LS 7350
BILL NUMBER: HB 1002
NOTE PREPARED: Feb 9, 2017
BILL AMENDED: Feb 9, 2017

SUBJECT: Transportation Infrastructure Funding.

FIRST AUTHOR: Rep. Soliday
FIRST SPONSOR:
BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

(1) Provides for a one-time fuel tax rate increase using a multiyear index factor based on the last time the particular fuel tax rate was increased and the current fuel tax rate per gallon. (Gasoline tax is currently $0.18, special fuel tax is currently $0.16, and motor carrier surcharge tax is currently $0.11.) The bill limits the one-time increase to $0.10 per gallon. It also provides for an annual rate increase in fuel tax rates based on an annual index factor, but limits the annual rate increase based on an annual index factor to $0.01 per gallon.
(2) Increases alternative fuel decal fees by 50%.
(3) Specifies that the motor carrier fuel surcharge tax must be paid on special fuel that is not an alternative fuel at the time of purchase (the same time the special fuel tax is paid), instead of being entirely paid using a quarterly return. (The surcharge tax applies only to motor fuel used by a carrier in Indiana.)
(4) Establishes a $15 transportation infrastructure improvement fee that applies to the registration of all motor vehicles except motor vehicles with a declared gross weight that exceeds 26,000 pounds. Increases annual registration fees for certain motor vehicles with a declared gross weight that equals or exceeds 26,000 pounds.
(5) Requires a person who registers an electric vehicle to pay a supplemental registration fee of $150 with an increase every five years based on an index factor.
(6) Provides that the gasoline use tax is distributed to highway funds beginning in 2018.
(7) Repeals restrictions on when a tolling project can be undertaken. It also requires the Indiana Department of Transportation (INDOT) to seek a Federal Highway Administration (FHWA) waiver to toll interstate highways.
(8) Imposes other duties on INDOT.
(9) Amends the assessment procedures for motor carrier civil penalties under IC 9-20-18-14.5.
(10) Establishes the weigh-in-motion pilot program.
(11) Makes various changes to the Local Road and Bridge Matching Grant Program.
(12) Allows INDOT to approve certain railroad crossing projects, and authorizes the Indiana Finance Authority (IFA) to finance an approved project subject to a maximum annual debt service limit of $10,000,000.
(13) Annually appropriates $250,000 to INDOT for the Local Technical Assistance Program (LTAP) to develop and maintain a centralized electronic statewide asset management database.
(14) Makes various changes to the transportation funding exchange program between the state and counties and municipalities.
(15) Adds various study requirements.

**Effective Date:** Upon passage; March 23, 2016 (retroactive); June 30, 2017; July 1, 2017.

**Explanation of State Expenditures: Summary:** The tolling feasibility study is expected to increase one-time Indiana Department of Transportation (INDOT) expenditures in FY 2017. The estimated costs for the required study could be between $200,000 and $700,000 and would come from the State Highway Fund.

The bill could also require DOR and the Bureau of Motor Vehicles (BMV) to revise computer software to reflect updated tax rates (DOR) and include new vehicle fees in the bill (BMV). To the extent these software changes increase agency expenditures the funds impacted would be the General Fund (DOR) and the BMV Commission Fund.

The bill could increase state expenditures in future years to finance the repayment of principal and interest on bonds or notes obtained by the IFA for railroad crossing projects.

Increasing the Local Road and Bridge Matching Grant Fund maximum grant could increase annual fund expenditures, depending on the decision of INDOT administrators.

Changes to the federal funds exchange program operated by INDOT could increase State Highway Fund expenditures. Actual expenditure increases would depend on how many local units of government and metropolitan planning organizations (MPOs) are approved for federal funding for road projects and elect to participate in the state program.

The bill also reauthorizes the FIRSST Task Force through the end of CY 2018, which is expected to increase General Fund expenditures between $10,000 and $16,500 per year in FY 2018 and FY 2019.

**Additional Information:**

*Federal Exchange Rate:* Currently, INDOT has discretion on which local projects to approve for participation in the federal funds exchange program. For FFY 2016, local units of government in the state were apportioned approximately $249 M in federal funds for road projects, of which approximately $13.5 M in local federally approved funds were swapped for State Highway Funds at the $0.75-for-$1.00 exchange rate.
Under the bill, INDOT would no longer have discretion to select local projects for participation in the program and would also be required to exchange 100% of the local share with state funding. As a result, an estimated $249 M in State Highway Funds would be set aside for local fund swaps under the bill. The $249 M in set-aside funds does not necessarily represent a state expenditure increase as (1) local units will decide if they want to utilize the state funding swap, (2) local units are required to provide a 20% match of swapped funds, and (3) federal funds swapped for state funds could be utilized for state road projects, with the state required to provide the 20% match required by the Federal Highway Administration.

