



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #761

Ongoing General Fund Tax Transfers to Transportation Fund (General Fund Taxes -- General Fund Tax Transfers and Transportation -- Transportation Finance)

[LFB 2023-25 Budget Summary: Page 213, #1, Page 214, #2 and #3, and Page 620, #2 and #3]

CURRENT LAW

The state transportation fund is the primary source of revenue for the Department of Transportation (DOT), with actual gross revenues (including transfers from other funds) of \$2.36 billion in 2021-22. The motor vehicle fuel tax is the largest source of revenue in the transportation fund, accounting for 49.6% of gross revenues in 2021-22, excluding transfers to the fund. Vehicle registration fee revenues, including titling and various other registration-related fees, made up another 42.8% of gross transportation fund revenues in 2021-22, excluding transfers to the fund. Some of the other lesser fee revenues to the fund include driver's license fees and airline and railroad ad valorem taxes, among others.

Under current law, the transportation fund also receives an ongoing transfer of general purpose revenue (GPR) from the general fund. Each year, the Department of Administration is required to transfer from the general fund to the transportation fund an amount equal to 0.25 percent of the moneys projected to be deposited in the general fund during the fiscal year that are designated as "Taxes" in the biennial budget act for that fiscal year. In 2021-22, \$44,717,400 GPR was provided to the transportation fund from the 0.25% transfer.

DISCUSSION POINTS

1. This paper discusses two provisions contained in AB 43/SB 70 to introduce two additional ongoing transfers of general fund revenues to the transportation fund: (a) the estimated growth in annual sales tax revenue generated from the sale of automotive parts, accessories, repair

and maintenance services, and tires; and (b) the estimated annual sales tax revenue generated from the sale of electric vehicles in the state. Neither of these recommendations were included in DOT's 2023-25 agency budget request.

2. AB 43/SB 70, as clarified by an errata submitted by the Administration, would require the Secretary of the Department of Administration (DOA) to transfer, annually, from the general fund to the transportation fund, an amount approximating the difference between the sales tax generated from the sale of automotive parts, accessories, tires, and repair and maintenance services in 2019-20 and the amount of sales tax generated from such sales in the fiscal year of the transfer. This amount would be calculated by DOA and the first transfer would occur on June 30, 2024. The Administration estimates transfers of \$43,625,700 GPR in 2023-24 and \$52,895,500 GPR in 2024-25.

3. Further, AB 43/SB 70 would require the DOA Secretary to transfer, annually, from the general fund to the transportation fund, an amount approximating the sales tax generated by the sale of electric vehicles in this state. This amount would also be calculated by DOA, and the first transfer would occur on June 30, 2024. AB 43/SB 70 would specify that, beginning in 2025-26, the amount transferred could not exceed 120% of the previous year's transfer, or \$75,000,000, whichever is less. The Administration estimates transfers of \$39,300,000 GPR in 2023-24 and \$55,100,000 GPR in 2024-25.

4. Under current law, 0.25% of estimated general fund taxes that are designated as "Taxes" in the general fund summary published in the biennial budget act are transferred to the transportation fund. AB 43/SB 70 would authorize an additional transfer of funds from the general fund to the transportation fund in an amount equal to the estimated sales tax collected on sales of automotive parts and electric vehicles in this state. Table 1 shows estimates of the current law 0.25% transfer from the general fund to the transportation fund, as well as the additional transfers proposed under AB 43/SB 70.

TABLE 1

General Fund Tax Transfers to the Transportation Fund under AB 43/SB 70

| | <u>2023-24</u> | <u>2024-25</u> |
|--------------------------------------|-------------------|-------------------|
| Current Law 0.25% Transfer* | \$53,484,500 | \$55,373,800 |
| Automotive Parts Sales Tax Transfer | 43,625,700 | 52,895,500 |
| Electric Vehicle Sales Tax Transfer | <u>39,300,000</u> | <u>55,100,000</u> |
| Total General Fund Tax Transfers | \$136,410,200 | \$163,369,300 |
| Transfers as % of General Fund Taxes | 0.64% | 0.74% |

*Amounts shown reflect the Legislative Fiscal Bureau's May, 2023, estimate of general fund tax revenues.

