

Transportation Funding Potential Options

House Committee on Transportation

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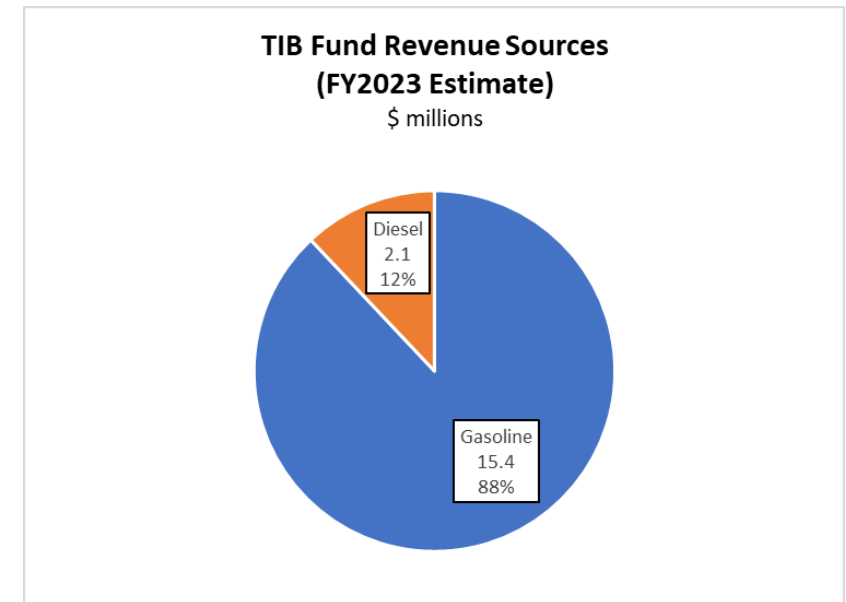
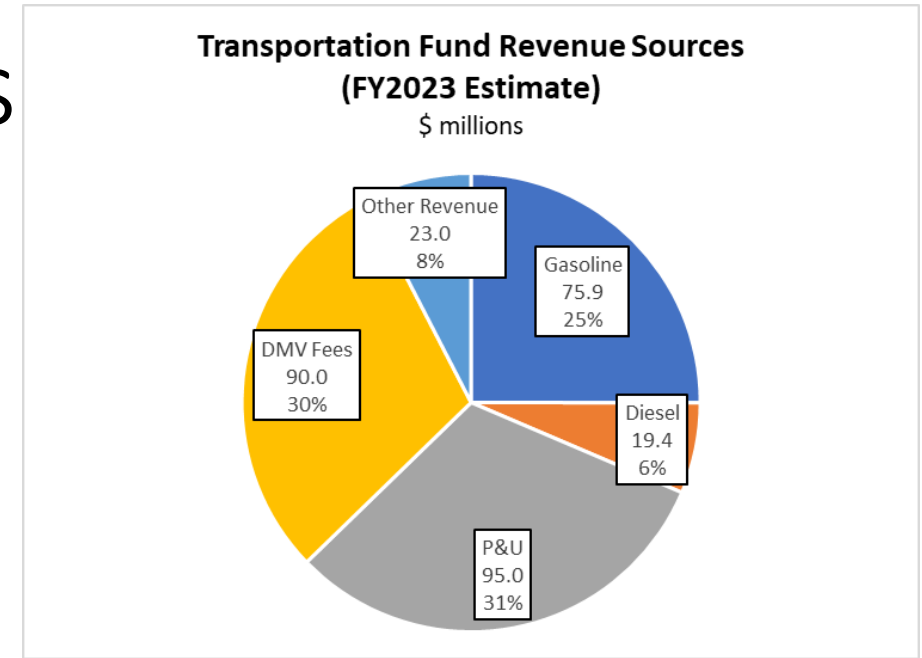
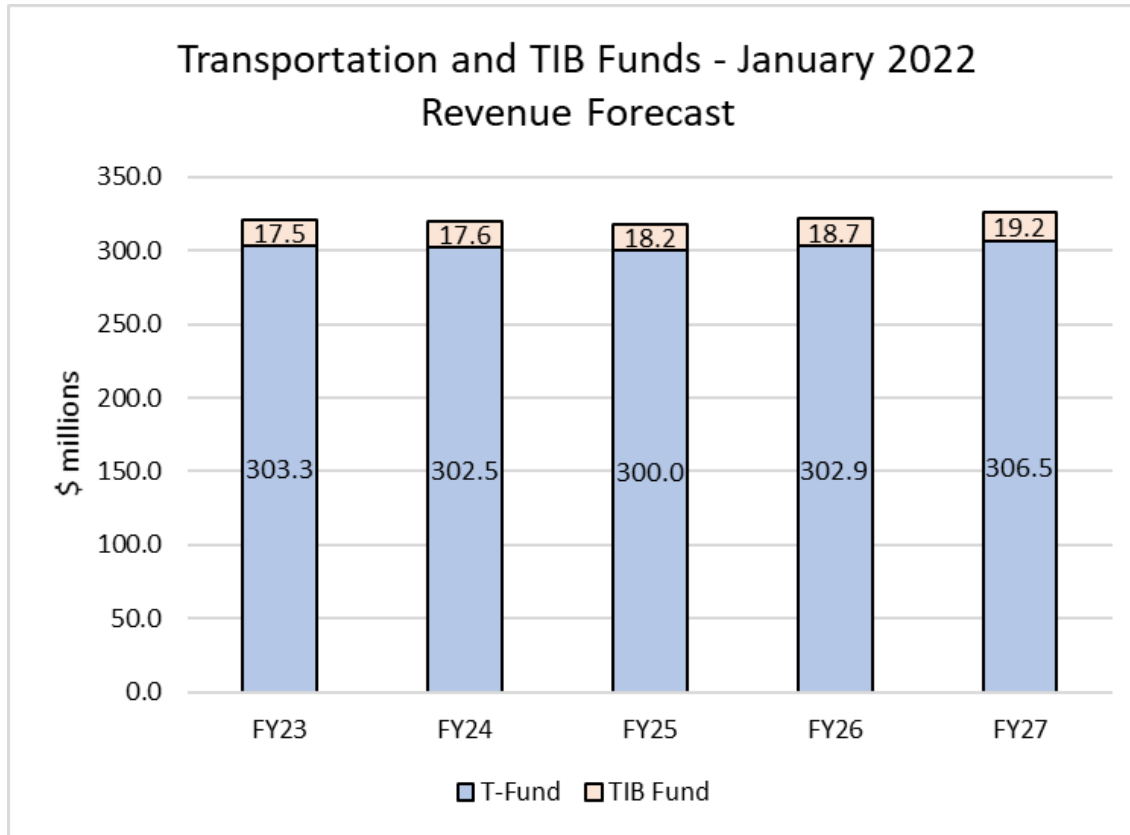
February 24, 2022