The maximum estimated State Highway Funds that would be used from the set-aside (after deducting the local match requirement) is approximately $200 M, with the state being required to expend approximately $49 M in State Highway Funds under the match to use the $249 M in federal funds.

**Bond Financing:** The Indiana Finance Authority would be authorized to obtain bonds for railroad crossings until FY 2025. State expenditures could increase by a maximum of $10 M per year in future years to pay down the principal and interest on any bonds and notes secured during that time period for eligible projects. Actual expenditures will depend on the amount of financing secured by the IFA and interest rates on the bonds or notes. Repayment of bonds or notes secured for railroad crossing projects could impact the State Highway Road Construction Improvement Fund.

**State Highway Road Construction Improvement Fund:** The bill expands potential uses of the State Highway Road Construction Improvement Fund (SHRCIF) to also include railroad crossing projects. This change could increase fund expenditures to the extent INDOT administrators elect to use these funds for railroad crossing projects. This fund receives a portion of taxes collected from gasoline and received approximately $62.2 M in revenue for FY 2016.

**Local Road and Bridge Matching Grant Fund:** The bill increases the grant award to local units of government from 100% to 400% of the amount the local government commits to the project. Increasing the maximum grant amount per project could increase annual fund expenditures, depending on the decision of INDOT administrators.

**Bureau of Motor Vehicles:** The BMV would need to update computer systems to track the number of electric vehicles registered in the state for purposes of collecting the $150 electric vehicle fee. These costs would be paid from the BMV Commission Fund. Issuing refunds to individuals who use diesel vehicles for personal use would increase agency workload. Expenses of providing a refund to personal diesel vehicle owners would come from the MVHA, as required in the bill.

**FIRSST Task Force:** The bill extends the funding for the FIRSST Task Force to the end of CY 2018. The Task Force met five times during CY 2016 at a total cost of $10,000, but had an annual budget of $16,500. Depending on the number of meetings held by the Task Force, this provision is expected to increase General Fund expenditures by up to $16,500 per year for FY 2018 and FY 2019.

**INDOT:** Under the bill, INDOT would be charged with (1) applying for a federal waiver to toll portions of interstate, (2) studying transportation funding provided from a tax levied on vehicle miles traveled, (3) establishing state and local metrics to evaluate infrastructure needs, and (4) developing a state and local road and bridge prioritization system. Increases in workload are expected to be accomplished with increased State Highway Fund revenue, if not from existing resources and funding levels.

Additionally, by requiring an outside consulting firm to perform a tolling feasibility study, this bill could
increase INDOT expenditures in FY 2017. The state of Wisconsin recently published a tolling feasibility study (December 2016) that was performed by a third-party vendor. The reported costs for this study were $700,000. INDOT reports the cost of a tolling feasibility study could be between $200,000 and $500,000. Increases in INDOT expenditures for a tolling feasibility study would come from the State Highway Fund.

(Revised) **DOR:** The bill requires the Department of Revenue (DOR) to study gross retail tax collections on special fuel, by September 1, 2017. The DOR could also need to revise computer software for the changes made to sales and use tax and would experience annual workload increases to index gasoline, special fuel, and motor carrier surcharge tax rates. These increases in workload are expected to be accomplished with existing resource and funding levels.

Requiring motor carrier surtax to be collected at the pump instead of through quarterly tax filing reports is expected to decrease DOR administrative workload.

**LTAP:** The bill annually appropriates $250,000 of MVHA funds to INDOT for LTAP. As a result, the State Highway Fund would receive approximately $133,000 less revenue from the MVHA and local units of government would receive approximately $117,000 less in local MVHA revenue per year.

**Weigh-In-Motion Pilot Program:** INDOT reports that currently there are no estimated state costs to operate the Weigh-In-Motion Pilot Program established in the bill. The pilot program is expected to be provided by a third-party vendor, with INDOT, the Indiana State Police (ISP), and the Department of State Revenue providing minimal staffing support. Any increases in workload are expected to be accomplished under current funding and resource levels.

**State and Local Bridge Prioritization and Condition Metrics:** Requiring INDOT to institute the prioritization and condition metrics, including the appointment of two economic professionals and engineers, is expected to be accomplished with existing resources and funding levels.

