



Legislative Fiscal Bureau

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February 11, 2005

TO: Representative Spencer Black
Room 210 North, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: Annual Indexing of the State Motor Vehicle Fuel Tax

As you requested, this memorandum provides an estimate of the annual and cumulative revenues that can be associated with the annual indexing of the state's motor vehicle fuel tax since the indexing adjustment took effect in 1985.

The state currently levies an excise tax on each gallon of motor vehicle fuel (gasoline and diesel) and alternate fuel (such as compressed natural gas) supplied or consumed in the state. The state motor fuel tax is imposed when the fuel leaves terminal storage and is collected monthly from licensed suppliers (typically the terminal operator who sells the fuel to wholesalers). The current state motor fuel tax rate is 29.1¢ per gallon. Motor vehicle fuel tax revenues are deposited to the transportation fund.

Prior to 1997 Act 27, the fuel tax rate was annually adjusted to reflect fuel consumption changes and inflation, with the new tax rates going into effect on April 1 of each year. However, Act 27 eliminated the fuel consumption component of the indexing formula. Therefore, beginning on April 1, 1998, the fuel tax is adjusted to only reflect changes in inflation. Based on the annual change in inflation from 2003 to 2004, it is estimated that the fuel tax rate will increase to 29.9¢ per gallon, effective April 1, 2005.

Since April 1, 1985, fuel tax changes have been made under the indexing adjustment provisions of the statutes, with three exceptions: (1) 1987 Act 27 increased the fuel tax rate of 18.0¢ per gallon to 20.0¢ per gallon, effective August 1, 1987, as a means of raising additional revenue; (2) 1991 Act 119 suspended fuel tax indexing for one year (in response to a federal highway aid increase), from April 1, 1992, until April 1, 1993, at which time both the 1992 and 1993 indexing adjustments were made; and (3) 1997 Act 27 increased the fuel tax rate of 23.8¢ per gallon to 24.8¢ per gallon, effective November 1, 1997.

You requested information on the annual and total revenues that have been generated from the annual indexing of the motor vehicle fuel tax since 1985, exclusive of the statutory increases that have occurred. By multiplying the annual fuel consumption by the cumulative change in the fuel tax rate due to indexing each year, it is estimated that indexing the state's fuel tax rate each year has resulted in approximately \$3.2 billion in additional fuel tax revenues from 1985 thru 2004. The following table indicates the annual and cumulative changes in the fuel tax rate resulting from indexing as well as the annual revenues associated with the cumulative indexing changes.

**Indexing of Motor Vehicle Fuel Tax
Cumulative Change and Revenues**

<u>Year</u>	<u>Tax Rate Per Gallon</u>	<u>Type of Change</u>	<u>Annual Change to Rate</u>	<u>Cumulative Change to Rate</u>	<u>Annual Revenues (In Millions)</u>
1985	16.5¢	Index	0.5¢	0.5¢	\$11.7
1986	17.5	Index	1.0	1.5	36.0
1987	18.0	Index	0.5	2.0	48.1
1987	20.0	Statutory	--	--	--
1988	20.9	Index	0.9	2.9	72.8
1989	20.8	Index	-0.1	2.8	70.7
1990	21.5	Index	0.7	3.5	89.0
1991	22.2	Index	0.7	4.2	107.0
1992	22.2	Suspended	0.0	4.2	109.6
1993	23.2	Index	1.0	5.2	140.3
1994	23.1	Index	-0.1	5.1	144.0
1995	23.4	Index	0.3	5.4	157.1
1996	23.7	Index	0.3	5.7	170.6
1997	23.8	Index	0.1	5.8	175.1
1997	24.8	Statutory	--	--	--
1998	25.4	Index	0.6	6.4	200.3
1999	25.8	Index	0.4	6.8	215.2
2000	26.4	Index	0.6	7.4	226.9
2001	27.3	Index	0.9	8.3	258.7
2002	28.1	Index	0.8	9.1	290.3
2003	28.5	Index	0.4	9.5	305.2
2004	29.1	Index	0.6	10.1	<u>333.4</u>
Total					\$3,162.3

Using current estimates for consumption for 2005 and the projected increase in the fuel tax rate to 29.9¢ per gallon on April 1, 2005, it is estimated that the cumulative change in the motor vehicle fuel tax rate due to indexing will result in approximately \$365.8 million in additional revenues to the transportation fund in 2005.

Please contact me if you have any further questions or need additional information.