Note: This table does not include a separate recommendation to repeal the personal property tax, and transfer funds from the general fund to the transportation fund in 2024-25 to compensate the transportation fund for reduced railroad property tax revenues. That provision is included in 2023 AB 245/SB 301.

5. Revenues from the motor vehicle fuel tax and vehicle registration and title fees are the two largest sources of revenue for the transportation fund, contributing a combined 92.4% of gross transportation fund revenues in 2021-22, excluding transfers to the fund. These are sometimes referred to as user fees, since it is the users of transportation facilities, through the payment of fuel taxes and vehicle fees, who are charged for the construction and maintenance of the roads and highways that they use.

6. Without changes in statutory tax and fee rates, any revenue growth generated by the motor fuel tax and vehicle registration fees must come from an increase in the number of gallons of fuel consumed or the number of vehicles registered in the state. Consequently, revenues can only grow as the use of the transportation system grows, but this growth may not be sufficient to offset the demands associated with growing use and inflation in the cost of construction and maintenance programs.

7. Growth in motor fuel consumed and vehicles registered have remained at relatively low and stable rates over the past several years. Table 2 shows the number of gallons of fuel consumed, and the number of automobiles, light trucks, and heavy trucks registered from 2011-12 to 2021-22. As shown in the table, average growth in both gallons of motor fuel consumed and automobile registrations was less than one percent annually during this period (fuel consumption and vehicle registrations declined during the COVID-19 pandemic, but rebounded in 2021-22).

TABLE 2

**Motor Fuel Consumption and Motor Vehicle Registrations
(In Millions of Gallons and Thousands of Vehicles)**

| <u>Fiscal Year</u> | <u>Motor Fuel</u> | <u>Registrations</u> | | |
|----------------------------|-------------------|----------------------|---------------------|---------------------|
| | | <u>Automobiles</u> | <u>Light Trucks</u> | <u>Heavy Trucks</u> |
| 2011-12 | 3,197.1 | 3,531.0 | 884.2 | 236.3 |
| 2012-13 | 3,144.4 | 3,585.8 | 894.1 | 242.7 |
| 2013-14 | 3,221.7 | 3,617.2 | 900.5 | 251.3 |
| 2014-15 | 3,281.9 | 3,661.1 | 914.3 | 264.4 |
| 2015-16 | 3,358.0 | 3,692.9 | 931.6 | 274.5 |
| 2016-17 | 3,379.8 | 3,721.0 | 951.2 | 287.1 |
| 2017-18 | 3,411.1 | 3,765.9 | 965.9 | 303.5 |
| 2018-19 | 3,444.1 | 3,773.5 | 967.9 | 323.7 |
| 2019-20 | 3,299.5 | 3,698.6 | 971.3 | 319.2 |
| 2020-21 | 3,279.0 | 3,626.1 | 995.0 | 340.3 |
| 2021-22 | 3,457.5 | 3,863.7 | 1,039.4 | 371.2 |
| Average Growth Rate | | | | |
| 2011-12 to 2021-22 | 0.8% | 0.9% | 1.6% | 4.6% |

8. Further, increased fuel economy of vehicles on the road can dampen fuel consumption, and thus motor fuel tax revenues, despite higher usage of transportation facilities. To illustrate this point, according to S and P, Global (the state's economic forecasting consultant), in 2006, the average fuel economy of the national light vehicle fleet was 20.3 miles per gallon. Their current projections

indicate that the average fuel economy will increase to 24.7 miles per gallon in 2023. As a result, an average motorist in the state who drives these vehicles for 12,000 miles per year will be purchasing an estimated 105.4 fewer gallons of fuel in 2023 than they were in 2006 due to the increased fuel economy of their vehicle. Therefore, such motorists will be paying an estimated \$32.57 (105.4 gallons x 30.9 cents per gallon) less in state fuel taxes than they did in 2006 for the same amount of travel. This would be equivalent to 6.7 cents per gallon less in motor vehicle fuel taxes paid, because of the increased average fuel economy of light vehicles. Based on actual fuel consumption for 2021-22, 6.7 cents per gallon equates to an estimated \$232 million in annual motor vehicle fuel tax revenue.

