

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB336**

**Bill Subtitle: TO PROVIDE ADDITIONAL REVENUE FOR THE MAINTENANCE AND REPAIR OF HIGHWAYS, STREETS, AND BRIDGES IN THE STATE.**

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### Basic Change :

#### **Sponsors:**

**Senators: Rice, Bledsoe, Bond, Cheatham, Chesterfield, Cooper, Eads, Elliott, English, Flippo, Flowers, Hendren, Ingram, Irvin, B. Johnson, Leding, Pitsch, Rapert, Stubblefield, Sturch, and Wallace**

**Representatives: Holcomb, Shepherd, Berry, Breaux, Brown, Christiansen, Coleman, Crawford, M. Davis, Hollowell, Kelly, Lowery, Lynch, McNair, Richmond, Rye, Slape, B. Smith, Wardlaw, and Wooten**

SB336 provides additional revenue for the maintenance and repair of Arkansas highways, streets and bridges through the levy of a wholesale sales tax on fuels, additional vehicle registration fees on electric and hybrid vehicles, and a transfer of a designated portion of tax revenues to be received from casino gaming and other funds as necessary.

**Wholesale Sales Tax on Gasoline and Diesel Fuel** --- SB336 will levy a new wholesale sales tax on gasoline and diesel fuels. The new tax will be in addition to the existing taxes on gasoline and diesel and will be calculated annually based on the average wholesale price of the fuels for the previous calendar year. For purposes of the calculation, the "average wholesale selling price" means the United States Gulf Coast average wholesale selling price of the fuels as published in an index by the Energy Information Administration within the United States Department of Energy.

Each year, on or before August 1, the Department of Finance and Administration (DFA) will determine the rate of the wholesale sales tax by multiplying the twelve-month average wholesale selling prices of gasoline and diesel fuel during the previous calendar year by the new wholesale sales tax rates. The tax is levied at one and six-tenths percent (1.6%) for gasoline and two and nine-tenths percent (2.9%) for diesel. DFA will convert the wholesale sales tax to a cent-per-gallon amount rounded to the nearest one-tenth of one cent (0.1¢).

At the time of each year's tax calculation, if the twelve-month average wholesale selling price is more than the twelve-month average wholesale selling price of the previous year, the bill limits an increase in the wholesale sales tax rates to result in no more than a one-tenth of one cent (0.1¢) per gallon tax increase for the year. If the twelve-month average wholesale selling price is less than the previous year's average price, the recalculation will not be made and the tax rates will remain the same for the next year.

The wholesale sales taxes on fuels are special revenues and will be distributed in accordance with § 27-70-206 with: fifteen percent (15%) to the County Aid Fund; fifteen percent (15%) to the Municipal Aid Fund; and seventy percent (70%) to the State Highway and Transportation Department Fund.

The bill requires each city and county that expends revenues received from the wholesale sales tax on fuels to report to DFA on an annual basis: (1) the amount of revenues received under this new tax; (2) the expenditures made from the revenues received; and (3) the projects funded using the revenues received. The Arkansas Department of Transportation will also make an annual report to the Governor

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and the Legislative Council detailing the expenditures of the revenues received and the projects funded.

**Electric and Hybrid Vehicle Registration Fees** --- The bill levies an additional annual registration fee on electric vehicles and hybrid vehicles. An "electric vehicle" is defined as a vehicle that is propelled by an electric motor powered by a battery or other electrical device incorporated into the vehicle; and is not propelled by an internal combustion engine. A "hybrid vehicle" is a vehicle that draws propulsion energy from both an internal combustion engine and an energy storage device.

The additional annual registration fees are levied at two hundred dollars (\$200) for each electric vehicle registered and one hundred dollars (\$100) for each hybrid vehicle. The revenues received will be distributed to the State Highway and Transportation Department Fund.

