WASATCH FRONT REGIONAL COUNCIL

HB362-Transportation Infrastructure Funding
Rep. Johnny Anderson / Sen. Al Jackson

Local option 0.25% general sales tax for transportation

County option- Counties are authorized to enact a 0.25% general sales tax for transportation. This is the equivalent of 25 cents for every hundred dollars. If every county in the state imposes the local option, it will generate approximately $113 million in new revenue annually.

Voter approval- Before imposing the tax, the majority of a county legislative body must vote to put an opinion question on the ballot in a municipal or regular general election. The county shall impose the tax if the majority of voters approve. (These provisions are covered in existing law (59-12-2208) so they are not in the bill.)

Allocation- The referendum and imposition apply to the entire 0.25% but the bill states how those revenues will be allocated.

- In areas without transit service, the funds would be allocated as follows:
  - 0.10% to cities, towns and unincorporated county areas
  - 0.15% to the county
- In areas with transit service, the funds would be allocated as follows:
  - 0.10% to the transit provider[1]
  - 0.10% to cities, towns and unincorporated county areas
  - 0.05% to the county

Distribution- The funding going to cities, towns and unincorporated county from the 0.10% is distributed by the standard formula for local sales taxes. The formula is 50% population and 50% point of sale. An individual city's share of the 0.10% is based on their share of the total population and point of sale relative to all of the counties in the state that have imposed the tax. Counties that have not imposed the tax will not be part of the distribution formula.

The State Tax Commission will determine the appropriate allocations and distribution of funding based on which counties have imposed the tax and will provide funding directly to the applicable county, city or transit provider.

Uses of funds- Transit providers can use the funds for capital expenses and service delivery expenses. For example, funds can be used for things like track repair, bus purchases, service frequency and

[1] The bill contemplates three circumstances related to transit funding. 1) where a transit district covers an entire county (UTA on the Wasatch Front), the 0.10% in that county goes to the transit provider; 2) where the transit district covers a portion of a county (UTA in Tooele and Box Elder Counties; Cache Valley Transit District), the 0.10% in the area covered by the transit district goes to the transit provider; and 3) where there is no transit district established but transit service is provided by a political subdivision that qualifies for FTA funding as of May 12, 2015 (Sun Tran, the Basin Transit Authority, the Snyderville Basin Transit District, etc.), the 0.10% within the boundaries of that political subdivision go to the transit provider.

coverage. Cities, towns and counties can use the funds for broadly defined transportation purposes like roads, transit facilities or services, pedestrian facilities like sidewalks, and active transportation facilities like trails and bike lanes.

Maintenance of Effort- Cities, towns and counties are not allowed to use the funds from this tax to supplant the existing general fund appropriations they have budgeted for transportation as of the date that the local option tax takes effect. This requirement is in place from the date the local option tax takes effect through June 30, 2020, when the requirements "sunset." During this time they are required to report on their compliance through their audit or fiscal reporting.

Fuel tax reform from a cents per gallon to a percentage

Conversion of a cents per gallon to a percentage- Effective January 1, 2016, the bill would convert the current 24.5 cents per gallon (cpg) state motor fuel and special (diesel) taxes to a 12% tax on fuel.

- This will generate the equivalent of a 4.9 cpg increase in the fuel tax, or approximately $76 million annually. Revenues will be distributed using the existing B&C road formula, with 70% directed to UDOT and 30% directed to cities and counties. UDOT has indicated they would use the funds primarily for bridges and rural roads.
- As the price of fuel changes the amount of revenue will change. This will help to address the decline in buying power of the cpg tax. Due to inflation, the cpg tax has lost 40% of its buying power since it was last increased in 1997. This has made the 24.5 cpg tax in 1997 worth effectively only 14.7 cpg today.

Applying the percentage-based rate- The percentage-based fuel tax would function differently than a regular sales tax; it would utilize the standard methodology for percentage-based fuel taxes around the country.

- Effective January 1 of each year, the 12% rate would be converted to a cpg that will be in effect for that year. That cpg is determined using the previous three fiscal-years' average wholesale (before taxes) price of fuel, multiplied by 12%.
    - This annual conversion of the percentage back to a cpg is done so that the actual application and calculation of the tax would be consistent with how the federal fuel tax is imposed.
    - The annual conversion back to a cpg also limits potential volatility of the actual tax paid because it avoids the daily fluctuations in the price of fuel.
- The Tax Commission will determine and make public no later than November 1 the adjusted cpg that would take effect two months later on January 1. This will give fuel distributors time to update their systems.

Limiting potential price volatility: The percentage rate is fixed at 12% but the wholesale price to which that rate is applied to would be limited in how high (ceiling) or low (floor) it could go.

- **Floor- The floor is set at $2.45 on the wholesale price of fuel.** The floor protects against a loss in revenue when wholesale fuel prices fall below $2.45.

    - When the Tax Commission sets the initial price effective January 1, 2016 they will calculate the rate based on the wholesale price for the previous fiscal year. If this price is less than $2.45, they will multiply $2.45 by 12%.
    - Setting the floor at $2.45 with a rate of 12% will generate immediate new revenue because the actual cpg will be 29.4cpg (12% x $2.45 = 29.4cpg).
    - After the actual average wholesale price exceeds $2.45, the floor will adjust annually with inflation (via the Consumer Price Index, CPI.)
    - Because the floor grows with inflation the bill provides a mechanism for revenues to grow consistent with the price.
- **<u>Ceiling</u>- The ceiling is set at $3.33 on the wholesale price of fuel.**
    - The ceiling does not grow with inflation. It is a "hard cap" on the actual cpg rate.
    - If the actual wholesale price exceeded $3.33, the Tax Commission would still multiply 12% x $3.33 = 40cpg.

Miscellaneous Provisions:

- The law removes the requirement that gas stations have a fuel price sticker at the pump.

- The law updates the "hold harmless" provisions of the State fuel tax B&C distribution. This affects nine rural counties and means those counties will receive their fair share of B&C revenues from the state fuel tax.

- The law changes the tax on compressed natural gas (CNG) and liquefied natural gas (LNG) from 8.5 cents to 16.5 cents per gasoline gallon equivalent. This increase is incrementally phased in over three years. This will generate approximately $500,000 in new revenue annually.

- Requires UDOT to study the implementation of a road usage charge based on miles driven, including a potential demonstration program. It requires UDOT to make recommendations on the potential use of such a system in Utah.