**Explanation of State Revenues:** (Revised) **Summary:** This bill is expected to have the following impacts to the General Fund, State Highway Fund, Local Road and Bridge Matching Grant Fund, and the Motor Carrier Regulation Fund between FY 2018 and FY 2021.

<table>
<thead>
<tr>
<th>Fund</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>($305.7 M)</td>
<td>($298.7 M)</td>
<td>($331.4 M)</td>
<td>($360.7 M)</td>
</tr>
<tr>
<td>State Highway Fund</td>
<td>$585.2 M</td>
<td>$635.1 M</td>
<td>$693.0 M</td>
<td>$745.9 M</td>
</tr>
<tr>
<td>Local Road and Bridge Matching Grant Fund</td>
<td>$81.0 M</td>
<td>$94.1 M</td>
<td>$94.7 M</td>
<td>$95.3 M</td>
</tr>
<tr>
<td>Motor Carrier Regulation Fund</td>
<td>$0.5 M</td>
<td>$0.9 M</td>
<td>$1.3 M</td>
<td>$1.7 M</td>
</tr>
<tr>
<td>State Highway Road Construction Improvement Fund</td>
<td>$7.9 M</td>
<td>$8.9 M</td>
<td>$10.0 M</td>
<td>$11.2 M</td>
</tr>
<tr>
<td><strong>Net Impact</strong></td>
<td><strong>$368.9 M</strong></td>
<td><strong>$440.3 M</strong></td>
<td><strong>$467.5 M</strong></td>
<td><strong>$493.4 M</strong></td>
</tr>
</tbody>
</table>

These impacts are the result of (1) changing the distribution of the sales tax collected on gasoline, (2) changing off-the-top distributions of gasoline tax revenue, (3) increasing the gasoline tax, (4) increasing the special fuel tax, (5) increasing the motor carrier surcharge tax, (6) collecting motor carrier surcharge tax at
the pump, (7) changing the distribution of motor carrier surcharge tax revenue, and (8) instituting an electric vehicle fee of $150.

**Additional Information:**

(Revised) *Gasoline Use Tax Distribution:* The bill takes distributions that otherwise would have been deposited in the General Fund and instead diverts these funds to the State Highway Fund beginning in FY 2018.

*Tax Increases:* The tax rates for the gasoline, special fuel, and motor carrier surcharge tax would increase by the lesser of (1) the rate adjustment included in the bill or (2) an additional $0.10 per gallon, in FY 2018. The tax rate increase in FY 2018 is expected to be the latter. Annually thereafter, the DOR is required to calculate the rate adjustment and apply it to each tax rate, with the maximum annual increase in each tax type set at $0.01 per gallon in subsequent years. This annual adjustment is expected to increase revenue for each tax annually between FY 2019 and FY 2021. Revenue could decrease in future years if the annual consumer price index and individual personal income index decline.

The following table shows the estimated annual new revenue from changes to the gasoline, special fuel, and motor carrier surcharge tax rates.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Gasoline Tax</th>
<th>Special Fuels Tax</th>
<th>Motor Carrier Surcharge</th>
<th>New Annual Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$310.3 M</td>
<td>$118.8 M</td>
<td>$91.8 M</td>
<td>$520.9 M</td>
</tr>
<tr>
<td>2019</td>
<td>$336.1 M</td>
<td>$131.8 M</td>
<td>$100.0 M</td>
<td>$567.9 M</td>
</tr>
<tr>
<td>2020</td>
<td>$360.2 M</td>
<td>$144.8 M</td>
<td>$107.9 M</td>
<td>$612.9 M</td>
</tr>
<tr>
<td>2021</td>
<td>$382.5 M</td>
<td>$157.5 M</td>
<td>$115.4 M</td>
<td>$655.4 M</td>
</tr>
</tbody>
</table>

The new tax revenue collected on gasoline and special fuels between FY 2018 and FY 2021 would be distributed as follows: 53.5% to the State Highway Fund and 46.5% to local units of government.

*Motor Carrier Surtax Distribution Changes:* The bill changes distributions of motor carrier surtax revenue by (1) reducing the distribution to the Motor Carrier Regulation Fund from 9% to 4.5%, and increasing distributions to the MVHA and the State Highway Fund from 45.5% to 47.75% for both funds. The distribution change for revenue received from the motor carrier surtax is expected to have no net annual impact on revenue to the Motor Carrier Regulation Fund, but will increase revenue to the Motor Vehicle Highway Account and the State Highway Fund.

