

Fiscal Estimate Narratives

DOT 11/21/2005

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|--|-----------|---------------------|--------|---------------|----------|
| LRB Number | 05-3966/1 | Introduction Number | SB-421 | Estimate Type | Original |
| Description Eliminating the annual adjustment of the motor vehicle fuel tax rate | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

For the purposes of this analysis, it is assumed that SB 421 refers to gasoline, gasohol and diesel fuels only. The motor vehicle fuel tax rate is recomputed annually by the Department of Revenue on April 1 based on the annual change in the Consumer Price Index-Urban Consumer (CPI-U). The current motor fuel tax rate is \$0.329 per gallon. Of this amount, 3 cents per gallon is dedicated to the Petroleum Environmental Clean-up Fund Award (PECFA) program and \$0.299 is dedicated to the Transportation Fund. The 2005-07 biennial budget (Act 25) will decrease the PECFA portion from 3 to 2 cents per gallon on May 1, 2006. SB 421 proposes eliminating indexing after the April 1, 2006 adjustment and changes the effective date of the reduction PECFA portion from 3 to 2 cents per gallon to April 1, 2006.

Based on the changes in CPI-U, the motor fuel tax rate increased from \$0.291 per gallon to \$0.299 per gallon on April 1, 2005. Based on forecast changes in CPI-U produced by Global Insight, Inc. the motor fuel tax rate is forecast to increase to \$0.307 on April 1, 2006, and to \$0.313 on April 1, 2007. Based on these forecast changes in the motor fuel tax rate, total motor fuel tax collections are forecast to be \$994.2 million in FY 2006, \$1,033.2 million in FY 2007, and \$1,082.7 million in FY 2008. These projected revenues are incorporated into Act 25, the current biennial budget.

Under SB 421, the motor fuel tax rate would not be adjusted for inflation on April 1 of each year starting after the April 1, 2006 adjustment. The motor fuel tax rate would remain at an estimated \$0.307 per gallon unless changed by an act of the Legislature.

Because the Transportation Fund is a unified fund, all SEG funded appropriations within the Fund would be impacted by the proposed change to motor fuel indexing. Funding calculations for the motorboat, snowmobile and all-terrain vehicle formulas within the Conservation Fund would also be impacted by the proposed change in SB 421.

Long-Range Fiscal Implications

Prior to 1985, Wisconsin's motor fuel tax rate was adjusted through direct changes by the legislature. In 1985, the legislature enacted an indexing formula to help maintain the purchasing power of the Transportation Fund; protecting the fund from the eroding effects of inflation.

Eliminating the annual adjustment to the motor fuel tax rate would result in the permanent loss of the \$0.006 per gallon increase in the motor fuel tax rate forecast for April 1, 2007. In addition, all forecast increase beyond April 1, 2007 would be lost due to the elimination of indexing. The Transportation Fund would experience a decline in projected revenues of \$5.1 million in FY 2007, \$26.0 million in FY 2008 and \$49.1 million in FY 2009.

Eliminating the rate increase forecast for April 1, 2007 will provide a shortfall in revenues to the Transportation Fund in the current biennium. Estimated revenues from this projected rate increase was incorporated into the 2005-07 biennial budget. Eliminating motor fuel indexing will leave an imbalance in budgeted revenues and expenditures for FY 2007. The \$5.1 million imbalance between revenues and expenditures would need to be addressed by the legislature.

Eliminating indexing could result in decreased funding available for local governments. Without indexing, local programs such as general transportation aids and transit aids could experience a decrease in available funding. To maintain the current level of funding for these programs, the department would need to backfill with funding from other programs, including highway projects, highway rehabilitation and maintenance, along with the Divisions of Motor Vehicles and State Patrol.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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|--|--|--|---------------------|
| LRB Number 05-3966/1 | | Introduction Number SB-421 | |
| Description Eliminating the annual adjustment of the motor vehicle fuel tax rate | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | | \$ | |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | | | |
| Local Assistance | | | |
| Aids to Individuals or Organizations | | | |
| TOTAL State Costs by Category | | \$ | \$ |
| B. State Costs by Source of Funds | | | |
| GPR | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | | Increased Rev | Decreased Rev |
| GPR Taxes | | \$ | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | -5,100,000 |
| TOTAL State Revenues | | \$ | \$-5,100,000 |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | | \$ | \$ |
| NET CHANGE IN REVENUE | | \$-5,100,000 | \$ |
| Agency/Prepared By | | Authorized Signature | Date |
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