

Fiscal Note

BILL # HB 2166

TITLE: vehicle fees; alternative fuel VLT

SPONSOR: Campbell

STATUS: House Engrossed

PREPARED BY: Ben Murphy

Description

The bill would implement a highway safety fee sufficient to fund 110% of the Department of Public Safety (DPS) Highway Patrol budget less any unencumbered balance in the Highway Patrol Fund that exceeds 10% of the prior year deposit. It also requires the Director of the Department of Transportation (ADOT) to determine the percentage by which the value of an alternative fuel vehicle purchased before January 1, 2020 is calculated for vehicle license tax (VLT) purposes. For alternative fuel vehicles purchased after January 1, 2020, the bill sets the value percentage for VLT calculation at 30% for vehicles under 10,000 pounds and eliminates the alternative fuel vehicle VLT rate for vehicles over 10,000 pounds.

Estimated Impact

The bill's new highway safety fee is estimated to increase revenue to the Highway Patrol Fund by \$148.9 million yearly.

The bill would presumably result in the reduction of other current revenue sources for the Highway Patrol budget. For example, \$83.7 million of the Highway User Revenue Fund (HURF) is currently expended for the state Highway Patrol. While the bill does not require that HURF no longer be used, the intent appears to be to free up this amount of funds for its statutory purposes.

Additionally, modifying the alternative fuel VLT classification is estimated to result in the following ranges of yearly revenue impacts, depending on the percentage set by the ADOT director: a \$381,100 to \$2.2 million increase to the General Fund, a \$767,200 to \$4.3 million increase to the State Highway Fund (SHF) and a \$2.4 million to \$13.4 million increase to local government distributions. These yearly impacts would first apply in FY 2021.

ADOT has not provided an estimate of the bill's impact.

Analysis

Highway Safety Fee

The DPS Highway Patrol FY 2018 budget is \$135.4 million. Under the bill, that budget level would necessitate a deposit of \$148.9 million. The unencumbered balance of the Highway Patrol Fund at the end of FY 2018 is projected to be \$5.9 million, which is not in excess of 10% of the hypothetical deposit for FY 2018; therefore, the highway safety fee would need to generate all \$148.9 million.

To fully fund the \$148.9 million in FY 2019, owners of each of the 8.3 million registered vehicles in Arizona in FY 2018 would pay a highway safety fee of \$18.06.

DPS's FY 2018 Highway Patrol budget includes \$83.7 million from Highway User Revenue Fund (HURF), \$16.0 Highway Patrol Fund, \$14.2 million other appropriated funds and \$21.5 non-appropriated funds. As noted above, the bill does not specify whether these monies would continue to be used for Highway Patrol or be reallocated for other purposes.

Alternative Fuel VLT Value Modification

The current alternative fuel VLT rate taxes each \$100 of value at \$4, where the value of the vehicle is 1% of its base retail price, depreciating by 15% for each 12-month period following the initial 12-month period. Instead of the 1% in statute,

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the bill directs the ADOT director to set the percentage for all alternative fuel vehicles purchased before January 1, 2020. A statement of legislative intent stipulates that the ADOT director set the value of an alternative fuel vehicle at no more than 10% of the vehicle's base retail price.

The 44,244 alternative fuel vehicles in Arizona each pay an average VLT of \$41. In FY 2021, those 44,244 vehicles, which were purchased before January 1, 2020, would be renewing their registration. Of those vehicles, the average VLT paid per vehicle under the bill could range from its current average per vehicle of \$41 for a total of \$1.8 million, to a maximum average per vehicle of \$410 for a total of \$18.1 million, in the case that the ADOT director sets the value percentage at its maximum of 10%.

The JLBC Staff estimates that approximately 2,902 alternative fuel vehicles are initially registered each year (44,244 alternative fuel vehicles in FY 2017 less 41,342 alternative fuel vehicles in FY 2016). Approximately 98% of alternative fuel vehicles are under 10,000 pounds while 2% are over 10,000 pounds, which would translate to the 2,902 initially registered vehicles being split about 2,857 under 10,000 pounds and 45 over 10,000 pounds. For the first full year of the bill's impact, FY 2021, the 2,857 lighter vehicles being initially registered would pay the increased alternative fuel rate where the value is calculated at 30% of base retail price; this would mean an average 30 times higher than the current average of \$41, for an average of \$1,230 per vehicle and a total of \$3.5 million. The 45 heavier vehicles would pay the standard VLT rate; this would mean an average of \$60 (the estimated average VLT paid by vehicles over 10,000 pounds, which is fairly low due to permanent registration of trailers) and a total of \$2,700.

Per statute, VLT revenues from alternative fuel vehicles are subject to a separate distribution formula from standard vehicles. That alternative distribution effectively sends revenues 33% to counties, 32% to cities, 22% to SHF, 11% to the General Fund, and 3% to controlled access. The standard VLT distribution formula effectively sends revenues 39% to counties, 38% to cities, 19% to the SHF, and 3% to controlled access. The results of the increases in revenue and shift to the standard distribution for alternative fuel vehicles over 10,000 pounds are summarized in *Table 1* below.

Table 1

Impact of HB 2166 on Yearly Revenues in First Full Fiscal Year (FY 2021)

	1% of Base Retail			5% of Base Retail		10% of Base Retail	
	<u>Current</u>	<u>HB 2166</u>	<u>Change</u>	<u>HB 2166</u>	<u>Change</u>	<u>HB 2166</u>	<u>Change</u>
General Fund	\$ 197,000	\$ 578,100	\$ 381,100	\$ 1,365,400	\$ 1,168,400	\$ 2,349,500	\$ 2,152,500
State Highway Fund	396,300	1,163,500	767,200	2,747,300	2,351,000	4,727,000	4,330,700
Cities & Towns	579,500	1,701,800	1,122,300	4,018,000	3,438,500	6,913,300	6,333,800
Counties	590,200	1,733,000	1,142,800	4,091,600	3,501,400	7,039,900	6,449,700
Controlled Access	<u>52,600</u>	<u>154,400</u>	<u>101,800</u>	<u>364,500</u>	<u>311,900</u>	<u>627,200</u>	<u>574,600</u>
Total	\$1,815,600	\$5,330,800	\$3,515,200	\$12,586,800	\$10,771,200	\$21,656,900	\$19,841,300

In future fiscal years beyond FY 2021, the amount paid by the 44,244 alternative fuel vehicles purchased before January 1, 2020, which could range from \$1.8 million to \$18.1 million, would depreciate by 15%. Additionally, another 2,902 of new initially registered vehicles would pay \$3.5 million. On a yearly basis, the amount of alternative fuel vehicle VLT collected pursuant to the current alternative fuel vehicle rate would decrease by 15% [or \$(294,800) to \$(3.0) million in FY 2022], while the amount collected from new alternative fuel vehicles would increase by about \$3.5 million.

Local Government Impact

As described by *Table 1*, the shift from alternative VLT distribution to standard VLT distribution, combined with the increase in revenues due to the shift from alternative fuel VLT rate to a standard VLT rate, results in a range of increases from \$1.1 million to \$6.3 million to cities and towns, \$1.1 million to \$6.5 million to counties, and \$101,800 to \$574,600 to controlled access.