*Off-the-Top Distribution Changes:* The bill changes the off-the-top distribution of gasoline tax revenue deposited in the State Highway Road Construction Improvement Fund (SHRCIF) from a percent distribution to a flat $70 M annual amount, and removes off-the-top distributions of gasoline tax revenue to the State Highway Fund and local units of government through the MVHA funding formula.

The distribution changes are expected to increase revenue to the SHRCIF, which would be used to make payments on bonds obtained for highway road crossings authorized under the bill. Removing the off-the-
top distributions of gasoline tax revenue to the State Highway Fund and local units of government through the MVHA funding formula would decrease distributions by approximately $31 M to both sources per year.

Motor Carrier Surtax Paid At The Pump: The bill requires motor carrier surtax to be paid at the pump instead of through quarterly filings made with the DOR. As a result, the state is expected to collect an additional $20 M annually from motor carriers, which includes $10 M in previously uncollected tax revenue and an additional $10 M from tax increases contained in the bill.

Because the motor carrier surtax will be paid at the pump, individuals who operate personal diesel vehicles would also pay the motor carrier surtax at diesel pumps in the state. However, these individuals would be eligible for annual refunds equal to $100 (for each state-registered vehicle). Additional refunds can be claimed if proof is provided that motor carrier surtaxes paid during the year exceed the $100 refund.

Net revenue collections will depend on (1) nonresident personal vehicles that purchase diesel in the state but do not claim a refund from the DOR, (2) actual diesel fuel consumption for resident personal vehicles, (3) the extent to which owners of resident vehicles claim payments greater than the $100 amount, and (4) the extent to which the $100 annual payment is greater than actual taxes paid.

Toll Road Revenue: If INDOT successfully petitions the federal government for authorization to toll portions of interstates, state revenue could further increase from sections of the interstate where tolls are assessed. The bill also removes current statute requiring approval from the General Assembly to toll certain portions of interstates. To the extent the federal government approves tolling in the state and depending on how tolling is performed, the state could receive additional revenue in future years. Increases in revenue are currently indeterminable.

Transportation Infrastructure Improvement Fee: The bill establishes a $15 fee on motor vehicles registered through the BMV beginning in CY 2018. The bill also impacts vehicles registered through the International Registration Plan (IRP) starting in FY 2018. The $15 fee will apply to vehicles with weights less than 26,000 lbs. And for vehicles with weights greater than 26,000 lbs, the bill increases the registration fee and diverts 5% of the total registration fee to the Local Road and Bridge Matching Grant Fund.

These fees are expected to generate approximately $92.1 M in annual revenue for the Local Road and Bridge Matching Grant Fund, with $49.5 M being received in FY 2018 due to the timing differences created by the bill. Additionally, the fees are expected to have a net increase in MVHA funding of approximately $338,000 per year starting in FY 2018.

Electric Vehicle Fees: The bill creates a new $150 fee for electric vehicles between CY 2018 and CY 2022. Beginning in CY 2023 and every fifth year thereafter, this fee would be adjusted based on the average of the consumer price index and individual personal income. Revenue from this fee is to be deposited in the Local Road and Bridge Matching Grant Fund. Because the new electric vehicle fee takes effect half way through FY 2018, the first full year of revenue from the electric vehicle fee will be realized in FY 2019.

The following table shows the expected number of electric vehicle registrations between FY 2018 and FY 2021 as well as expected revenue from the fee.
<table>
<thead>
<tr>
<th>Vehicle Type</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Car</td>
<td>4,900</td>
<td>11,700</td>
<td>14,700</td>
<td>18,100</td>
</tr>
<tr>
<td>Electric Light-Duty Truck</td>
<td>550</td>
<td>1,500</td>
<td>2,300</td>
<td>3,400</td>
</tr>
<tr>
<td><strong>Total Revenue from Fee</strong></td>
<td><strong>$0.81 M</strong></td>
<td><strong>$1.98 M</strong></td>
<td><strong>$2.55 M</strong></td>
<td><strong>$3.22 M</strong></td>
</tr>
</tbody>
</table>

*Alternative Fuel Decal Fee Increase:* The bill increases the fees collected by the DOR on alternative fuel decals. Based on information provided by the DOR for FY 2017, an estimated 400 alternative fuel decals are expected to be sold annually. Under the new fee amounts, this bill is expected to increase alternative fuel decal fee revenue by $46,500 each year, which would be distributed in the same manner as revenue collected from special fuel: 53.5% to the State Highway Fund, 35.25% to local units of government through the Motor Vehicle Highway Account distribution formula, and 11.25% to the Local Road and Street Account.

