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

(1) Eliminates the sales tax on the sale of special fuel.
(2) Increases the gasoline tax to $0.23 per gallon on July 1, 2017, and to $0.28 per gallon on July 1, 2018.
(3) Increases the special fuel tax to $0.19 per gallon on July 1, 2017, and to $0.22 per gallon on July 1, 2018.
(4) Increases the surcharge tax to $0.16 per gallon on July 1, 2017, and to $0.21 per gallon on July 1, 2018.
(5) On July 1, 2019, and each July 1 through July 1, 2024, provides for an annual rate increase in the gasoline tax rate, special fuel tax rate, and surcharge tax rate based on an annual index factor, but limits the annual rate increase based on the annual index factor to $0.01 per gallon.
(6) Specifies that the 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.
(7) Provides that the surcharge tax also applies to purchases of special fuel by persons other than carriers.
(8) Changes the Motor Vehicle Highway Account (MVHA) distribution formula for counties and municipalities to provide that the amount a county or municipality is entitled to receive in 2018 and each year thereafter is equal to: (a) the amount of the distribution received by the county or municipality from the MVHA during the preceding year; multiplied by (b) the annual index factor used for indexing the motor fuel taxes.
(9) Provides that revenue resulting from the increases in the gasoline tax rate, the special fuel tax rate, and the surcharge tax rate shall be deposited in the MVHA.
(10) Provides that $25,000,000 of the revenue from the first $0.18 of the gasoline tax rate and $25,000,000 of the revenue from the first $0.16 of the special fuel tax rate that are collected during a state fiscal year shall be distributed as follows: (a) 60% to each of the counties, cities, and towns eligible to receive a distribution from the Local Road and Street Account (LRSA), in the same proportion as under the LRSA and to be used
for purposes of the LRSA. (b) 40% to the Indiana Department of Transportation (INDOT).

(11) Provides that 1/18 of the revenue from the first $0.18 of the gasoline tax rate shall be distributed to each of the counties, cities, and towns eligible to receive a distribution from the LRSA, in the same proportion as under the LRSA and to be used for purposes of the LRSA.

(12) Increases alternative fuel decal fees by 50%.

(13) Establishes a Transportation Infrastructure Improvement Fee that applies to the registration of vehicles with a declared gross weight of not more than 26,000 pounds and commercial vehicles with a declared gross weight of more than 26,000 pounds. Specifies that the fee is: (a) $15 for vehicles with a declared gross weight of not more than 26,000 pounds (and deposits this fee in the Local Road and Bridge Matching Grant Fund); and (b) $100 for commercial vehicles with a declared gross weight of more than 26,000 pounds (and deposits this fee in the MVHA).

(14) Increases annual registration fees for certain motor vehicles with a declared gross weight that equals or exceeds 26,000 pounds.

(15) 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. Requires a person who registers a hybrid vehicle to pay a supplemental registration fee of $75 with an increase every five years based on an index factor.

(16) Increases the aviation fuel excise tax by $0.10 per gallon and transfers the increased revenue to the Airport Development Grant Fund for airport capital improvement matching grants.

(17) Increases the fee on the sale of each new tire by $5 and requires the revenue from the increase to be deposited in the MVHA.

(18) Repeals restrictions on when a tolling project can be undertaken.

(19) Provides that the INDOT may, with the approval of the Governor, seek a Federal Highway Administration waiver to toll interstate highways. Limits the first toll lanes under the waiver to certain interstate highways.

(20) Establishes the weigh-in-motion pilot program.

(21) 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.

(22) Annually appropriates $250,000 to INDOT for the Local Technical Assistance Program (LTAP) to develop and maintain a centralized electronic statewide asset management data base.

(23) Makes various changes to the transportation funding exchange program between the state and counties and municipalities.

Effective Date: (Amended) Upon passage; March 23, 2016 (retroactive); July 1, 2017; January 1, 2018.

Explanation of State Expenditures: (Revised) 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.
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 are approved for funds exchanges by INDOT administrators.

