



**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**

Fiscal Note On: **HB 777** HLS 15RS 1107  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 5, 2015	8:21 AM	<b>Author:</b> ST. GERMAIN
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Motor Fuels Tax		

TAX/GASOLINE TAX OR +\$700,000,000 SD RV See Note Page 1 of 1  
 Increases the state excise tax on gasoline, diesel, and special fuels for ten years

Levies an additional tax on each gallon of motor fuels from July 1, 2015 to June 30, 2025. The specific tax rate increase imposed each fiscal year shall be determined by the Department of Revenue by June 1 of 2015 and then by May 1 of each subsequent year, based on the average of a sample of Louisiana retailers on the last day of the month of the preceding six-month period ending April 30th. The Department and the Legislative Auditor are to develop the necessary methodology. If the average price is less than \$3/gallon, the tax rate increase is 25¢/gallon; between \$3/gallon and \$4/gallon, the tax rate increase is 15¢/gallon; and, above \$4/gallon, the tax rate increase is 10¢/gallon.

Effective upon governor's signature.

<b>EXPENDITURES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$700,000,000	INCREASE	INCREASE	INCREASE	INCREASE	<b>\$700,000,000</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$700,000,000</b>					<b>\$700,000,000</b>

**EXPENDITURE EXPLANATION**

The Department of Revenue and the Legislative Auditor would both incur costs to carry out the bill in the later part of the current fiscal year, and the Revenue Department would have costs each fiscal year. These costs are typically several thousands of dollars for changes such as this bill.

**REVENUE EXPLANATION**

The bill intends to increase motor fuel taxes beginning July 1, 2015 of at least 10¢/gallon, the minimum rate increase in the bill. While the bill calls for an average price specific to Louisiana, and idea of the initial tax rate increase can be obtained by looking at average monthly prices in the country as a whole as reported by the U.S. Department of Energy, Energy Information Administration (EIA). That average price for the six-month period ending April 2015 was \$2.54/gallon, well below the threshold for the 25¢/gallon tax rate increase. If there were no consumer behavioral response at all, a 25¢/gallon tax increase would be expected to generate some \$767 million in FY16. Although motor fuel consumption is fairly unresponsive to price changes in the short-run and it is currently a low price environment for motor fuels prices, this is a substantial tax rate increase that would increase that average price by nearly 10%. In addition, the new total tax rate (45¢/gallon) would place the Louisiana tax substantially higher than all three of the surrounding states (18¢ in Mississippi, 22¢ in Arkansas, 20¢ in Texas). This is likely to result in a shift in buying locations to the extent it is convenient to do so, and result in a smaller revenue gain than the simple average yield calculation would suggest.

Typical estimates of the short-run responsiveness of gasoline consumption to price changes are about a 2.6% consumption drop for a 10% price hike. In the long-term of a year or more the responsiveness is greater, around 6% - 7% drop for a 10% permanent price hike. However, the responsiveness to a price increase in a single state, not accompanied by comparable increases in surrounding states, is very likely greater than these estimates in both the short-run and long-run. Utilizing the long-run estimates as a proxy for that likely greater short-run responsiveness results in an estimate of FY16 revenue gain of as much as \$700 million. As the tax rate increase will be recalculated for each fiscal year, no specific estimates beyond FY16 are made, but even at the lowest rate increase of 10¢/gallon, it is possible for the revenue gain to be some \$275 million per year.

These additional motor fuels tax receipts would flow into the transportation Trust Fund.

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| Senate   | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}                    |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}                  |                            |       | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}                 |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} |                            |       | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

**John D. Carpenter**  
 Legislative Fiscal Officer