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

Part I: Measure Information

Bill Request #: 338
Bill #: SB 29
Bill Subject/Title: AN ACT relating to motor fuels tax and declaring an emergency.
Sponsor: Senator Ernie L Harris
Unit of Government: X City X County X Urban-County X Charter County X Consolidated Local X Government
Office(s) Impacted:
Requirement: X Mandatory Optional
Effect on Powers & Duties: X Modifies Existing Adds New Eliminates Existing
Part II: Purpose and Mechanics
SB 29 raises the statutory floor or minimum average wholesale price (AWP) for motor fuels from \$1.786 to \$2.354. The AWP is used in the computation of the motor fuels tax rate.
Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost
The fiscal impact of SB 29 ensures the motor fuels tax will not drop below its January 1, 2015 level. In doing so, the Road Fund money available to local governments for streets and roads will remain at no less than its current level.
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 AWP and the resulting motor fuels tax is adjusted quarterly. The AWPs used for the October 1, 2014 and the January 1, 2015 motor fuels tax calculations dropped .48 cents, from \$2.837 to \$2.354. As a result, the motor fuels tax dropped 4.3 cents per gallon.

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.

Motor fuels tax receipts make up 55% of the road fund. The road fund will decrease \$129 million dollars on an annualized basis due to the October to January decrease in AWP and the resulting drop in the motor fuels tax. Whereas 48% of the road fund is returned to cities and counties in the form of revenue sharing for local streets and roads, this decrease means \$61.9 million dollars will not be available for local projects. By increasing the statutory AWP floor to the \$2.354, the motor fuel tax will be stabilized.

An emergency clause (already in KRS 138.210) is necessary in order to enact the \$2.354 floor before the April 1 adjustment date.

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: 1/7/15