Vermont's Transportation Funds

2 funds – Transportation Fund and TIB Fund.

- T-Fund most flexible
- TIB restricted to debt service and road/bridge/building construction projects with long remaining useful life. [19 V.S.A. § 11f](#)



Revenue Sources - Gasoline

- Two Components of TF Revenue:
 - Per Gallon Tax** (13.1 cents total, with 11.345 cents to TF)
 - 4% Assessment** on average tax-adjusted retail price during prior quarter, with a 13.4 cent/gallon minimum and 18 cent/gallon maximum. The “minimum” applies when average retail prices <\$3.87/gallon, and the “maximum” applies when prices >\$5.08/gallon.
- Additionally, there is a 2% assessment on average tax-adjusted retail price, with a 3.96 cent/gallon minimum, which goes to the TIB Fund. The “minimum” applies when average retail prices <\$2.48/gallon.
- January 2022 forecast implies 307,437,880 taxable gasoline gallons sold in FY2023.
 - \$0.01 increase = \$3,100,000**
- Gas taxes are relatively easy to administer and gasoline will be part of the transportation landscape for the foreseeable future – but consumption has trended downward as fuel economy has increased. Expect a near-term increase in consumption from FY20-21 lows from pandemic recovery but continuation of the overall trend toward less consumption.