9. Table 3 shows gross transportation fund revenues and their annual rate of growth over the past 11 years. In order to reflect revenues generated by current transportation taxes and fees, the amounts shown exclude transfers from the general fund and the petroleum inspection fund. As shown in the table, the average growth rate in gross transportation fund revenues was 2.2% over this period. However, as shown, this figure is driven up by increases in vehicle title and registration fees that were enacted in the 2019-21 budget. These fee changes became effective on October 1, 2019, which results in 2020-21 being the first full year of increased revenues. Previous to these fee increases, gross transportation revenues grew by an average rate of 1.4% annually from 2011-22 to 2018-19.

TABLE 3

Gross Transportation Fund Revenues, Excluding Transfers from Other Funds

| <u>Fiscal Year</u> | <u>Gross Revenues</u> | <u>Percent Increase</u> |
|----------------------------|-----------------------|-------------------------|
| 2011-12 | \$1,734.9 | |
| 2012-13 | 1,720.3 | -0.8% |
| 2013-14 | 1,784.6 | 3.7 |
| 2014-15 | 1,808.4 | 1.3 |
| 2015-16 | 1,867.4 | 3.3 |
| 2016-17 | 1,873.6 | 0.3 |
| 2017-18 | 1,913.6 | 2.1 |
| 2018-19 | 1,911.7 | -0.1 |
| 2019-20 | 2,006.2* | 4.9* |
| 2020-21 | 2,101.2 | 4.7 |
| 2021-22 | 2,159.2 | 2.8 |
| Average Growth Rate | | |
| 2011-12 to 2018-19 | | 1.4% |
| 2011-12 to 2021-22 | | 2.2 |

*The 2019-21 budget increased the vehicle title fee and certain vehicle registration fees, effective October 1, 2019.

10. Over the same period (2011-12 to 2021-22), the U.S. consumer price index grew by an annual average growth rate of 2.6%, while the DOT's construction cost index, which tracks prices on a "basket" of construction inputs such as asphalt, concrete pavement, and labor, increased by an average annual growth rate of 4.4%. To compensate the transportation fund for the potential shortfall between revenues and programmatic needs, the Committee has taken action in the past two budgets

to provide additional sources of revenue to the transportation fund. As mentioned earlier, the 2019-21 budget provided ongoing increases to vehicle title fees as well a certain fees for automobile and light vehicle registrations. In the ensuing biennium, the 2021-23 budget enacted one-time increases to the statutory 0.25% transfer of general fund tax revenues by increasing the transfer to 1.0% of projected general fund tax revenues in 2021-22 and 0.5% in 2022-23, which transferred additional amounts to the transportation fund of \$134.2 million in 2021-22 and \$48.6 million in 2022-23. Table 4 shows the transfers that have been made from the general fund to the transportation fund since 2017-18, as well as the sales tax-related transfers that would be recommended under AB 43/SB 70 for the 2023-25 biennium.

TABLE 4

**General Fund Transfers to Transportation Fund Since 2019-20
(\$ in Millions)**

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2017-18 | \$43.0 |
| 2018-19 | 45.3 |
| 2019-20 | 43.3 |
| 2020-21 | 44.1 |
| 2021-22 | 178.9 |
| 2022-23 | 97.3 |
| 2023-24 | 136.4* |
| 2024-25 | 163.4* |

*Amounts shown reflect AB 43/SB 70 recommendations relating to sales tax transfers to the transportation fund.

11. The need for additional transportation fund revenues may continue in the 2023-25 biennium. Under AB 43/SB 70, current law net transportation fund revenues, exclusive of debt service, for the biennium were projected to be \$4,627.7 million. However, gross transportation fund revenues from current law fees and transfers have been revised downward from the bill, due in part to lower than expected collections in 2022-23, and a worsening economic outlook for 2023-25. As a result, transportation revenues exclusive of debt service for the 2023-25 biennium are currently projected to be \$4,497.2 million, which is \$130.5 million lower than the AB 43/SB 70 current law estimates. Further, under Motion #10, the Committee removed a recommendation to utilize \$76.3 million GPR in 2024-25 to defease existing debt service costs on transportation revenue bonds, which results in a further decrease in net transportation revenues of \$76.3 million compared to the bills.

