revenues do not keep up with inflation. The Department is required to pay gross receipts taxes on highway construction projects, a drain of more than $32.6 million in FY 2000 from the State Road Fund.

Laws of 1998 increased the State Highway Commission's bonding authority to $1.124 billion and expanded revenues that secure bonds to include all federal funds and state taxes and fees paid into the Road Fund. In addition, federal legislation, TEA-21, increased the Department's available federal-aid highway funding by an average of $76.25 million a year. The Department is selling bonds to construct four lane projects and will retire the bonds over the next twelve to fifteen years using the additional federal funds. Because the increase in federal funds was less than anticipated, the Department is not able to support debt service for the full bonding authority granted by the legislature.

The Department's current Statewide Transportation Improvement Program (STIP) shows that for FY 2001-2006 revenues for preserving and improving the state highway system, including bond proceeds, total nearly $2.25 billion. For the same time span, the Department' Long Range Comprehensive Transportation Plan (LRP) shows needs for improvement, including bond projects, which total $6.25 billion. Over a twenty-year period, the LRP anticipates revenues totaling $6.0 billion in today's dollars, while projected needs for improvement to state highways ($13.5 billion) and economic-development ($1.2 billion) total $14.8 billion. Needs for improvement to municipal, county, or tribal road systems are not included in these totals.

TRD notes in 63 years of imposing taxes on sales and use of motor vehicles, more than 77 percent of total vehicle excise taxes collected were distributed to general fund, while less than 23 percent were distributed to state and local government road funds. From 1981 through 1986, the general fund did not receive a portion of the motor vehicle excise tax. TRD also indicates the motor vehicle excise tax is imposed in lieu of the gross receipts tax, not as an access fee for use of state roads.

AW/ar