GBPI
Georgia Budget & Policy Institute

Policy Report

House Transportation Package Takes Promising Turn

Bill Analysis: House Bill 170 (LC 34 4595S)

By Wesley Tharpe, Policy Analyst

House Bill 170 includes a number of provisions designed to generate additional revenues for improving Georgia's gridlocked transportation system. The package that passed the Georgia House of Representatives on March 5, 2015 reforms Georgia's gas tax, alters the way local governments apply sales taxes to motor fuel, creates new fees for alternative vehicles and eliminates state tax breaks for Delta Airlines and electric car drivers. The revised edition of HB 170 is a significant upgrade over the plan lawmakers initially introduced, but it still has room to improve as it now moves to the state Senate.

The original version of HB 170 proposed to generate most new revenue by simply shifting money from local governments and from the state's general fund, as explained in a prior Georgia Budget and Policy Institute analysis. But after more than a month of spirited debate, House members adopted several key changes that improve the bill from its first edition. The legislation now generates around $1 billion a year in additional money for roads and bridges, mostly from new gas tax revenues. It no longer transfers local tax revenue to the state. And it lessens the blow to Georgia's general fund by eliminating two expensive tax breaks.

The House package still drains millions of dollars from the general fund, to the detriment of Georgia's main bank account for funding schools, hospitals and other vital services. It also barely reaches the target of $1 billion a year that a state legislative study committee recommended as the bare minimum. Untying Georgia's gridlock requires at least twice that much, according to that same study committee. As the bill moves forward, lawmakers should protect the positive changes made to HB 170 in the House and continue exploring new revenue options to build on its momentum, such as raising Georgia's cigarette tax or allowing counties to levy additional transportation taxes.

$1 Billion Annual Yield from New Gas Tax Revenue, Fees

Georgia would raise about $880 million in additional funding for transportation in the 2016 budget year if HB 170 passes as written, increasing to more than $1 billion in 2017. The current package also cuts revenue to the state general fund for the next four budget cycles. The combined effect on annual state revenues ranges from an increase of about $800 million in 2016 to $1.25 billion by 2020.

House Transportation Package Reaches Minimum Need of $1 Billion a Year

	(Estimated revenue in millions)				
	2016	**2017**	**2018**	**2019**	**2020**
Additional Transportation Funds	$878	$1,007	$1,096	$1,164	$1,235
Effect on State General Fund	-$84	-$37	-$37	-$11	$13
Combined Change to State Revenues	**$794**	**$969**	**$1,059**	**$1,153**	**$1,248**

Source: GBPI analysis of official fiscal notes for HB 170 (LC 34 4437), HB 175 (LC 34 4375) and HB 122 (LC 34 4422).

Tax Package Swaps Sales for Excise Gas Tax

The House package includes several reforms to Georgia's system of raising revenue for transportation, but most important is replacing Georgia's current two-tax system levies on motor fuel with a single excise tax. The specific provisions of HB 170 as senators prepare to debate include:

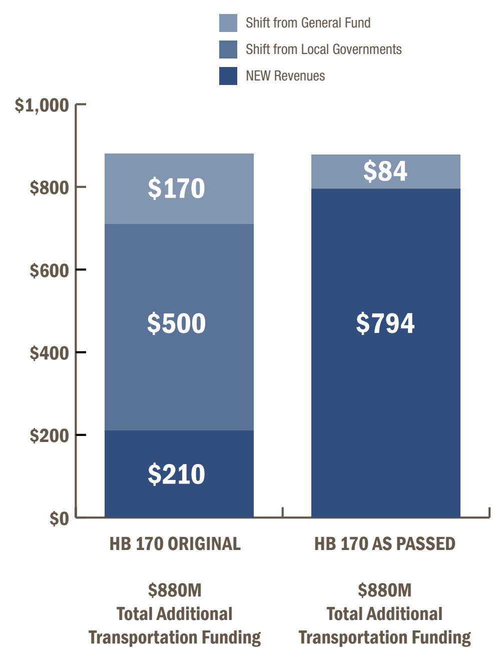
- It increases the **state excise tax** from 7.5 cents per gallon to 29.2 cents per gallon. The new rate is indexed to both inflation and the rising fuel efficiency of new cars, so revenues keep pace with economic changes over time.
- It eliminates the **state sales tax** on motor fuel. Georgia currently levies a 4 percent sales tax on the average statewide cost of gasoline, which translated to 11.8 cents per gallon in 2014. Three of these four pennies go to transportation, and the fourth goes to the state general fund. Ending the state sales tax on gas removes this so-called "fourth penny" from the state's budget for non-transportation needs.
- It drops **local sales taxes** on gasoline from 3 percent to 2 percent in most counties.
- It raises the rate of Georgia's **local-option sales tax** (LOST) to 1.25 percent from its current 1 percent. City and county governments use this penny for property tax rollbacks and general local services.
- It creates **new annual fees** for alternative fuel vehicles. The proposed fees are $200 for electric cars and $300 for commercial vehicles.
- It eliminates a generous **income tax credit** for drivers of electric cars.
- It eliminates a state **sales tax exemption** for Delta Air lines, which now saves the company around $20 million a year in Georgia taxes.

Evolution of Transportation Tax Package

The original draft of HB 170 contained roughly the same amount of transportation money as the version the House passed. But the original plan shifted funds from other pots of state and local money for the most part, rather than raise new revenues. It generated $880 million in new state transportation funding, but only exceeded the overall amount of tax revenue Georgia's state and local governments now raise by $210 million. The other $670 million came from a proposed shift of existing resources. That number included an estimated $500 million from local government budgets and about $170 million from the state's general fund. Georgia's cities, counties and school boards lodged successful objections to the revenue transfer.

