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December 7, 2005

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Summary of Senate Action on SB 331: Repeal of the Annual Indexing of the State Motor Vehicle Fuel Tax Rate

This memorandum provides a summary of Senate Bill 331 as amended (Senate Amendments 3 and 6) and passed by the Senate on December 6, 2005. SB 331 would repeal the annual indexing of the state's motor vehicle fuel tax rate. SA 3 would limit the expenditure of transportation fund revenues to transportation related purposes. SA 6 (as amended by SA 1 to SA 6) would modify the effective date of the current law, one cent reduction in the three cent per gallon petroleum inspection fee to occur one month earlier, on April 1, 2006, rather than May 1, 2006.

Repeal of Motor Vehicle Fuel Tax Indexing

Under current law, the state's motor vehicle fuel tax rate is adjusted on April 1 of each year by multiplying the existing tax rate by the percentage change in the annual, average consumer price index for the preceding calendar year. The state's motor vehicle fuel tax rate is currently 29.9 cents per gallon and is projected to be indexed to 30.7 cents per gallon on April 1, 2006, and then to 31.3 cents per gallon on April 1, 2007.

Under the bill, after the April 1, 2006, indexing adjustment, the motor vehicle fuel tax rate would no longer be annually adjusted. Therefore, the tax rate would remain at an estimated 30.7 cents per gallon unless future action is taken by the Legislature. The bill would reduce estimated motor vehicle fuel tax revenues by $5.2 million in 2006-07. Due to the timing of when the suspension of the annual indexing takes effect under the bill, this fiscal estimate represents the impact on revenues for only one quarter of 2006-07. During the 2007-09 biennium, when the repeal of indexing would first be effective for a full year, revenues would be reduced by an estimated $26.0 million in 2007-08 and $49.1 million on 2008-09. Further, the cumulative effect of indexing over time would also have a compounding effect on the fiscal impact of the proposal in each future year, compared to current law.

Since they are based on formulas that include the motor vehicle fuel tax rate, the transfers from the transportation fund to the conservation fund related to fuel used in motorboats, snowmobiles, and all-terrain vehicles would be affected by the repeal of motor vehicle fuel tax rate indexing. However, since the formulas use tax rates that are lagged, the first impact would not occur until the 2007-09 biennium. In 2007-08, it is estimated that the transfer related to motorboats would decrease by $261,000. In 2008-09, the transfers would decrease by an estimated $530,000 for motorboats, $96,000 for snowmobiles, and $39,000 for all-terrain vehicles.

Statutory Restriction on the Use of Transportation Fund Revenues

Senate Amendment 3 would include a provision that would prohibit, beginning July 1, 2007, the appropriation of moneys from the transportation fund except for purposes related to the following: (a) the planning, design, construction, reconstruction, expansion, rehabilitation, maintenance, or operation of highway, airport, harbor, ferry, railroad, bicycle, or pedestrian facilities or service or any costs attendant to such planning, design, construction, reconstruction, expansion, rehabilitation, maintenance, or operation; (b) the acquisition of transportation facilities or property necessary to construct or enlarge transportation facilities, or costs attendant to such acquisition or to disposal of any acquired facility or property; (c) costs associated with utility facilities within the rights-of-way of transportation facilities or with radio communications facilities and equipment owned or leased by, and services provided by, the Department of Transportation and used for law enforcement; (d) aids or assistance to cities, villages, towns, or counties for transportation purposes; (e) the expenditure of federal transportation aid received by the state for any purpose for which the aid is provided or the provision of matching or supplemental funds associated with such aid; (f) the expenditure of funds derived from gifts or grants received by the Department for any purpose for which the gift or grant is provided; (g) state enforcement of traffic laws; (h) transportation safety programs; (i) the administration of laws related to motor vehicles, driver licensing, or aeronautics; (j) the payment of principal and interest on bonds issued for highway, railroad, or harbor improvements or other transportation facilities; (k) the general costs of administration of the Department; (L) the costs of administration of the taxes and fees that are deposited in the transportation fund; (m) terminal tax distribution payments to local governments for railroad terminal facilities; (n) tourism promotion; (o) transfers to the conservation fund for motor fuel tax collections on the use of fuel by snowmobiles, all-terrain vehicles, and motorboats; (p) any refunds of transportation fund taxes and fees authorized by law; and (q) any other program administered by DOT on the effective date of the bill.

The amendment would also specify that, beginning on July 1, 2007, no moneys deposited in the transportation fund that are not appropriated may be transferred from the transportation fund to any other fund or appropriation account in any other fund, except for transfers to the transportation infrastructure loan fund by the Joint Committee on Finance, as provided under current law.

Petroleum Inspection Fee

Currently, the state's petroleum inspection fee is three cents per gallon on all petroleum products that are received by a supplier for sale in the state. Revenues from the petroleum inspection fee are used primarily to fund the administration of the petroleum environmental cleanup fund award (PECFA) program, provide PECFA cleanup grants, and to make principal and interest payments on bonds issued to provide PECFA cleanup grants. Under 2005 Act 25, the fee rate is to be reduced to two cents per gallon on May 1, 2006. Senate Amendment 6 (as amended by SA 1 to SA 6) would require that the one cent per gallon reduction in the rate occur on April 1, 2006. Under the amendment, revenues to the petroleum inspection fund would be reduced by an estimated $3.2 million in 2005-06.

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