Gasoline	Rate	FY23 Est. Rev
State Levies		
T-Fund	\$0.11345/gallon	\$34,900,000
DUI Fund	\$0.0038/gallon	\$1,200,000
Fish & Wildlife Fund	\$0.00375/gallon	\$1,200,000
Petroleum Clean-Up Fund	\$0.01/gallon	\$3,100,000
State Per Gallon	\$0.131/gallon	\$40,300,000
State 4% TF Assessment	\$0.134/gallon	\$41,000,000
State 2% TIB Assessment	\$0.0564/gallon	\$15,400,000
Federal Tax	\$0.184/gallon	\$56,600,000
TOTAL TAX	\$0.5054/gallon	



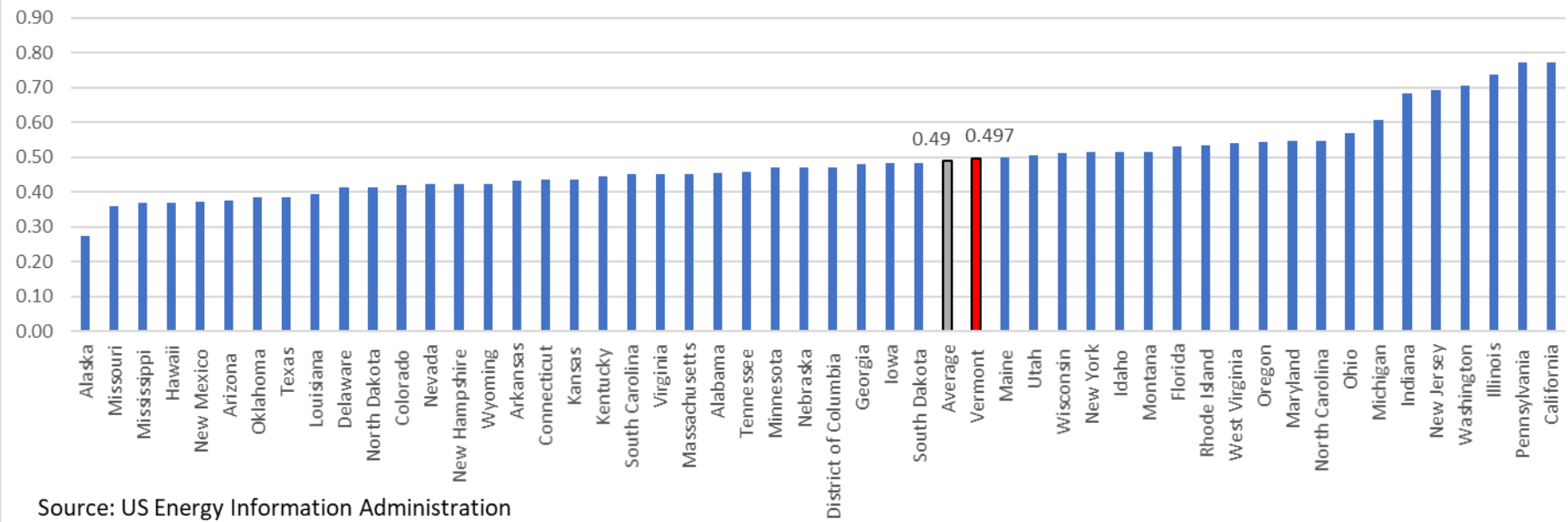
Revenue Sources - Diesel

- State taxes: 32 cents per gallon
 - 28 cents per gallon to T-Fund
 - 3 cents per gallon to TIB Fund
 - 1 cent per gallon to Petroleum Clean-Up Fund
- January 2022 forecast implies 69,285,714 taxable diesel gallons sold in FY2023.
- **\$0.01 increase = \$700,000**

Diesel	Rate	FY23 Est. Rev
State Levies		
T-Fund	\$0.28/gallon	\$19,400,000
TIB Fund	\$0.03/gallon	\$2,100,000
Petroleum Clean-Up Fund	\$0.01/gallon	\$700,000
Total State	\$0.32/gallon	\$22,200,000
Federal Tax	\$0.244/gallon	\$16,900,000
TOTAL TAX	\$0.564/gallon	