The DOR reports that some alternative fuel vehicle owners may be unaware of the requirement to obtain an alternative fuel decal and assume that obtaining a vehicle registration from the BMV suffices in paying all necessary registration fees and taxes. As a result, actual alternative fuel decals purchased through the DOR fluctuates annually.

*Explanation of Local Expenditures:* Increases in road funding provided to local units of government through (1) increases in tax revenue, (2) changes in the federal fund exchange program, and (3) increases in Local Road and Bridge Matching Grant Fund revenue, could increase local expenditures on road construction.

The bill changes the local match requirement for receiving a grant from the Local Road and Bridge Matching Grant Fund. Currently, the state provides an equal match for local project costs and as proposed, the local units of government would only be required to put up 20% of a project's costs to qualify for grant assistance. As a result, local expenditures for projects approved for grant funding under the program would decrease.

*Explanation of Local Revenues:* *Summary:* This bill could increase local road funding (1) by allowing additional municipalities to institute excise surtax and wheel tax rates and (2) changes made to the federal fund exchange program.

The bill also increases local MVHA and Local Road and Street Account revenue from (1) changes made to distributions of sales tax revenue collected on gasoline, (2) increasing the gasoline and special fuel tax rates, and (3) increasing motor carrier surcharge tax.

The following table shows estimated total local revenue that could be received between FY 2018 and FY 2021.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local MVHA</th>
<th>Local Road and Street Account</th>
<th>Municipal Wheel and Surtax</th>
<th>Annual Local Revenue Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$174.5 M</td>
<td>$47.4 M</td>
<td>$4.5 M</td>
<td>$226.4 M</td>
</tr>
<tr>
<td>2019</td>
<td>$189.8 M</td>
<td>$51.6 M</td>
<td>$9.0 M</td>
<td>$250.4 M</td>
</tr>
<tr>
<td>2020</td>
<td>$204.2 M</td>
<td>$55.7 M</td>
<td>$9.0 M</td>
<td>$268.9 M</td>
</tr>
<tr>
<td>2021</td>
<td>$217.9 M</td>
<td>$59.5 M</td>
<td>$9.0 M</td>
<td>$286.4 M</td>
</tr>
</tbody>
</table>

**Additional Information:** Local MVHA revenue is distributed to local units as follows: 31.9% to cities and towns, 3.4% equally to all counties, 20.4% to counties based on vehicle registrations as a percent of all registrations in the state, and 44.3% to counties based on county mileage. Distributions from the Local Road and Street Account vary depending on county size, as well as county and local unit population and road mileage.

**Federal Fund Exchange:** This bill will increase the local share requirement for participation in the transportation funding exchange program, which could increase local road project costs. The bill also removes the conversion rate of $0.75 of state funds for $1 of federal funds. The bill's impact on local road project costs would depend on the decision of local units of government and metropolitan planning organizations (MPOs) to participate in the program given the new cost-sharing requirement.

**Local Road and Bridge Matching Grant Fund:** The bill makes the following changes to the Local Road and Bridge Matching Grant Fund: (1) increases revenue deposited in the fund annually and (2) increases state grant amounts made to local grant applicants. These changes could impact grants awarded to local units of government by INDOT. Changes in local revenue are unknown but would be subject to INDOT approval.

**Municipal Surtax and Wheel Tax:** There are 40 municipalities with a population between 5,000 and 10,000. If each of these municipalities adopt the municipal surtax and wheel tax at maximum tax rates, municipal revenues could increase by as much as $9 M beginning in CY 2018. Municipal surtax and wheel tax revenue may be used only for road and street construction and maintenance or matching funds to obtain a grant from the Local Road and Bridge Matching Grant Fund. Wheel tax revenue may also be contributed to a multicounty infrastructure authority.

This provision would permit municipalities to impose their own surtax and wheel tax. An adopting municipality must adopt both taxes simultaneously. The surtax would be charged as a flat rate of between $7.50 and $25.00 on each vehicle registered in the municipality that is subject to the excise tax. The wheel tax would be assessed at a flat rate of between $5.00 and $40.00 on each vehicle registered in the municipality that is not subject to the excise tax.

**State Agencies Affected:** INDOT, DOR, BMV.

**Local Agencies Affected:** All.

**Information Sources:** Energy Information Administration Annual Energy Outlook 2016; INDOT; Cambridge Systematics report to the Interim Committee on Roads and Transportation; Tax and Revenue Handbook, State Revenue Forecast, December 15, 2016; Wisconsin Department of Transportation; Bob
Alderman, INDOT.

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