Local Mandate Fiscal Impact Estimate Kentucky Legislative Research Commission 2015 Regular Session

Part I: Measure Information

Bill Request #: 416
Bill #: HB 513
Bill Subject/Title: AN ACT relating to motor fuels taxes and declaring an emergency.
Sponsor: _ Representive Jeff Hoover
Unit of Government:XCityXCountyXUrban-CountyXCharter CountyXConsolidated LocalXGovernment
Office(s) Impacted: X
Requirement: <u>X</u> Mandatory Optional
Effect on Powers & Duties: Modifies Existing X Adds New Eliminates Existing

Part II: Purpose and Mechanics

HB 513 raises the statutory minimum wholesale price (AWP) of gasoline to \$2.07 from \$1.786. The AWP is used in determining the variable excise tax rate for gasoline and special fuel.

HB 513 eliminates the wording that excludes \$.021 from funds going to secondary and rural roads, county roads and bridges, and urban roads and streets. These funds are now deposited into the state road fund but would be available for county and city projects if HB 513 is passed.

HB 513 increases from 18.3% to 19.5% the amount of the total motor fuels tax receipts going to the construction, reconstruction, and maintenance of county roads and bridges.

HB 513 increases from 7.7% to 8.3 % the amount of the total motor fuels tax receipts going to the construction, reconstruction, and maintenance of urban roads and streets.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

The fiscal impact of HB 513 on local governments is three-fold. First, by raising the minimum AWP two and a half cents (\$.025) to \$2.07, it ensures that the motor fuels tax will not drop any more than \$.025 from its current level. Secondly, HB 513 would transfer \$.021 of the tax totaling \$67.2 million currently going to state road projects and other discretionary spending by Transportation Cabinet to local projects. Lastly, HB 513 is expected to be an increase of \$10.35 million going to counties and an increase of \$5.15 million going to cities.

The motor fuels tax is comprised of two components:

-a fixed portion comprised of a users fee of 5 cents per gallon for gasoline and 2 cents per gallon for diesel and other "special fuels", and

-a variable excise portion calculated at 9% of the "average wholesale price". There is a statutory floor or a minimum AWP amount to be used for tax calculation purposes and that floor is currently set at \$1.786 per gallon. A minimum AWP is used for tax calculation due to the volatility of the market and to ensure the funds generated from the motor fuels tax stay at a steady level.

The motor fuels tax is adjusted quarterly using the AWP from the first month of the previous quarter. Raising the minimum from \$1.786 to \$2.07 ensures a \$.025 buffer against lost revenue if AWP ever reaches \$1.786. The \$.025 is 9% of the difference.

A decrease of 11 cents in the AWP equates to a 1 cent decrease in the motor fuels tax. A decrease of 1 cent in the motor fuels tax translates to a \$30 million annualized loss to the road fund. Increasing the AWP to \$2.07 ensures \$75 million of road fund revenues will **not** be lost if AWP were to fall to \$1.786

Whereas 48% of the road fund is currently returned to cities and counties in the form of revenue sharing for local streets and roads, increasing the AWP to \$2.07 ensures a revenue stream of up to \$36 million (\$75million X 48%) is protected. By increasing the statutory AWP floor to the \$2.07, the motor fuel tax will be stabilized, although at a lower level than it currently is now.

An emergency clause (already in KRS 138.210) is necessary in order to enact the \$2.07 floor before the April 1 adjustment date.

Secondly, HB 513 would transfer \$.021of the tax currently going to state road projects and other discretionary spending by Transportation Cabinet to local projects. The amount the Transportation Cabinet budgeted to be excluded from Revenue Sharing (2.1 cpg) was \$63.5M in FY15 and FY16.

Lastly, the final fiscal impact of HB 513 on counties is expected to be an increase in revenues of \$10.35 million annually, and an increase to cities of an estimated \$5.15

million more annually, provided that the data of the last two years is a predictor of the revenue for next year.

Below are charts showing what the proposed increase in percentage would mean to counties and cities using data from the last two fiscal years. Counties would have realized \$10.3 million more annually and cities would have realized \$5.15 million more annually.

County Roads and Bridges							
	Tota	al Motor					
	Fuels Receipts		Current	Proposed	Increase		
Percent of Total			18.3%	19.5%	1.2%		
FY 13 (Millions)	\$	838.3	\$ 153.4	\$ 163.4	\$ 10.1		
FY 14 (Millions)	\$	886.2	\$ 162.2	\$ 172.8	\$ 10.6		

Urban Roads and Streets									
	Tot	al Motor							
	Fuels Receipts		Current Proposed		posed	Inc	rease		
Percent of Total			7.7%		7.7% 8.3		.3%		6%
FY 13 (Millions)	\$	838.3	\$	64.5	\$	69.5	\$	5.0	
FY 14 (Millions)	\$	886.2	\$	68.2	\$	73.5	\$	5.3	

By increasing the portion of motor fuels tax receipts going to local projects by a total of 1.8%, you are lowering by the same percentage the amount of motor fuels tax receipts available for state highway projects and other discretionary spending by the Kentucky Transportation Cabinet. Currently, 48.2% of motor fuels tax receipts go to local road projects and 51.8% go to other Kentucky Transportation Cabinet projects, the majority of which are state highway projects. This proposal would change those percentages to 50% going to local road projects.

Data Source(s):	LRC Staff, Kentucky League of Cities, Kentucky Transportation Cabinet,
	Governor's Office of Economic Analysis-Office of State Budget Director

Preparer:	Wendell F. Butler	Reviewer:	MCY	Date:	2/18/15
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