**Casino Gaming Tax Revenues** --- The proposal provides that revenues received from casino gaming tax receipts and deposited into the General Revenue Fund Account that exceed thirty-one million two hundred thousand dollars (\$31,200,000) per fiscal year would be held by the State Treasurer in a subaccount to be transferred on the last business day of the fiscal year to the State Highway and Transportation Department Fund. To the extent that the amount in the subaccount to be transferred for highways does not meet or exceed thirty-five million dollars (\$35,000,000) for the fiscal year, additional funds available from the Restricted Reserve Fund or other funds as designated by the Governor will be transferred to meet the thirty-five million dollars (\$35,000,000) minimum annual amount for highways.

The provisions of the bill regarding the deposit of casino revenues and the transfer of Restricted Reserve Funds would be effective 90 days after final adjournment of the 92<sup>nd</sup> General Assembly. The levy of the wholesale sales tax on fuels and the additional registration fees for electric and hybrid vehicles will be effective on the first day of the calendar quarter following the effective date of the Act, which is anticipated to be October 1, 2019.

### Revenue Impact :

#### **FY2020**

\$56,099,718 -- Wholesale Sales Tax on Gasoline and Diesel Fuels

( 8 Months of Tax Deposits only )

70% State Highways --- \$39,269,802

15% Municipal Aid Fund --- \$ 8,414,958

15% County Aid Fund --- \$ 8,414,958

\$1,481,189 -- Additional Electric and Hybrid Vehicle Registration Fees

( 9 Months of Fee Collections only )

[ Estimate based on 2018 DFA electric (802) and hybrid (18,777) motor vehicle registrations.]

\$35,000,000 -- Casino Gaming Revenues and Restricted Reserve Fund Transfers to State Highway and Transportation Department Fund.

[ Estimate based on Gulf Coast Average Prices for 2018 from the Energy Information administration of the United States Department of Energy. Wholesale sales tax cents per gallon equivalent -- Gasoline

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3¢ per gallon; Diesel -- 6¢ per gallon.]

### **FY2021**

\$84,149,577 -- Wholesale Sales Tax on Gasoline and Diesel Fuels

70% State Highways --- \$58,904,703

15% Municipal Aid Fund --- \$12,622,437

15% County Aid Fund --- \$12,622,437

\$1,974,919 -- Additional Electric and Hybrid Vehicle Registration Fees

[ Estimate based on 2018 DFA electric and hybrid motor vehicle registrations.]

\$35,000,000 -- Casino Gaming Revenues and Restricted Reserve Funds Transfers to State Highway and Transportation Department Fund.

[ For purposes of the Impact Statement only, the Gulf Coast Average Prices for 2018 from the Energy Information Administration of the United States Department of Energy is used. Calendar Year 2019 data will be used at the time of the actual calculation of the wholesale sales tax rate in 2020.]

### **Taxpayer Impact :**

An additional wholesale sales tax will be levied upon sales of gasoline and diesel fuels at the wholesale level. Electric and hybrid vehicle owners will pay additional annual registration fees.

### **Resources Required :**

None.

### **Time Required :**

Adequate time is provided.

### **Procedural Changes :**

Update tax rate information for gasoline and diesel fuels and establish internal procedures for the annual updating of the tax rate. Modify motor vehicle registration system to establish additional rates for electric and hybrid motor vehicles. Program Motor Vehicle system to charge the additional fees for the vehicles. Revise Motor Vehicle Procedures Manual and distribute to Revenue Offices.

### **Other Comments :**

Currently, base registration fees are \$17.00, \$25.00 and \$30.00 depending on weight class. SB336 adds an additional registration fee of \$200 for Electric and \$100 for Hybrid vehicles to the current base registration fee.

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### Legal Analysis :

The bill appears to have two typographical errors:

- On Page 2, Line 25 --- The words "Arkansas Constitution" appear to have been unnecessarily repeated.
- On Page 7, Line 34 --- The word "tax" should be added after the words "wholesale sales".