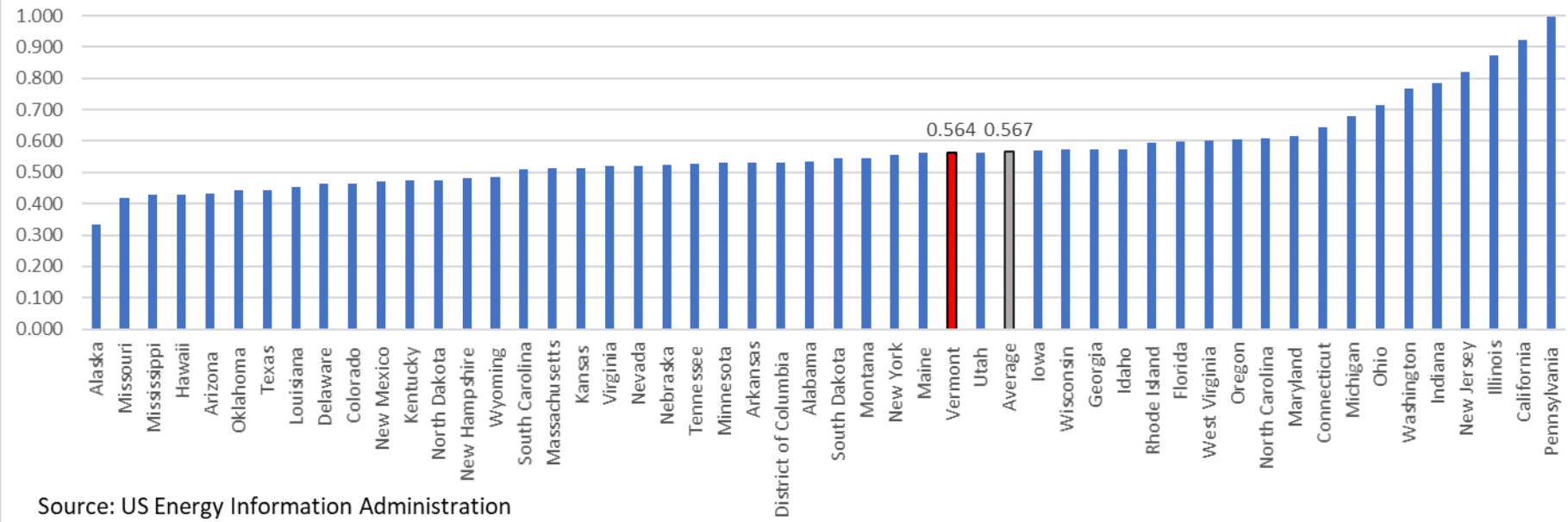


Gasoline Taxes (State plus Federal) by State - July 2021



Source: US Energy Information Administration

Diesel Taxes (State plus Federal) by State - July 2021



Source: US Energy Information Administration



Revenue Sources – Purchase & Use Tax

- 6% on the market value (less trade-in allowances) on motor vehicle purchases, paid at the time of initial registration or title change.
 - Maximum of \$2,075 (6% of \$34,584)
 - Higher the vehicle sales price = more likely to have a trade-in allowance offsetting the taxable purchase price
- 9% tax on short-term vehicle rentals originating in VT (approx. \$4.5M/year).
 - 1% increase = \$500,000
- Total P&U revenue is split 2/3 Transportation Fund, 1/3 Education Fund
 - FY2023 estimate: \$95.0 million TF, \$47.5 million EF
 - 1% increase to 6% rate = \$23 million
 - 1% shift of total P&U revenue from EF to TF = \$23.75 million
- Strong collections recently:
 - Stimulus money/consumer purchasing power increasing demand
 - Higher prices for new and used vehicles
 - Inventory challenges impacting future collections??



Revenue Sources – DMV Fees

DMV Fees are established by the Legislature in Fee Bills.

- Vehicle Registration Fees - \$62.2 million
- Driver's Licenses - \$14.1 million
- Commercial Driver's Fees - \$0.4 million
- International Registration Plan - \$10.9 million

FY2021 DMV Fee Total: \$87.6 million

[Current License Fees](#)

[Current Registration Fees](#)



Revenue Sources – Miscellaneous Revenue

Small amounts of money from many different sources. Some rates are set by fee bills, and other revenues come from other statutory provisions.

Below are sources that generated \$1+ million in FY 2021:

- Title certificates - \$6.0 million
- Oversize permits - \$4.0 million
- Inspection sticker fees - \$3.3 million
- Civil traffic fines - \$2.1 million
- Railroads - \$1.4 million

FY2021 Miscellaneous Revenue Total: \$20.5 million



Ideas?

The 2022 [Executive Branch Fee Report](#) suggests that approx. \$14M of additional revenue could be generated by increasing certain fees to inflation.....but this estimate only reflects the fees that generate \$1M+ annually.