12. Current law transportation fund revenues, alongside adjusted base DOT appropriations as adopted under Motions #20 and #12, are currently projected to result in a closing balance of \$28.0 million at the end of the 2023-25 biennium, before the adoption of any recommendations to increase funding for transportation programs. AB 43/SB 70 would also authorize \$441.8 million in transportation fund-supported bonds in the 2023-25 biennium, which would have to be repaid in future years. Increased transportation spending in the biennium may be warranted, as inflation in the transportation sector has accelerated in recent years. DOT's construction cost index rose by 19.0% in

the one year between the first quarters of 2022 and 2023, and 30.5% over the two years from the first quarters in 2021 to 2023. Due in part to these inflationary demands, as well as needs in the state's transportation sector, AB 43/SB 70 includes to increases in DOT appropriations by \$121.7 million for DOT's local transportation assistance programs, \$81.1 million for the state highway program, and \$80.1 million for DOT local transportation aid programs in the 2023-25 biennium. However, funding increases for DOT programs such as these could not be adopted without an accompanying action to provide additional revenue to the transportation fund.

13. More electric vehicles are expected to be purchased and driven in the state in 2023-25. The number of electric vehicles registered in the state has increased from approximately 4,800 in 2019-20 to 10,800 in 2021-22. The Administration indicates that it expects the number of electric vehicles registered in the state to continue growing in 2023-25, estimating that the state's electric vehicle fleet will reach approximately 57,300 vehicles by 2024-25. While electric vehicles still make up a small portion of the vehicle fleet (3.9 million automobiles were registered in the state in 2021-22), they do not consume motor fuel, and thus do not contribute motor vehicle fuel tax revenue to the transportation fund, although they do pay an additional \$100 annual vehicle registration fee. The recommended electric vehicle sales tax could further compensate the transportation fund for any lost revenue associated with the growth in the number of electric vehicles on state highways.

14. Past proposals have also justified transfers of transportation-related sales tax revenue to the transportation fund on the grounds of these products' relationship to transportation. That is, the sales tax on these items could be seen as an additional transportation user fee that should be reserved for transportation purposes. The recommended transfers would introduce new, less static, ongoing sources of revenue to the transportation fund, which could assist the Department to meet programmatic and inflationary demands in 2023-25 and beyond. The estimated total amount of additional GPR revenues transferred in the 2023-25 biennium under AB 43/SB 70 would be \$190.9 million. [Alternative 1]

15. DOA indicates that its estimate of the sales tax generated from the sales of automotive parts, accessories, tires, and repair and maintenances services would be based on historical sales tax return data provided by the Department of Revenue from companies that classify themselves under the following North American Industry Classification System (NAICS) codes: (a) 4413 - Automotive Parts, Accessories, and Tire Stores; and (b) 8111 - Automotive Repair and Maintenance. As such, the estimate would not reflect product specific sales and leases of motor vehicle parts and accessories. Consequently, the estimate would include sales of taxable items and services other than motor vehicles and motor vehicle parts and accessories if the items were sold by businesses that identify themselves as primarily engaged in such retail activities. An example of this would be repair services performed by motor vehicle dealerships. Conversely, if a business did not identify itself as primarily engaged in selling or leasing motor vehicles or motor vehicle parts and accessories, such sales would be omitted from the estimate. For example, sales of motor vehicle parts and accessories by department stores, hardware stores, and automotive repair and maintenance shops would not be included in the estimate.

