

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-0340/2	Introduction Number SB-185
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Subject
 Motor vehicle fuel tax indexing tied to increase in tax revenues

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues	<input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
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Local:

<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
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Fund Sources Affected	Affected Ch. 20 Appropriations
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS	

Agency/Prepared By	Authorized Signature	Date
DOT/ Joshua Peacock (608) 264-8715	Carol Buckmaster (608) 267-6979	5/4/2005

Fiscal Estimate Narratives

DOT 5/4/2005

LRB Number	05-0340/2	Introduction Number	SB-185	Estimate Type	Original
Subject					
Motor vehicle fuel tax indexing tied to increase in tax revenues					

Assumptions Used in Arriving at Fiscal Estimate

For the purposes of this analysis, it is assumed that SB 185 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 Program and \$0.299 is dedicated to the Transportation Fund. SB 185 impacts only the portion of the motor fuel tax rate that is indexed, which is the \$0.299 dedicated to the Transportation Fund.

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 \$0.305 on April 1, 2006, and to \$0.310 on April 1, 2007. Based on these forecast changes in the motor fuel tax rate, total motor fuel tax collections are forecast to be \$958.5 million in FY 2005, \$992.6 million in FY 2006, and \$1,025.6 million in FY 2007. These projected revenues are incorporated into the current Transportation Fund condition and will be used in the deliberations by the Legislature of the Governor's 2005-07 budget proposal.

Under SB 185, the motor fuel tax rate would not be adjusted for inflation on April 1, 2005 (retroactively reverse the adjustment already implemented on April 1, 2005). Under the bill, the motor fuel tax rate would remain at \$0.291 per gallon until April 1, 2007 when the forecast increase in CPI-U would be greater than the forecast increase in motor fuel revenues.

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. In addition, the Governor's budget proposal (AB 100) provides Transportation Fund revenues to fund 29 GPR appropriations. Funding calculations for the motorboat, snowmobile and all-terrain vehicle formulas within the Conservation Fund would be impacted by the proposed change in SB 185.

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 \$0.008 per gallon increase in the motor fuel tax rate that was implemented on April 1, 2005. In addition, the forecast per gallon increase of \$0.006 in 2006 would be lost permanently. Forecast changes to CPI-U and motor fuel tax revenue collections would provide a \$0.005 per gallon increase on April 1, 2007. The Transportation Fund would experience a decline in projected revenues of \$6.7 million in FY 2005, \$31.5 million in FY 2006 and \$46.9 million in FY 2007. The total lost revenue impact in the 2005-07 biennium would be \$78.4 million. Annual lost revenue to the Transportation Fund would grow every year that an indexing adjustment was not calculated and published by the Department of Revenue. However, SB 185 does not eliminate indexing. SB 185 does provide an additional test to determine if indexing should take place in any given year.

Eliminating the rate increase implemented on April 1, 2005 will provide a shortfall in revenues to the Transportation Fund. This reduction would exacerbate slowing revenue growth due to higher motor fuel prices in Wisconsin. Estimated revenues from projected rate increases were incorporated into the Governor's 2005-07 budget submittal (AB 100). Eliminating motor fuel indexing will leave an imbalance in budgeted revenues and expenditures for FY 2006 and FY 2007. The \$78.4 million imbalance between revenues and expenditures would need to be addressed by the legislature as part of their work on the 2005-07 biennial budget.

For any year that indexing of the motor fuel tax rate does not occur, the lack of an inflationary adjustment 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

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Subject			
Motor vehicle fuel tax indexing tied to increase in tax revenues			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			-31,500,000
TOTAL State Revenues		\$	\$-31,500,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-31,500,000	\$
Agency/Prepared By		Authorized Signature	Date
DOT/ Joshua Peacock (608) 264-8715		Carol Buckmaster (608) 267-6979	5/4/2005