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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 02/20/13  
**LAST UPDATED** 03/05/13    **HB** 328/aHTRC

**SPONSOR** Gonzales

**SHORT TITLE** School Bus Fuel Gross Receipts    **SB** \_\_\_\_\_

**ANALYST** Smith

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY14	FY15		
\$0.0	(\$320.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
\$0.0	(\$195.0)	(\$192.0)	(\$193.0)	(\$199.0)	Recurring	General Fund
\$0.0	(\$130.0)	(\$128.0)	(\$129.0)	(\$132.0)	Recurring	Local Governments
\$0.0	(\$167.0)	(\$167.0)	(\$167.0)	(\$167.0)	Recurring	Road Fund
\$0.0	(\$18.0)	(\$18.0)	(\$18.0)	(\$18.0)	Recurring	Local Gov. Road Fund
\$0.0	(\$510.0)	(\$505.0)	(\$507.0)	(\$516.0)	Recurring	Total

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
 Taxation and Revenue Department (TRD)  
 Public Education Department (PED)  
 Department of Transportation (DOT)  
 Legislative Education Study Committee (LESC)

## **SUMMARY**

### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 328 extends the exemption for buses being used for school-related activities.

### Synopsis of Original Bill

House Bill 328 provides a gross receipts tax exemption for receipts from the sale of fuel used in a vehicle authorized by contract with the Public Education Department (PED) as a school bus for the to-and-from school transportation of students. The bill provides a second exemption against compensating tax for the use of fuel in a vehicle authorized by contract with the PED as a school bus for the to-and-from school transportation of students.

**Effective Date:** July 1, 2013

## **FISCAL IMPLICATIONS**

After FY14, this bill would have a net positive impact for the general fund (see significant issues).

Using information from the PED, and the Taxation and Revenue Department (TRD) Combined Fuels Report, the Department of Transportation (DOT) and TRD estimates the impact of this bill to be about \$510 thousand in FY14. In FY11 and FY12, contractors reported an average of about 1.5 million deductible gallons, as a combination of dyed and clear special diesel that was therefore subject to Gross Receipts Tax. At an average price of \$3.32 per gallon, the gross receipts on 1.5 million gallons amounts to about \$323 thousand.

The remainder of fuel purchased by contractors, estimated to be just less than 900 thousand gallons based on the PED provided expenditures less the 1.5 million deductible gallons reported, is assumed to be subject to the special fuels tax, a flat \$0.21 per gallon, amounting to about \$185 thousand in Road Fund revenues.

Holding the gallons taxed by each method constant, the cost to the road fund does not vary, but the general fund cost varies with price. This amount is adjusted going forward from FY12 based on Global Insight's forecast diesel price, which is actually projected to fall slightly in through FY15 before rising again in FY17 and FY18.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

## **SIGNIFICANT ISSUES**

This bill could actually result in a net gain to the general fund because these taxes are embedded in the appropriation to public schools. The FY14 education appropriation includes \$320 thousand

spread over the school districts for taxes paid on fuel. However the general fund will receive only \$195 thousand in taxes; *local governments will pocket the difference. Therefore, the general fund would benefit from this exemption.* As a result, the PED could reduce the appropriation request for transportation by that amount. However, the bill would likely increase the negative impact to the Road Fund; contractors currently paying fuel tax would likely stop paying the tax.

The TRD notes that bill as introduced only applies to receipts from the sale of fuel used in a vehicle authorized by contract with the PED “as a school bus for the to-and-from school transportation of students.” It is unclear whether the intent is also for fuel receipts to qualify when school buses are used for other activities, such as field trips or athletic events. An amendment, for example, that adds “school-related event” to read “as a school bus for the to-and-from school or school-related event transportation” could help clarify this problem. If not, fuel would have to be separately accounted for to indicate whether it was used for “school-related events” or just to and from school transportation of students.

### TECHNICAL ISSUES

The fiscal impact for this bill is negative for FY14 because it is unlikely that the general fund appropriation for public schools can be appropriately reduced this late in the session. This impact could be avoided by changing the effective date to July 1, 2014.

The exemption should be changed to a deduction. Exemptions cannot be tracked.

The exemption for compensating tax is redundant and should be eliminated.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate