

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6422

BILL NUMBER: HB 1286

NOTE PREPARED: Dec 15, 2012

BILL AMENDED:

SUBJECT: Highway Funding.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill makes the following changes in highway funding:

- (1) Increases the amount of gasoline taxes paid into the Special Distribution Account from \$25 M to \$175 M and increases the amount of gasoline taxes and special fuel taxes, after other required distributions are made, from 25% to 33% into the Highway Road and Street Fund, while lowering the amount of gasoline taxes into the Motor Vehicle Highway Account (MVH).
- (2) Changes the distributions out of the Special Distribution Account that are made to local governments and the Indiana Department of Transportation (INDOT).
- (2) Removes the requirement that one-half of the amount appropriated for the State Police Department be deducted from the MVH before making the statutory allocation to cities, towns, counties, and INDOT.
- (3) Provides that gasoline taxes, special fuel taxes, and motor carrier fuel taxes deposited in the MVH may not be used to pay any part of the operating expenses of the Bureau of Motor Vehicles (BMV).
- (4) Provides that the amount of money that the BMV may receive from the MVHA in a state fiscal year may not exceed the amount of fees collected by the BMV and deposited in the MVHA in that state fiscal year.

Effective Date: July 1, 2013.

Summary of NET State Impact: Using FY 2012 revenue and expense data as a baseline, the bill is estimated to shift \$158.4 M in gross State Police expenses from the MVH to other funds while also eliminating the \$67.9 M of MVH reimbursement from the General Fund, Motor Carrier Regulation Fund, and Toll Road and federal funds in FY 2012. The bill will decrease revenues to the State Highway Fund (INDOT) by an estimated \$31.6 M. Therefore, the total net increase in state expenditures from this bill is \$122.1 M. Ultimately, the funds which will be affected will be determined by future legislative and administrative actions.

Explanation of State Expenditures: Shifting State Police Expenses from MVH to Other Funds: In FY 2012, State Police expenses paid out of the MVH totaled \$158.4 M. Gross State Police expenses are offset by a variety of reimbursements to the MVH, including federal grants, General Fund reimbursements, Motor Carrier Fund reimbursement, Toll Road reimbursement, and Gaming Commission reimbursements. These reimbursements totaled \$67.9 M in FY 2012. Therefore, the net State Police expense paid out of the MVH in FY 2012 was \$90.5 M.

The bill removes the requirement that the MVH pay one-half of the amount appropriated to the State Police Department for its operations. However, it is sometimes the case (depending on funding decisions made in the corresponding biennial budget) that the MVH pays in excess of one-half of the State Police expenses in a given year. In FY 2012, for example, the MVH actually paid closer to 57% of gross State Police expenses for the year. Therefore, this analysis assumes that subsequent budgets will not appropriate any funding from the MVH for State Police expenses. Given that assumption, shifting the responsibility for payment of net State Police expenses from the MVH to other funds would result in \$90.5 M in additional MVH funding available for distribution to INDOT, counties, and cities and towns.

Restriction Placed on BMV Expenses: The bill outlines that future BMV expenses currently paid out of the MVH must be paid for exclusively from BMV revenues (vehicle fees, registration, title and license fees) into the MVH. Essentially, the bill prohibits paying BMV expenses with gasoline tax, special fuel tax, and motor carrier fuel tax revenues into the MVH. In FY 2012, BMV expenses paid by the MVH were \$33.4 M, and BMV revenues for the MVH were \$118.8 M.

Reallocation of Gasoline Tax and Special Fuel Tax Revenues: Currently, the gasoline tax pays for \$25 M of the total \$50 M of revenue into the Special Distribution Account. The bill increases the amount of gas tax to the Special Distribution Account to \$175 M, for a total of \$200 M. This change decreases gas tax revenue available for distribution into the MVH and the Highway Road and Street Fund by an amount totaling \$150 M.

Current law stipulates that after a number of required distributions are made from available gas tax revenue (including the distribution to the Special Distribution Account), the remaining gas tax revenue is combined with remaining special fuels tax revenue, at which point 75% is distributed to the MVH and 25% is distributed to the Highway Road and Street Fund. The bill changes this distribution to 67% to the MVH and 33% to the Highway Road and Street Fund.

