



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

Fiscal Note On: **HB 632** HLS 17RS 776  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 14, 2017 4:47 PM	<b>Author:</b> CARTER, S.
<b>Dept./Agy.:</b> DOTD, REVENUE	<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> TAX/GASOLINE TAX	

TAX/GASOLINE TAX OR +\$539,300,000 SD RV See Note Page 1 of 1

Creates an additional tax on motor fuels and requires the tax on gasoline, diesel fuels, and special fuels to be adjusted annually in accordance with the Consumer Price Index  
Current law imposes a tax of \$0.20 per gallon or gallon-equivalent on purchases of gasoline, diesel, and special fuels, and dedicates the avails of the tax to the Transportation Trust Fund (TTF).

Proposed law imposes an additional tax of \$0.17 per net gallon or gallon-equivalent on all gasoline, diesel, or special fuel sold, used, or consumed in the state of Louisiana. Beginning in FY20, the tax would be adjusted annually in accordance with the Consumer Price Index (CPI). The bill directs the avails of the tax to the TTF, and requires at least 50% of the proceeds to be used for certain Dept. of Transportation and Development (DOTD) mega-projects. It prohibits DOTD from using the funds for administrative or operational costs. It also requires DOTD to provide an updated project status report and priority list.

Effective July 1, 2017.

EXPENDITURES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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>						

REVENUES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$539,300,000	\$551,600,000	\$567,800,000	\$608,500,000	\$645,700,000	<b>\$2,912,900,000</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>\$539,300,000</b>	<b>\$551,600,000</b>	<b>\$567,800,000</b>	<b>\$608,500,000</b>	<b>\$645,700,000</b>	<b>\$2,912,900,000</b>

**EXPENDITURE EXPLANATION**

Proposed law directs no less than 50% of the funds raised by proposed law to be used on DOTD Priority A or B mega-projects. This implies an annual minimum of \$270 million in additional projects for which DOTD would be responsible for planning and oversight. The bill also specifies that the avails of the tax shall not be used for administrative or operational costs. LFO assumes that the avails of this tax will be spent within HB2 appropriations, which will also include funding for the additional expenditures associated with the associated mega-projects.

**REVENUE EXPLANATION**

Proposed law imposes an additional \$0.17 tax per gallon or gallon-equivalent on gasoline, diesel, and special fuels, and provides that the levy will be adjusted annually based upon the CPI beginning in FY20.

The academic and applied economic literature generally agree on a very low price-elasticity of demand in purchases of gasoline and diesel fuel, which means that a given price change will not cause even a proportionate response in the amount purchased. The estimated value for this parameter for Louisiana households is -0.013, based on historical consumption and prices. Recently-published academic studies and estimates by the U.S. Energy Information Administration (EIA) have produced very similar results for Louisiana and nationwide.

An elasticity of -0.013 implies that for a 1% change in the amount purchased, a 77% price change would be required.

To estimate the baseline growth of motor fuels consumption and the projected consumer response to the tax increase, forecasts from EIA and Moody's Analytics are used for motor fuel pump prices, and REC forecasts from January 2018 are used for consumption projections based on current law. The consumer response is then estimated, based on a price increase of \$0.17 per gallon and using the elasticity figure described above.

The estimated resulting change in total purchases is a FY18 reduction from approximately \$3.179 billion to \$3.176 billion in Louisiana purchases. This offsets a very small portion of the revenue gain from the increased tax rate. The net impact of proposed law will be an increase of approximately \$539 million to dedicated funds in FY18.

The tax rate imposed on all motor fuels taxes will be adjusted annually based on CPI inflation, beginning on January 1, 2020. CPI forecasts produced by Moody's Analytics are used to project the adjustments to the tax rates beginning halfway through FY20. These projected tax rate adjustments result in larger annual increases in revenues beginning in FY20.

<p><u>Senate</u></p> <p><input type="checkbox"/> 13.5.1 &gt;= \$100,000 Annual Fiscal Cost {S&amp;H}</p> <p><input checked="" type="checkbox"/> 13.5.2 &gt;= \$500,000 Annual Tax or Fee Change {S&amp;H}</p>	<p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) &gt;= \$100,000 SGF Fiscal Cost {H &amp; S}</p> <p><input type="checkbox"/> 6.8(G) &gt;= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p>	<p></p> <p><b>Gregory V. Albrecht</b> Chief Economist</p>
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