Agency/ Department	Service or Product Provided, or Regulatory Function Performed	Effective Date of Current Fee	Current Fee	Current Fee w/Inflation	Receipts* w/Current Fee	Receipts* w/Fee tied to Inflation	Delta
AOT/DMV	Enhanced Driver's License	7/1/2016	30	34	1,122,660	1,273,592	150,932
AOT/DMV	Certified copy three-year operating record	7/1/2016	14	16	4,007,654	4,546,450	538,796
AOT/DMV	Transfer Registration - Motor Vehicle	7/1/2016	25	28	1,005,975	1,141,220	135,245
AOT/DMV	Pleasure Car - One Year (Includes electric-powered)	7/1/2016	74	84	27,733,128	31,461,618	3,728,490
AOT/DMV	Pleasure Car - Two Year (Includes electric-powered)	7/1/2016	136	154	11,072,304	12,560,884	1,488,580
AOT/DMV	Motorcycle Registration	7/1/2016	46	52	1,414,868	1,605,085	190,217
AOT/DMV	Truck Fees - Aggregate	7/1/2016	207	235	28,716,145	32,571,045	3,854,900
AOT/DMV	Trailer Registration - 1 Year (1,500 lbs or more)	7/1/2016	52	59	2,597,348	2,946,540	349,192
AOT/DMV	Operator's License - 4 Year	7/1/2016	51	58	5,593,272	6,345,241	751,969
AOT/DMV	Operator's License - 2 Year	7/1/2016	32	36	1,477,696	1,676,360	198,664
AOT/DMV	Inspection Sticker Fees	7/1/2016	6	7	3,334,764	3,783,095	448,331
AOT/DMV	Special Excess Weight Permit - 99,000 lbs permit	7/1/2016	560	635	2,306,080	2,616,113	310,033
AOT/DMV	Title - Motor Vehicle (including exempt)	7/1/2016	35	40	4,731,615	5,367,742	636,127
AOT/DMV	IRP payments from other entities	7/1/2016	1	1	5,659,838	6,420,756	760,918
AOT/DMV	Purchase & Use Tax - Maximum (Ed Fund portion)	7/1/2016	2075	2,354	2,587,522	2,935,393	347,871
AOT/DMV	Purchase & Use Tax - Maximum (Tfund portion)	7/1/2016	2075	2,354	5,175,053	5,870,796	695,743

* "Receipts" means the most recent projected receipt information provided by departments in their latest fee report.
 ** For the purposes of determining a current fee effective date the applicable legislative session was used rather than the actual effective date.
 *** The current fee for these two rows was determined by dividing the receipts provided in their fee report by the number of units processed in the same fee report.

Excerpt from Executive Branch Fee Report



Ideas?

- **Fees** could be re-evaluated to ensure that they fully cover the cost of the provided service or activity and keep pace with inflation. Most recent executive branch fee report suggests approx. \$14 million could be realized by increasing fees to inflation.
- **Motor fuel taxes.** Although gasoline consumption has declined, it will be part of the transportation landscape for the foreseeable future. Incremental increases in the tax rate could help maintain purchasing power near term while also creating a greater incentive to use less. But prices are currently high and motor fuel taxes often raise equity concerns.
- **P&U Tax.** The split between EF/TF could be changed. Or, the rates could be changed. Could a higher rate be charged for internal combustion engine vehicles and lower rates for EV's or hybrids to further incentivize adoption? Or, could a rate be based on fuel economy? Modeling possible impacts of creativity may be difficult due to data/system limitations.
- **Revenue Transfers from Other Funds.** There is no rule stipulating that only T-Fund can be used to pay for transportation...and there is no rule that transportation-related climate investments must be funded with T-Fund dollars. Could other state funds pay for transportation-related expenses, or could additional revenue sources be added to the T-Fund?
- **Registration or Charging Fees for EV's** could be calculated at a rate that approximates the foregone annual gas tax revenue. Unlikely to raise significant funding near-term but will increase over time with higher EV adoption rates.