Changes to Special Distribution Account Distribution: The bill adjusts the distribution formula to INDOT and local units from the Special Distribution Account. These changes are as follows.

	Current	Proposed	Change
Accelerated #1 - Local distribution using Local Road & Street allocation	30%	27.5%	-2.5%
Accelerated #2 - Local distribution using MVH allocation method	30%	62.5%	32.5%
State Highway Fund Distribution (INDOT)	40%	10%	-30%

The result of the change results in lower funding to INDOT while providing a net increase to the local

“Accelerated” distributions.

Background Information Transportation Funding: Motor Vehicle Highway Account and Distribution: The MVH is funded through a combination of revenue sources including portions of the Gasoline Tax, Special Fuel Tax, Motor Carrier Fuel Use Tax/Surtax, Vehicle Registration, Title Fees, and other smaller sources of revenue. Of the total available for distribution, 53% goes to the State Highway Fund (INDOT), and 47% to local units. The local MVH distribution method is different for counties and cities and towns. For cities and towns, it is entirely population-based. For counties, 5% of the amount available is distributed equally to all counties, 30% is based on county vehicle registration, and 65% is mileage-based. Local MVH distributions are used by counties, cities, and towns for the expenses of highway and street departments, construction, maintenance, and reconstruction cost of roads, and equipment purchases. Cities and towns may use a portion of their distribution for public safety expenditures.

Motor Vehicle Highway Account Expenses: The Auditor of State each month makes MVH distributions to INDOT, counties, and cities and towns. Each month, a variety of “off the top” expenses are paid out of the MVH by the Auditor of State prior to making the distributions to INDOT, counties, and cities and towns. According to current law, these include one-half of the amount appropriated for the State Police, traffic safety program expenses, as well as expenses incurred in the collection of MVH revenues. Specifically, these collection expenses include the Department of State Revenue fuel tax collection expenses, BMV expenses (not including license branch expenses, but including license plate production expense), and various other small related expenses. Gross State Police expenses are offset by a variety of reimbursements including federal grants, existing General Fund reimbursements, Motor Carrier Fund reimbursement, Toll Road reimbursement, and Gaming Commission reimbursements.

Highway Road and Street Fund: The Highway Road and Street Fund receives revenue from a portion of the Gasoline Tax, Special Fuel Tax, and the 1969 increase in vehicle registration and title fees. The Highway Road and Street Fund disburses 55% to the State Highway Fund (INDOT) and 45% to the Local Road and Street Account.

Local Road and Street Account and Distribution: The Local Road and Street (LRS) Account is made up of 45% of the revenues collected out of the Highway Road and Street Fund. The LRS distribution method is a two-step process, the first step using total passenger car registrations to determine the county allocation and the second step using a variety of factors to determine the county/city and town suballocation. The suballocation depends on county population size as well as county road and street mileage.

Special Distribution Account and Accelerated Distribution Formulas: Accelerated #1 is the first of two distribution formulas from the Special Distribution Account. The second formula is known as Accelerated #2. The Special Distribution Account receives the first \$25 M collected from 14 cents of the Gasoline Tax as well as the first \$25 M collected from the Special Fuel Tax. The \$50 M total is split evenly between Accelerated #1 and Accelerated #2. Sixty percent of Accelerated #1 is distributed according to the LRS distribution formula to local units, and 60% of Accelerated #2 is distributed according to the MVH distribution formula to local units.

Explanation of State Revenues:

Summary of NET Local Impact: It is estimated that the bill will increase funding to counties and cities and

towns by \$122.1 M. Local distributions through the MVH/Accelerated #2 will increase by \$83.1 M and local distributions through the LRS/Accelerated #1 will increase by \$39 M.

Explanation of Local Expenditures:

Explanation of Local Revenues: *See Explanation of State Expenditures and Summary of NET Local Impact.*

State Agencies Affected: Indiana State Police, Bureau of Motor Vehicles, Indiana Department of Transportation, Indiana Auditor of State.

Local Agencies Affected: Counties; Cities and Towns.

Information Sources: *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2012*; Dan Bastin, Indiana Auditor of State Office, dbastin@auditor.in.gov; Bill Weinmann, Indiana Department of Transportation, jweinmann@indot.in.gov.

Fiscal Analyst: Stephanie Wells, 232-9866.