Final House Plan Raises New Revenue, Protects Local Governments

Estimated revenue change, FY 2016



Source: GBPI analysis of official fiscal notes for HB 170 (LC 34 4437), HB 175 (LC 34 4375), HB 122 (LC 34 4422) and Georgia Department of Revenue data. These figures differ slightly from GBPI's earlier analysis of HB 170, which predated the state's official cost estimate.

The revised version of HB 170 incorporates changes designed to partially offset this problem. The core of the change is the legislation now genuinely raises new revenue, instead of just shifting money around. This contrast is illustrated in the related chart.

Local Governments Fare Better in Revised HB 170

The bill delivered to state senators no longer gets most of its funding by raiding local government treasuries. The original plan to take $500 million from city and county budgets for state transportation needs grew more problematic as voices for cities and counties detailed negative consequences for their jurisdictions. Subsequent revisions of the bill changed course as a result.

Most Georgia counties levy three distinct 1 percent sales taxes to support various local needs. The Special Local Option Sales Tax (SPLOST) penny funds voter-approved capital projects like roads and government buildings. The education (ESPLOST) penny pays for school construction and repair. And the Local Option Sales Tax (LOST) penny funds a combination of property tax rollbacks and general local needs. These taxes now apply to sales of motor fuel. The initial version of HB 170 proposed to remove these taxes from gasoline, which threatened serious cuts to schools and other needs.

Local governments are still allowed to apply their local SPLOST and ESPLOST taxes to gasoline in the latest legislation. That change preserves around $350 million a year for schools and voter-approved capital projects. That revenue remains unrestricted until the day counties' SPLOST and ESPLOST taxes expire, a date that varies by jurisdiction and occurs once every five or six years. If local voters choose to renew those taxes, lawmakers are required to spend the portion of revenues raised from motor fuel on "transportation purposes," as outlined in the bill. But the definition of a transportation purpose is broad enough that the practical effect is likely small for most counties.

The remaining revenue taken from local governments in the original bill is recovered through a separate technical change. The local LOST penny will still be taken off gas in 2016 under the House-passed plan. But that tax rate on other goods and services will rise to 1.25 from its current 1 percent. That makes the total sales tax rate 7.25 percent in most Georgia counties and 8.25 percent in counties that passed the extra local penny for transportation in 2012. Initial analysis suggests revenues stay about the same in most counties in that revised system as they are now.

State Services Less Vulnerable

The revised bill also proposes to shift less money to transportation from other state investments than before. The plan still moves the fourth penny from the general fund to transportation, at an annual cost of about $170 million. But the bill also proposes to fill part of the hole with other revenue. The revised HB 170 eliminates two unrelated tax breaks, one for Delta and one for electric car drivers, saving the state's general treasury about $84 million in lost revenue in 2016.

The projected general fund cost falls more in subsequent years due mostly to estimated savings when Georgia's generous state tax credit for electric vehicles is eliminated. If the two tax breaks listed below return in a subsequent version of this year's transportation plan, funding for non-transportation needs could suffer.

Eliminating Tax Credits Lessens Blow to Other State Services

	(Estimated revenue in millions)				
	2016	**2017**	**2018**	**2019**	**2020**
Fourth Penny Lost to Transportation	-$168	-$156	-$161	-$167	-$174
Delta Exemption – eliminate	$18	$22	$0	$0	$0
Electric Vehicle Credit - eliminate	$66	$96	$124	$156	$187
Combined Change to General Fund	**-$84**	**-$37**	**-$37**	**-$11**	**$13**

Source: GBPI analysis of HB 170 fiscal notes (LC 34 4437), HB 175 (LC 34 4375) and HB 122 (LC 34 4422).*Note: Cutting the "Delta exemption" on sales of jet fuel creates unrestricted general fund money the first two years. New federal regulations require all tax revenue from jet fuel is used for airport purposes starting in the 2018 budget year. Resulting 2018 revenue and for future years when it must be dedicated is not included here.

Room to Improve

State senators will consider a much improved piece of legislation compared to the first draft of HB 170, but it isn't perfect. For one, it still threatens other state budget priorities starved from years of cuts. Lawmakers can fill that hole by adopting some additional revenue-raising measures. Perhaps the most attractive option is to hike Georgia's cigarette tax as much as $1.23 per pack, which raises about $585 million per year. That would put Georgia around the national average for cigarette taxes. Legislators can also trim some of Georgia's many tax exemptions, which together cost as much as $8 billion in state funds each year.

The House package also just barely reaches the funding target that most observers agree is the bare minimum to keep up with Georgia's needs. State leaders estimate Georgia requires at least $1 billion just to clear Georgia's backlog of routine maintenance, like paving highways and repairing bridges. Georgia likely needs more than $2 billion in new annual funding to start moving dirt for new arterial roads, commuter rail and other large-scale transportation projects.

Georgia's transportation challenge will only be met with additional strategies and new ways to raise money, either this year or sometime soon. Senators can build on the progress established by their House colleagues with added measures designed to comprehensively tackle transportation head-on this year, rather than leave unfinished business for future legislators. The good news is state lawmakers can still choose to tackle Georgia's transportation puzzle from a number of angles this year. Good options include new budget appropriations for key road and transit projects, bond packages, tolls, special user fees and more flexibility for cities and counties interested in raising local money for transit, roads and other needs.

100 Edgewood Avenue, Suite 950, Atlanta, GA 30303 | Ph: 404.420.1324 | Fax: 404.420.1329 | www.gbpi.org