Fiscal Facts

Major Tax Rates

Preliminary Estimates Only - Subject to Revision (\$ in millions)

Tax Source	FY 2023 Revenue (Forecast)	Tax Rate	Unit of Tax	FY23 New Revenue[1]
<i>Increase Existing Taxes</i>				
Sales & Use	556.1	6%	@1%	92.7
Meals & Rooms	206.2	9% & 10%	@1%	20.6
Cigarette	75.6	\$3.08	per penny	0.2
Bank Franchise	15.2	0.010%	.0001% increase	0.1
Insurance Premiums	60.6	various	various	N/A
Gasoline Tax	34.9	0.121	per penny	3.1
Gasoline Assessment	41.0	4%*	@1%	0.0*
Diesel Tax	19.4	0.28	per penny	0.7
Purchase & Use	142.5	6%	@1%	23.8
Personal Income Tax	1,102.6	various	1% surcharge	11.0
Corporate Income Tax	187.4	various	1% surcharge	1.9
Property Transfer Tax	77.3	various	1% surcharge	0.8

[1] These are simple yield rates and do not include price elasticity. Elasticity is the decline or increase in demand in response to the price change. This will slightly reduce the new tax revenue for most increases. Elasticity will depend upon many conditions specific to a tax source, such as tax rates in competitive jurisdictions, the size of the tax change, the prior tax level, and the nature of the economic good being taxed. Most effective tax yields fall between about 90% to 100% of an estimated simple yield.

Footnote* The gasoline assessment is 4% of the retail price excluding all taxes and fees subject to a floor of \$0.134 per gallon. The January 2022 Consensus Forecast projects that gasoline prices throughout FY-2022 will remain below the level that would generate any additional revenue by increasing the assessment rate from 4% to 5%.

See page 9:

<https://ljfo.vermont.gov/assets/Publications/2022-Fiscal-Facts-Booklet/24a546bea2/FINAL-2022-Fiscal-Facts-Booklet.pdf>



Fiscal Facts

Sales Tax

See pages 10-11:

<https://ljfo.vermont.gov/assets/Publications/2022-Fiscal-Facts-Booklet/24a546bea2/FINAL-2022-Fiscal-Facts-Booklet.pdf>

Potential Revenue Sources and Options - continued

Preliminary Estimates Only - Subject to Revision

Sales Tax = 6%	Change	FY23 Annual Revenue (\$ Millions)
<i>Expand Sales Tax Base</i>		
Groceries	6%	93.2
Clothing and Footwear (adjusted for online sales)	6%	35.0
Candy	6%	4.0
<i>Apply Sales Tax to Services Limited to Consumer Purchases (partial list only)</i>		
<u>Professional, scientific, & technical services</u>		
Legal services*	6%	19.2
Accounting, tax preparation, & payroll services	6%	11.3
Architectural, engineering, & related services	6%	30.6
Computer systems design & related services	6%	30.7
Management, scientific, & consulting services	6%	24.5
Advertising & related services	6%	4.6
Photographic services	6%	0.4
Veterinary services	6%	8.4
<u>Administrative & support services</u>		
Office administrative services	6%	2.3
Employment services	6%	5.3
Business support services	6%	1.6
Travel arrangement & reservation services	6%	7.5
Investigation & security services	6%	3.1
Services to buildings & dwellings	6%	17.3
Other support services	6%	3.4
Waste collection	6%	5.8
<u>Finance, Insurance and Real Estate</u>		
Portfolio Management	6%	14.6
Investment Advice	6%	0.9
Office of real estate agents and brokers	6%	8.8
Real estate property managers	6%	6.7
Office of real estate appraisers	6%	0.5

Potential Revenue Sources and Options

(continued)

Preliminary Estimates Only - Subject to Revision

Sales Tax = 6%	Change	FY22 Annual Revenue (\$ Millions)
<i>Apply Sales Tax to Services (partial list only)</i>		
<u>Health care & social assistance (only those subject to federal income tax)</u>		
Offices of physicians	6%	39.6
Offices of dentists	6%	18.3
Offices of other health practitioners	6%	12.6
Offices of chiropractors	6%	1.7
Offices of optometrists	6%	2.7
Offices of mental health specialists	6%	1.1
Offices of specialty therapists	6%	5.4
Offices of podiatrists	6%	0.1
Offices of all other misc. health practitioners	6%	1.7
Outpatient Care Centers	6%	3.6
<u>Other Services</u>		
Motor vehicle repair and maintenance	6%	19.6
Electronic equipment repair and maintenance	6%	0.7
Comm and Ind. machinery repair & maintenance	6%	1.5
Personal/household goods repair & maintenance	6%	0.7
Personal care services	6%	4.0
Death care services	6%	2.0
Landscaping services	6%	11.7
Dry cleaning and laundry services	6%	1.0