16. The Administration states that its estimate of the sales tax generated from sales of electric vehicles is based on available data from various sources, and the methodology for the estimate could

change as new data becomes available. Sales of electric vehicles are expected to grow at a faster rate than sales of other motor vehicles. For example, the Administration estimates average annual growth in sales tax on electric vehicle sales over the next four fiscal years at 30%, whereas general sales and use taxes are estimated to grow at a much slower rate, 2.3% in 2023-24 and 2.4% in 2024-25. The growing transfer would more quickly erode the sales tax base, although AB 43/SB 70 would eventually limit the electric vehicle sales tax transfer to no more than \$75 million per year. The methodologies for calculating the amounts to be transferred to the transportation fund would not be included in statute. Therefore, DOA would have discretion on how to determine the amounts to be transferred and could increase or decrease estimates in future years, relative to the amounts currently estimated for 2023-24 and 2024-25, based on future changes to its methodology.

17. The transfer of a portion of the sales tax on certain motor vehicles and motor vehicle parts and accessories could create a precedent for the transfer of sales tax revenue on other items to other funds. For instance, the sales tax on recreational vehicles or hunting and fishing equipment could be dedicated to the related conservation programs, or sales taxes collected on certain foods and products that have a detrimental effect on health could be dedicated to related health programs. Dedicating significant amounts of sales tax revenues to specific agencies or programs erodes the Legislature's discretion on how best to allocate general fund revenues among various agencies and programs. Other agencies are not provided dedicated revenue increases from general fund tax growth and must request available general fund dollars to support their increased costs in each biennial budget.

18. Under current law, the 0.25% transfer of general fund taxes to the transportation fund is based on estimated taxes at the time the biennial budget is enacted. The two transfers proposed under AB 43/SB 70 would not be statutorily linked to a procedure whereby DOA would estimate sales tax revenues attributable to motor vehicle parts/services or electric vehicles at an unspecified point in time. Further, the estimating methodology used by DOA could be modified at any time during a biennium. The transfers proposed under the bill would create two additional sources of variability when this office provides information to legislators updating them on the condition of the general fund or the transportation fund.

19. Separate provisions of AB 43/SB 70 would establish an account in the general fund that would consist of an amount equal to 20% of the state sales and use tax, to be used to distribute payments to counties and municipalities. The proposed transfers of a portion of the sales tax on sales of certain motor vehicle and motor vehicle parts and accessories paired with the designation of an amount equal to 20% of the sales tax would effectively target the same portion of sales and use tax monies twice, once to be transferred to the transportation fund and once to distribute 20% of this amount to counties and municipalities.

20. In addition, while a transfer of estimated sales tax revenue from the sale of electric vehicles may be intended to compensate the transportation fund for lost motor fuel tax revenue, a \$100 annual registration fee is already assessed on electric vehicles in the state, as mentioned earlier. Owners of electric vehicles are required to pay these annual fees in addition to base vehicle registration fees each year. Thus, the transportation fund is already provided with some compensation for lost fuel tax revenue from electric vehicles. Further, this registration fee is a direct user fee that

can be increased if the current fee is insufficient to offset the estimated fuel tax reduction.

21. As discussed earlier, one-time increases to the statutory 0.25% transfer of general fund taxes to the transportation fund, were adopted in the 2021-23 biennium. In addition, the general fund has large one-time revenues available in 2023-24. Rather than approving the new recommended transfers of general fund revenues, the existing 0.25% general fund transfer could instead be increased to 1.0% on a one-time basis in 2023-24. This would transfer additional one-time funding of \$160,453,500 to the transportation fund, compared to the estimated \$190,921,200 that would be transferred in 2023-25 under the bill. This could avoid the administrative and distributional challenges that may be associated with the new recommended transfers. This continued use of significant general fund revenues for transportation can also be justified on the grounds that the state's transportation system contributes to the health of the overall economy, and does not just benefit transportation system users. This alternative would provide one-time, rather than ongoing funding to the transportation fund, which could supply needed revenue to the transportation fund while avoiding the ongoing commitment of additional general fund tax revenues. [Alternative 2]

22. If a lower one-time transfer of GPR to the transportation fund is preferred, the existing 0.25% general fund transfer could instead be increased to 0.75% on a one-time basis. This would transfer an additional \$106,969,000 in general fund revenues to the transportation fund in 2023-24. [Alternative 3]

