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FISCAL IMPACT REPORT

ORIGINAL DATE 2/10/15

SPONSOR Sapient LAST UPDATED _____ HB _____

SHORT TITLE School Bus Fuel Gross Receipts SB 201

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
\$0.0	\$0.0	(\$195.0)	(\$217.0)	(\$222.0)	Recurring	General Fund
\$0.0	\$0.0	(\$130.0)	(\$145.0)	(\$148.0)	Recurring	Local Governments
\$0.0	\$0.0	(\$235.0)	(\$235.0)	(\$235.0)	Recurring	State Road Fund
\$0.0	\$0.0	(\$25.0)	(\$25.0)	(\$25.0)	Recurring	Local Governments Road Fund
\$0.0	\$0.0	(\$585.0)	(\$622.0)	(\$630.0)	Recurring	Total

(Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0.0	\$0.0	(\$335.0)	(\$335.0)	Recurring	Public School Support – Transportation Distribution

(Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 201 creates a new section of the Gross Receipts and Compensating Tax Act to create an exemption from gross receipts tax (GRT) for receipts from the sale of, and an exemption from compensating tax for the use of fuel in a vehicle authorized by contract with the Public Education Department as a school bus for the to-and-from school transportation of students.

The effective date of this bill is July 1, 2016. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

Using information from the PED and the TRD Combined Fuels Report, the department estimates the impact of this bill to be about \$585 thousand in FY17. In FY14, contractors reported fuel expenditures of about \$8.7 million on a combination of dyed and clear special diesel that was therefore subject to GRT. At an average price of \$3.20 per gallon, the total number of gallons amounts to about 2.7 million.

Based on TRD's fuel reports, the gallons of undyed diesel purchased by contractors in FY14 add up to about 1.2 million. These gallons are subject to the special fuels tax, a flat \$0.21 per gallon, amounting to about \$235 thousand in road fund revenues and \$25 thousand to local government road fund revenues.

Holding the gallons taxed by each method constant, the cost to the road fund does not vary as it is taxed with a unit tax, but the general fund cost varies with price. The U.S. Energy Information Administration forecasts retail diesel prices will be \$3.06 per gallon in FY16, a \$0.20 decrease from FY15. Beyond FY16, diesel prices are projected to have a flat trend going forward with an upward trend in 2018 and 2019.

This bill could result in a reduction in general fund school transportation operating costs because these taxes are embedded in the appropriation to public schools. Based on the above PED and TRD data, the FY16 education appropriation includes approximately \$335 thousand spread over the school districts for GRT paid on fuel. Making the gross receipts from fuel purchases deductible would eliminate the need for the state to fund taxes paid on the fuel in FY17.

The general fund receives approximately \$195 thousand of the GRT tax revenue as *local governments will receive the difference. The general fund could benefit from this exemption* as the reduction in general fund spending liability is greater than the reduction in general fund revenues.

However, the bill would likely increase the negative impact to the road fund; contractors currently paying fuel tax would likely stop paying the tax. The bill as introduced only applies to receipts from the sale of fuel used in a vehicle authorized by contract with the PED "as a school bus for the to-and-from school transportation of students."

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

PED reports school district contractors spent approximately \$8.7 million in fuel in FY14. The current average wholesale cost of diesel fuel is about \$3.20 per gallon. In the 1st quarter of FY14, wholesale cost of diesel fuel was approximately \$3.50 per gallon. The cost has decreased about \$0.30 per gallon. Fuel represents approximately 18 percent of a school bus contractor operating expenses. PED contends exempting contractors from paying gross receipts tax on fuel will give them some relief at the pump due to high cost of diesel fuel.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

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