**Additional Information:**

(Revised) *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 retain discretion to select local projects for participation in the exchange program and could exchange up to 100% of the local share with state funding, provided the local unit provides the 20% match required under the bill. Any impact on INDOT expenditures to provide the federal funds exchange would depend on the decision of INDOT administrators. 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 issue 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 issued 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.

(Revised) *Bureau of Motor Vehicles:* The BMV would need to update computer systems to track the number of electric and hybrid vehicles registered in the state for purposes of collecting associated fees. These costs would be paid from the BMV Commission Fund.

(Revised) *INDOT:* Under the bill, INDOT would be charged with applying for a federal waiver to toll portions of interstates. 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 DOR could need to revise computer software for tax rate changes made to gasoline, special fuel, and motor carrier surcharge tax rates as well as the annual indexing that would be required beginning in FY 2020. These increases in workload are expected to be accomplished with existing resource and funding levels.

Additionally, exempting special fuel from sales tax and requiring motor carrier surtax to be collected at the pump instead of through quarterly tax filing reports is expected to decrease DOR administrative workload.

(Revised) **LTAP:** The bill annually appropriates $250,000 of MVHA funds to INDOT for LTAP. As a result, the State Highway Fund would receive approximately $250,000 less revenue from the MVHA 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.

**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 Airport Development Grant 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>($25.0 M)</td>
<td>($27.8 M)</td>
<td>($30.2 M)</td>
<td>($31.5 M)</td>
</tr>
<tr>
<td>State Highway Fund</td>
<td>$327.7 M</td>
<td>$551.8 M</td>
<td>$578.9 M</td>
<td>$605.2 M</td>
</tr>
<tr>
<td>Local Road and Bridge Matching Grant Fund</td>
<td>$42.6 M</td>
<td>$85.1 M</td>
<td>$85.1 M</td>
<td>$85.1 M</td>
</tr>
<tr>
<td>Airport Development Grant Fund</td>
<td>$1.7 M</td>
<td>$1.7 M</td>
<td>$1.7 M</td>
<td>$1.7 M</td>
</tr>
<tr>
<td><strong>Net Impact</strong></td>
<td><strong>$346.9 M</strong></td>
<td><strong>$610.8 M</strong></td>
<td><strong>$635.5 M</strong></td>
<td><strong>$660.5 M</strong></td>
</tr>
</tbody>
</table>

These impacts are the result of (1) exempting special fuel from sales tax, (2) increasing the gasoline tax, (3) increasing the special fuel tax, (4) increasing the motor carrier surcharge tax, (5) collecting motor carrier surcharge tax at the pump, (6) instituting fees on electric and hybrid vehicles, (7) instituting a transportation infrastructure improvement fee on vehicles under 26,000 lbs in declared gross weight ($15), (8) instituting a transportation infrastructure improvement fee on vehicles over 26,000 lbs in declared gross weight ($100), (9) increasing registration fees on vehicles over 26,000 lbs in declared gross weight by 50%, (10) increasing International Registration Plan fees, (11) increasing the waste tire fee, and (12) increasing the aviation fuel tax.

**Additional Information:**

(Revised) **Tax Revenue Distribution Changes:** All revenue increases received from changes in the bill would be deposited in the Motor Vehicle Highway Account (MVHA). The bill also caps the local distributions from the MVHA to what was received in FY 2017, but allows for an annual adjustment using the same indexing rate established in the bill. The total local distribution from the MVHA for FY 2017 is unknown (but will
be available July 2017). Local units of government received approximately $406 M (all sources) from the MVHA funding formula in FY 2016.

Starting in FY 2018, local units will receive additional MVHA revenue from the annual indexing formula in the bill. These increases to local units from indexing would come from funds that otherwise would have been deposited in the State Highway Fund. As a result of the change in how MVHA funds are allocated to local units, revenue increases in the bill that are directly forwarded to the MVHA will ultimately increase revenue to the State Highway Fund. Additionally, expenditures from the MVHA will decrease revenue to the State Highway Fund.

