



## Fiscal Estimate Narratives

DOT 09/12/2001

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| LRB Number 01-3499/1   | Introduction Number AB-490 | Estimate Type Original |
| <b>Subject</b>   |                            |                        |
| Transfer sales tax on automotive products to transportation fund; 10 year phase-in |                            |                        |

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, state sales and use taxes on motor vehicles and motor vehicle parts are deposited in the General Fund.

Under the bill, on July 1, 2004, 10% of state sales and use taxes on motor vehicles and motor vehicle parts paid during the prior calendar year would be transferred to the Transportation Fund. On each July 1 thereafter, an additional 10% of the prior year's sales and use taxes would be transferred to the Transportation Fund until July 1, 2013 and thereafter when 100% of sales and use taxes on motor vehicles and motor vehicle parts would be transferred.

Revenue estimates provided by the Department of Revenue. The revenue effect of the bill is solely the transfer of revenue from the General Fund to the Transportation Fund; the bill does not affect the amount of sales taxes collected. Since the first transfer is on July 1, 2004, the bill's fiscal effect begins in FY05.

According to the Department of Revenue, \$597.8 million in state sales and use taxes were paid by new and used motor vehicle dealers; tire, battery, accessory and parts sellers; auto rental and leasing companies; auto repair shops; and private individuals registering motor vehicles in CY00. The \$597.8 million includes sales taxes paid by these companies on services and taxable non-motor vehicle goods, such as vending machine sales. The \$597.8 million does not include sales taxes on motor vehicles or parts paid by companies whose primary line of business is not motor vehicles or motor vehicle parts, such as department, discount and hardware stores.

Sales and use taxes on motor vehicles and parts increased 2.86% from CY99 to CY00. Assuming \$597.8 million in sales and use taxes on motor vehicles and parts would be affected under the bill and assuming those taxes continue to increase by 2.86% annually, state taxes on motor vehicles and parts would be approximately \$651 million in CY03. Therefore, the first transfer would be approximately \$65 million in FY05, the second would be about \$134 million in FY06 and so on. When the phase in is completed in FY14, approximately \$839 million would be transferred.

### Long-Range Fiscal Implications

Over time, this bill would provide a significant funding source for critical WisDOT programs. The Department will be facing a significant funding shortfall as it plans for the replacement of the Marquette Interchange as well as the entire Southeastern Wisconsin freeway system. Currently, the Agency projects a \$5.1 billion funding gap between programmatic needs and revenues over the next 21 year planning period.

Currently, the Transportation Fund relies on a relatively small number of revenue sources, primarily the state motor fuel tax and vehicle registration fees. This bill would provide WisDOT programs with a broader and more stable base of funding. By the beginning of Fiscal Year 2009, this proposal could be providing enough additional revenue to meet the projected funding gap noted above. It may also provide enough revenue to eliminate the need for increases in the motor fuel tax above those already provided through indexing. Using traditional Department revenue sources, the funding gap would represent either an eight cent per gallon increase in the motor fuel tax rate or an \$80 increase in the current \$45 base motor vehicle registration fee.