

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1418**

**As Engrossed: 3/4/2013**

**Bill Subtitle: TO DEDICATE SALES AND USE TAX REVENUE FROM THE SALES OF NEW AND USED VEHICLES AND ROAD-USER ITEMS AND SERVICES FOR ROADWAY MAINTENANCE, CONSTRUCTION, AND RECONSTRUCTION; AND TO DECLARE AN EMERGENCY.**

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### Basic Change :

Representative Barnett

Engrossment 03/04/13 --House Amendment 1 -- The amendment deletes all provisions of the original bill and provides for a redistribution of the general revenue portion of the state sales and use tax to provide additional funding for state and local highways, streets and roads. Of the existing 6% state sales and use tax rate (6.5% total rate beginning July 1, 2013) the General Revenue component of the levy is 4.5%.

The proposal would provide for transfers from General Revenue to highways to begin on the first day of September following the issuance of an annual report by the State Treasurer to the Chief Fiscal Officer of the State indicating that the General Revenue portion of the state sales and use tax exceeded two billion two hundred million dollars (\$2,200,000,000) for the year. Upon reaching this threshold, a ten year phase-in of state sales and use taxes would begin.

The 10-year phase-in transfer of general revenues would apply to: (1) The actual sales and use taxes collected on sales of motor vehicles; and (2) An amount representing the revenues collected on auto related sales of parts, labor, installation, maintenance, and diagnostic services. The estimated amount of existing revenues representing auto parts and services begins at a transfer rate of six-tenths of one percent (0.6%) and grows through the 10-year phase-in period to 6% of total general revenues.

The ten-year phase-in transfer of the 4.5% General Revenue portion of the 6.5% state sales and use tax collected on motor vehicles and the estimated amount of tax collected on auto related parts and services would occur as follows:

#### Motor Vehicles

Year 1	--- 90% General Revenue	--- 10% to Highways
Year 2	--- 80% General Revenue	--- 20% to Highways
Year 3	--- 70% General Revenue	--- 30% to Highways
Year 4	--- 60% General Revenue	--- 40% to Highways
Year 5	--- 50% General Revenue	--- 50% to Highways
Year 6	--- 40% General Revenue	--- 60% to Highways
Year 7	--- 30% General Revenue	--- 70% to Highways
Year 8	--- 20% General Revenue	--- 80% to Highways
Year 9	--- 10% General Revenue	--- 90% to Highways
Year 10	--- 0% General Revenue	--- 100% to Highways

#### Percentage Transfer Representing Estimated Sales Tax on Auto Parts and Services

Year 1	--- 0.6% of State General Revenue
Year 2	--- 1.2% of State General Revenue
Year 3	--- 1.8% of State General Revenue
Year 4	--- 2.4% of State General Revenue
Year 5	--- 3.0% of State General Revenue
Year 6	--- 3.6% of State General Revenue
Year 7	--- 4.2% of State General Revenue

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Year 8 --- 4.8% of State General Revenue

Year 9 --- 5.4% of State General Revenue

Year 10 --- 6.0% of State General Revenue

The State General Revenue transfers would be distributed 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.

### Revenue Impact :

The bill, as engrossed, continues to shift to the Highway Department a portion of general revenue funds currently deposited into the Educational Adequacy Fund and the Education Excellence Fund. Both the Educational Adequacy Fund and the Education Excellence Fund receive a portion of state general revenue. A formula prescribed by law is applied against general revenue collections to determine the amount of general revenue to be distributed to both funds. The formula used to identify the amount of general revenue to be distributed to the Education Excellence Fund is found at Ark. Code 6-5-301. The formula used to identify the amount of general revenues to be distributed to Educational Adequacy was enacted by Act 107 of 203 (2<sup>nd</sup> Ex. Sess.). That formula is not codified but can be found in the Notes to Ark. Code 19-5-1227. The bill transfers general revenue to the Highway Department without protecting that portion of the general revenue funds currently transferred to these two education funds.

In addition, the Educational Adequacy Fund receives the 7/8% sales and use tax levied in Ark. Code 26-52-302(d). The engrossment removed that 7/8% tax from the amounts going to the Highway Department.

The current General Revenue forecast projects general revenue sales and use tax collections of \$2.2239 billion in FY14. If the projection is met, the new transfers of sales and use taxes for highways would begin September 2014, impacting FY2015 General Revenue deposits.

	Projected Reduced State General Revenues	Reduced Funding to Educational Excellence Trust Fund	Reduced Funding to Educational Adequacy Trust Fund	Total General Revenue Transfers to Highways
	(millions)	(millions)	(millions)	(millions)
FY2015	\$ 33.0	\$ -	\$ -	\$ 33.0
FY2016	76.9	4.7	.4	81.6
FY2017	114.5	11.5	1.0	126.0
FY2018	155.3	17.8	1.6	173.1
FY2019	198.4	24.5	2.2	222.9
FY2020	244.0	31.5	2.8	275.5
FY2021	292.1	39.0	3.4	331.0
FY2022	342.8	46.8	4.1	389.7
FY2023	396.4	55.1	4.9	451.5
FY2024	452.9	63.8	5.6	516.7

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### **Taxpayer Impact :**

None

### **Resources Required :**

None

### **Time Required :**

Adequate time is provided for implementation

### **Procedural Changes :**

Modification of existing distributions of State General Revenues to the Highway Fund.

### **Other Comments :**

The Educational Adequacy Fund and Education Excellence Fund will both see a decrease in funds available for education because current deposits to those funds will instead be deposited to the Highway Department.

### **Legal Analysis :**

House Bill 1418 proposes to redistribute a portion of the state sales and use tax revenues in order to provide additional funding for state and local roadways. The new funding scheme would go into effect beginning the first day of September following the issuance of an annual report by the State Treasurer to the Chief Fiscal Officer of the State indicating that the General Revenue portion for the state sales and use tax exceeded \$2,200,000,000 for the year. The current 11/15/12 general revenue forecast projects general revenue sales and use tax collections of \$2.2239 billion in fiscal year 2014. If that projection is met, the new distribution set forth in this bill would begin in September of 2014.

Upon reaching this threshold, a ten year phase-in of diverting portions of state sales and use tax revenues from general revenues would begin. The ten year phase-in contains two components. The first component provides that a percentage of the revenues generated from certain enumerated state sales and use tax provisions be redistributed. The percentage of all sales and use tax collected to be diverted would increase over the ten year period, with a starting percentage of 0.6%, to an ending percentage of 6% in year ten and thereafter.

The second component provides for a diversion of a percentage of the revenues generated from state sales and use tax on the sales of motor vehicles, trailers, or semi-trailers required to be licensed in Arkansas. The percentage to be diverted would be 10% for the first year, and then increase by 10% each year, to an ending percentage of 100% in year ten and thereafter.

The bill contains an emergency clause, making it effective on July 1, 2013.