(Revised) **Motor Fuel Inventory Tax**: The bill specifies that any tax revenue collected from the motor fuel inventory tax will be deposited in the MVHA. Under current statute, revenue collected from the motor fuel inventory tax is distributed in the same manner as gasoline and special fuel tax collections (with 75% of the revenue deposited in the MVHA and 25% to the Highway Road and Street Account, after accounting for off-the-top distributions). The motor fuel inventory tax is only collected during years in which the gasoline and/or special fuel tax rates are increased. This tax was last collected in FY 2004. The following table shows estimated motor fuel inventory tax collections during FY 2018 to FY 2021 resulting from changes in the bill.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Gasoline</th>
<th>Special Fuel</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018</td>
<td>$3.10 M</td>
<td>$0.72 M</td>
<td>$3.82 M</td>
</tr>
<tr>
<td>FY 2019</td>
<td>$3.06 M</td>
<td>$0.72 M</td>
<td>$3.78 M</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$0.61 M</td>
<td>$0.19 M</td>
<td>$0.80 M</td>
</tr>
<tr>
<td>FY 2021</td>
<td>$0.63 M</td>
<td>$0.21 M</td>
<td>$0.84 M</td>
</tr>
</tbody>
</table>

Under the bill, the tax rates for gasoline and special fuel will increase annually and will trigger the inventory tax. Requiring that the motor fuel inventory tax only benefit the MVHA would result in the State Highway Road Construction and Improvement Fund (SHRCIF), State Highway Fund, and local units of government (through the MVHA and Local Road and Street Account) will not receive revenue from this tax.

(Revised) **Special Fuel Sales Tax Exemption**: Exempting special fuel from sales tax is expected to decrease revenue to the state General Fund annually beginning in FY 2018.

(Revised) **Fuel Tax Increases**: The tax rates for gasoline and motor carrier surcharge tax would increase by $0.05 in FY 2018 and by another $0.05 in FY 2019. The tax rate for special fuel would increase by $0.03 in FY 2018 and by another $0.03 in FY 2019. Beginning in FY 2020 and 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 through July 1, 2024. This annual adjustment is expected to increase revenue for each tax annually between FY 2020 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, including revenue increases from collecting the motor carrier surcharge tax at the pump.
The bill also increases the aviation fuel tax from $0.10 per gallon to $0.20 per gallon. The additional revenue is to be deposited in the Airport Development Grant Fund and used by INDOT to provide matching grants for capital improvements to airports. The estimated annual revenue from this tax increase is approximately $1.7 M per year through FY 2021.

Increasing revenue to the Airport Development Grant Fund could also allow the state to leverage Federal Aviation Administration grant funds from the Airport Improvement Program. Any increase in federal funds resulting from the bill would depend on federal approval.

*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.

(Revised) *Transportation Infrastructure Improvement Fee*: The bill establishes a $15 fee on motor vehicles under 26,000 lbs in declared gross weight and a $100 fee for commercial vehicles over 26,000 lbs in declared gross weight that are registered through the BMV beginning in CY 2018. Revenue from the $15 fee will be deposited in the Local Road and Bridge Matching Grant Fund, and revenue collected from the $100 fee will be deposited in the MVHA.

The $15 fee is expected to generate approximately $85.1 M in annual revenue for the Local Road and Bridge Matching Grant Fund, with $42.6 M being received in FY 2018 due to the timing differences created by the bill. The $100 fee is expected to generate approximately $5 M per year for the MVHA, with approximately $2.5 M being received in FY 2018.

(Revised) *International Registration Plan Fee Increase*: The bill increases registration fees for IRP vehicles with a declared gross weight of 26,000 lbs. This provision could generate approximately $45 M in additional IRP revenue per year, which would be deposited in the MVHA. Increasing IRP registration fees could also impact the number of IRP vehicles that are domiciled in the state. To the extent that the number of IRP domiciled vehicles decreases, the state could experience revenue losses from other sources of revenue including, but not limited to, new vehicle registration fees, title fees, cab card fees, wheel taxes, and public safety fees.

(Revised) *BMV Registration Fee Increase*: The bill also increases registration fees for all vehicles over 26,000 lbs (including farm vehicles) in declared gross weight. Revenue collected from this fee increase will be deposited in the MVHA. An estimated $10.8 M in annual revenue is expected to be generated from this
fee increase.

