

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

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Dept./Agy.: DOTD, REVENUE	Analyst: Benjamin Vincent
Subject: TAX/GASOLINE TAX	

TAX/GASOLINE TAX EG +\$551,600,000 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 on January 1, 2021, the tax would be adjusted every four years in accordance with the four-year average of the Consumer Price Index (CPI), with a maximum of 3% per adjustment. The bill directs the avails of the tax to specific uses, and prohibits certain uses of the avails of the tax. It also requires DOTD to provide an updated transportation project status report and priority list.

Effective January 1, 2018, pending the adoption of a constitutional amendment providing certain restrictions on the uses of TTF funds, the enactment of HB 119 and HB 598, and the adoption of HCR 4, all of this session.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$269,700,000	\$551,600,000	\$552,300,000	\$571,900,000	\$606,700,000	\$2,552,200,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$269,700,000	\$551,600,000	\$552,300,000	\$571,900,000	\$606,700,000	\$2,552,200,000

EXPENDITURE EXPLANATION

Proposed law allocates revenues raised to numerous types of projects. This implies approximately \$550 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 employee wages or benefits. LFO assumes that the avails of this tax will be spent within HB2 appropriations, and that any additional DOTD expenses would be financed with state general funds.

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 every four years based upon the four-year average of the CPI beginning in FY21.

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 \$269 million to dedicated funds in FY18, and \$552 million in FY19.

The tax rate imposed on all motor fuels taxes will be adjusted every four years based on the four-year average of CPI inflation, beginning on January 1, 2021. CPI forecasts produced by Moody's Analytics are used to project the adjustments to the tax rates beginning halfway through FY21. As all projected annual CPI increases are under 3% during the forecast horizon of this note, the 3% maximum adjustment is not binding. The projected tax rate adjustment results in larger annual increases in revenues in FY21 and FY22.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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