23. Inflationary demands in the transportation sector may have outpaced the growth of transportation fund user fee revenues in recent years, and action has been taken in the past two biennia to provide additional sources of revenue to the transportation fund. This may indicate that a structural need exists to provide an ongoing source of additional revenue to the transportation fund. Rather than providing a one-time transfer of general fund revenues, the existing 0.25% general fund transfer could be increased to 0.5% on a permanent basis beginning in 2023-24. This would provide additional revenues to the transportation fund of \$53,484,500 in 2023-24 and \$55,373,800 in 2024-25, or a total of \$108.9 million in the biennium. [Alternative 4]

24. While programmatic demands may have grown in the transportation sector in recent years, the federal Infrastructure Investment and Jobs Act began providing state with an increased level of federal transportation funding beginning in 2021-22. IIJA was enacted in 2021, and is expected to provide the state with increased transportation aid in the five years following its enactment (2021-22 through 2025-26). As a result, AB 43/SB 70 would provide the Department with revenue increases of \$192.7 million FED in 2023-24 and \$211.3 million FED in 2024-25 compared to an adjusted base revenue level of \$829.9 million. These additional revenues may be sufficient to fund DOT programs in the 2023-25 biennium.

25. Given the availability of additional federal transportation aid, that the state traditionally funds DOT activities with user fees, the Committee could choose to deny the recommended transfers, and transfer no additional general fund revenues to the transportation fund. This alternative could also be adopted if Committee wishes to limit expenditures from the transportation fund, or utilize general fund revenues for other purposes. In addition, it should be noted that 2023 AB 88/SB 89 proposes a deposit of sales tax revenue from the sale of motor vehicles and motor vehicle parts, accessories, and

services into the transportation fund. If the Committee chose to take no action, the Legislature could address this issue outside of the budget process. [Alternative 5]

ALTERNATIVES

1. Require DOA to estimate two additional ongoing transfers of general fund revenues to the transportation fund: (a) the estimated difference between the sales tax generated from the sale of automotive parts, accessories, tires, and repair and maintenance services in 2019-20 and the amount of sales tax generated from such sales in the fiscal year of the transfer; and (b) estimated annual sales tax revenue from the sale of electric vehicles in the state [see discussion points #2 and #3 for additional detail]. Estimate revenues from the automotive parts transfer to be \$43,625,700 in 2023-24 and \$52,895,500 in 2024-25, and revenues from the electric vehicle sales tax transfer to be \$39,300,000 in 2023-24 and \$55,100,000 in 2024-25.

| ALT 1 | Change to Base |
|--------------|-----------------------|
| GPR Transfer | \$190,921,200 |
| SEG-REV | 190,921,200 |

2. Increase the current law, annual transfer to the transportation fund of 0.25% of general fund taxes for each year in the general fund condition statement as enacted in the biennial budget to 1.0% on a one-time basis in 2023-24. Transfer \$160,453,500 from the general fund to the transportation fund in 2023-24.

| ALT 2 | Change to Base |
|--------------|-----------------------|
| GPR Transfer | \$160,453,500 |
| SEG-REV | 160,453,500 |

3. Increase the current law, annual transfer to the transportation fund of 0.25% of general fund taxes for each year in the general fund condition statement as enacted in the biennial budget to 0.75% on a one-time basis in 2023-24. Transfer \$106,969,000 from the general fund to the transportation fund in 2023-24.

| ALT 3 | Change to Base |
|--------------|-----------------------|
| GPR Transfer | \$106,969,000 |
| SEG-REV | 106,969,000 |

4. Increase the current law, annual transfer to the transportation fund of 0.25% of general fund taxes for each year in the general fund condition statement as enacted in the biennial budget to 0.5% on a permanent basis beginning in 2023-24. Transfer \$53,484,500 in 2023-24 and \$55,373,800

in 2024-25 from the general fund to the transportation fund.

| ALT 4 | Change to Base |
|--------------|-----------------------|
| GPR Transfer | \$108,858,300 |
| SEG-REV | 108,858,300 |

5. Take no action.

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