(Revised) *Electric and Hybrid Vehicle Fees:* The bill creates a new $150 fee for electric vehicles and a $75 fee for hybrid vehicles between CY 2018 and CY 2022. Revenue from these fees is to be deposited in the MVHA. Because the new electric and hybrid vehicle fees take effect halfway through FY 2018, the first full year of revenue will be realized in FY 2019.

The following table shows the expected revenue generated from these two fees between FY 2018 and FY 2021.

<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 Vehicle Revenue</td>
<td>$0.40 M</td>
<td>$1.98 M</td>
<td>$2.55 M</td>
<td>$3.22 M</td>
</tr>
<tr>
<td>Hybrid Vehicle Revenue</td>
<td>$4.21 M</td>
<td>$9.25 M</td>
<td>$10.10 M</td>
<td>$11.01 M</td>
</tr>
<tr>
<td>Total Revenue from Fees</td>
<td>$4.61 M</td>
<td>$11.23 M</td>
<td>$12.65 M</td>
<td>$14.23 M</td>
</tr>
</tbody>
</table>

(Revised) *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. As proposed, the revenue increase would be deposited in the MVHA.

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.

(Revised) *Waste Tire Management Fee:* The bill increases the current $0.25 fee to $5.25. As proposed, the $5 in additional revenue per tire would be deposited in the MVHA. An additional $29.8 M in revenue is anticipated starting in FY 2018 as a result of this change.

**Explanation of Local Expenditures:** (Revised) Increases in road funding provided to local units of government through (1) indexing local MVHA distributions, (2) diverting revenue to the Local Road and Street Account, (3) changes in the federal fund exchange program, and (4) increases in Local Road and Bridget Matching Grant Fund revenue, could allow for an increase local expenditures on road construction.

**Explanation of Local Revenues:** (Revised) *Summary:* This bill could increase local road funding (1) by allowing additional municipalities to institute excise surtax and wheel tax rates, (2) changes made to the federal fund exchange program, and (3) by annually indexing local MVHA distributions.

The bill also increases Local Road and Street Account revenue from (1) diverting off-the-top gasoline tax revenue distributions and (2) diverting $15 M in Special Distribution Account funding from the MVHA to the Local Road and Street Account.

The following table shows estimated total local revenue increases that could be received between FY 2018 and FY 2021.
### Additional Information:

(Revised) **Off-the-Top Distribution Changes:** The bill diverts approximately $31 M in the off-the-top distribution of gasoline tax revenue from the Motor Vehicle Highway Account to the Local Road and Street Account, resulting in an increase in funding to local units of government of approximately $31 M per year.

(Revised) **Special Account Distributions:** The bill also diverts the 30% distribution from the Special Distribution Account (that receives $50 M of gasoline and special fuel tax revenue annually) from the Motor Vehicle Highway Account (Accelerated Distribution #2) to the Local Road and Street Account (Accelerated Distribution #1). This change will increase funding to local units of government through the Local Road and Street Account by approximately $15 M per year.

(Revised) **Local MVHA Distribution Formula:** Currently, local MVHA distributions are based on a formula that takes into account each local unit’s lane mileage, vehicle registrations, and population. As proposed, MVHA distributions to local units would be based on distributions to each local unit from FY 2017 and increased annually based on the indexing rate in the bill.

Currently, in instances where a local unit is either incorporated or unincorporated, other local units would receive either less MVHA revenue (new incorporations) or more MVHA revenue (unincorporations). As proposed, when new local units are added, they would receive a local MVHA distribution based on the MVHA funding formula that was in place during FY 2017. New local units would receive their MVHA distribution at the expense of the State Highway Fund. In instances where a local unit unincorporates, their MVHA distribution would ultimately end up being transferred to the State Highway Fund. The net impact on the State Highway Fund in the future resulting from the creation and disbanding of local units of government is indeterminable.

**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 decisions of local units of government and metropolitan planning organizations (MPOs) to participate in the program given the new cost-sharing requirement.

(Revised) **Local Road and Bridge Matching Grant Fund:** The bill increases revenue deposited in the fund annually. 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.

**Fiscal Analyst:** Bill Brumbach, 232-9559; Lauren Tanselle, 232-9586; Bob Sigalow, 232-9859.